



An Audit Report on

Financial Processes at the Texas State Board of Dental Examiners

August 2018

Report No. 18-043



An Audit Report on

Financial Processes at the Texas State Board of Dental Examiners

SAO Report No. 18-043
August 2018

Overall Conclusion

The Texas State Board of Dental Examiners (Board) had adequate controls to help ensure that it generally processed revenues and expenditures in accordance with applicable statutes and rules. However, the Board should strengthen and enforce controls over certain revenue and expenditure processes and the information technology systems it uses to administer financial transactions. Specifically:

- Revenues. **The Board's processes** ensured that the revenues collected through fees were received before the application was approved, correctly coded, and assessed a late fee if received after the date due. **Additionally, the Board's processes** ensured that revenues collected from fines were received in full and correctly coded in the Uniform Statewide Accounting System (USAS). However, the Board should strengthen controls to ensure that it collects accurate amounts for license fees, enters correct due dates for the fines it issues, and follows its *Disciplinary Matrix* when assessing fines.
- Expenditures. **The Board's processes ensured** that travel, pay actions, and other (\$500 or more) expenditures were appropriately approved, correctly coded in USAS, and accurately paid. Additionally, pay actions were classified correctly in the Uniform Statewide Payroll/Personnel System (USPS), received all necessary approvals, and were supported. However, the Board should strengthen certain controls over its expenditure processes.

Background Information

In 1995, the Texas State Board of Dental Examiners (Board) was re-established (Senate Bill 18, 74th Regular Session).

The **Board's mission is to "protect** public health and safety and promote high quality and safe dental care by providing enforcement, licensing, peer assistance, and related information services to licensees and their patients."

The Board is comprised of 11 Governor-appointed members—six dentists, three hygienists, and two public members.

Sources: The Board and the Sunset Advisory Commission.

Table 1 on the next page presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Auditors communicated other, less significant issues separately in writing to Board management.

Table 1

Summary of Chapters and Related Issue Ratings		
Chapter	Title	Issue Rating ^a
1	The Board's Processes Ensured That It Collected Revenues in Accordance with Applicable Statutes and Rules; However, the Board Should Strengthen Its Controls Over Its Revenue Processes and Revenue-related IT Systems	Medium
2	Overall, the Board's Financial Processes Ensured That Expenditures Complied with Applicable Statutes and Rules; However, the Board Should Strengthen Certain Controls Over Its Expenditure Processes	Medium
<p>^a A chapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.</p> <p>A chapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.</p> <p>A chapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.</p> <p>A chapter is rated Low if the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.</p>		

Summary of Management's Response

At the end of each chapter in this report, auditors made recommendations to address the issues identified during this audit. The Board agreed with the recommendations in this report.

Audit Objective and Scope

The objective of this audit was to determine whether the Board has processes and related controls to help ensure that it administers financial transactions in accordance with applicable statutes, rules, and agency policies and procedures.

The scope of this audit covered the Board's activities related to revenues, pay actions, longevity pay, travel expenditures, other (\$500 or more) expenditures, and applicable information technology systems from September 1, 2016, through February 28, 2018.

Contents

Detailed Results

Chapter 1

The Board’s Processes Ensured That It Collected Revenues in Accordance with Applicable Statutes and Rules; However, the Board Should Strengthen Its Controls Over Its Revenue Processes and Revenue-related IT Systems..... 1

Chapter 2

Overall, the Board’s Financial Processes Ensured That Expenditures Complied with Applicable Statutes and Rules; However, the Board Should Strengthen Certain Controls Over Its Expenditure Processes 5

Appendices

Appendix 1

Objective, Scope, and Methodology 9

Appendix 2

Issue Rating Classifications and Descriptions..... 12

Detailed Results

Chapter 1

The Board's Processes Ensured That It Collected Revenues in Accordance with Applicable Statutes and Rules; However, the Board Should Strengthen Its Controls Over Its Revenue Processes and Revenue-related IT Systems

Chapter 1
Rating:
Medium¹

The Texas State Board of Dental Examiners' (Board) processes ensured that revenues collected through fees were received prior to application approval, correctly coded, and assessed a late penalty if the license fee was received after the date due. Additionally, the Board's processes ensured that revenues collected through fines were received in full and correctly coded in the Uniform Statewide Accounting System (USAS). However, the Board should strengthen controls to ensure that it collects accurate amounts for license fees, enters correct due dates for the fines it issues, and follows its *Disciplinary Matrix* when assessing fines. The Board developed its *Disciplinary Matrix* from criteria listed in the Texas Administrative Code and the Dental Practice Act².

The Board should ensure that it collects accurate amounts for license fees.

The Board's licensing division generates revenues through fees for dentist and dental hygienist licenses and dental assistant certificates. In addition, the licensing division collects fees as a revenue source when it issues anesthesia permits to qualified dentists. From September 2016 through February 2018, the Board collected approximately \$13 million in licensing fees.

Auditors tested a sample of 30 license applications totaling \$13,738 and determined that the Board:

- Generally received the full application fee before approving an application.
- When applicable, assessed a late fee when a licensee's payment occurred after the due date.
- When applicable, coded all license fee revenues correctly in USAS.

¹ Chapter 1 is rated as Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

² Texas Occupations Code, Chapters 251 through 267.

However, for 7 (23 percent) of 30 license applications tested, the Board accepted a payment amount that did not match the amount due. Specifically, for six of the seven license applications, the Board accepted a payment amount greater than what was due. The Board did not refund the overage to the applicants or apply it to a future payment. Additionally, for one of the seven license applications, the Board accepted an amount less than the fee that was due.

The Board should ensure that it follows its *Disciplinary Matrix* when assessing fines and accurately enters the due dates for those fines.

The Board's enforcement activities generate revenue through fines for licensees in violation of Board rules and the Dental Practice Act. From September 2016 through February 2018, the Board collected \$393,000 in fine-related revenue.

Auditors tested 20 compliance orders, which include administrative penalties, remedial plans, or fines that the Board issues, and determined that the Board:

- Always ensured that applicable fines were paid in full before closing completed compliance orders.
- Ensured that applicable fines were coded correctly in USAS.

However, certain enforcement processes should be improved. Specifically, the Board should ensure that:

- It follows its *Disciplinary Matrix* when assessing fines. Six (40 percent) of 15 compliance orders with applicable fines tested were assessed at an amount greater than the maximum amount in the Board's standardized penalty schedule, known as its *Disciplinary Matrix* (see text box).
- It correctly enters compliance order due dates in the Board's regulatory tracking system, Versa Regulation (Versa). For eight (40 percent) of 20 compliance orders tested, an incorrect due date was entered in Versa. Not having accurate data in the Board's system of record could affect its compliance order monitoring and could potentially reduce revenues from late payment penalties.
- It opens a new compliance order in Versa when a fine is not paid by its due date. Seven (50 percent) of 14 compliance orders with applicable fines tested were paid late, and the Board took no action. The late payments ranged from 4 days to 157 days past the due date. The Board

Texas Occupations Code,
Section 264.002

The executive director or a board subcommittee, of which at least one member is a public member of the board, shall determine the amount of the penalty based on a standardized penalty schedule.

asserted that its process is to take disciplinary action against a noncompliant licensee. Not taking action against noncompliant respondents could potentially reduce revenues from late payment penalties.

The Board should improve controls for its regulatory tracking system.

Versa does not have adequate controls to ensure that key fields contain accurate date entries and the amounts received are within appropriate ranges. Auditors noted seven instances during testing of licensing applications in which controls for key fields were overridden. Additionally, there is no control ensuring that the Board received the applicable fine portion of a compliance order before it is closed. This increases the risk that a compliance order is closed before the Board receives the revenue from the fine it imposed.

The Board ensured that Versa access was limited to only current employees. However, the Board did not ensure that user access to Versa was appropriately limited to users' business needs or job function. Specifically, 51 (43 percent) of 120 user roles tested did not require the access levels they were assigned. Not ensuring that access to a key system is limited to only employees with a business need or job function increases the risk that the system could be accessed inappropriately.

Recommendations

The Board should:

- Develop a process that ensures that it collects accurate amounts from licensing fees and refunds any fee overpayment amounts to licensees.
- Ensure that it follows the *Disciplinary Matrix* when assessing fines and documents its judgment in determining fine amounts.
- Ensure that it opens new, additional compliance orders for fine payments received after their due dates.
- Ensure that it enters accurate due dates for fines in Versa.
- Improve Versa controls to ensure that key fields are accurate and that fines are received in full before a compliance order can be closed.
- Ensure that the access levels in Versa are assigned based on business needs and job functions.

Management's Response

Responsible for Implementation: Director of Finance & Administration, General Counsel and Information Technology by September 15, 2018.

Management agrees with the recommendations. The Finance Department will enhance its policies by developing a more detailed procedure with documented processes for preparing and reviewing licensing fees and refunds for overpayments to licensees.

Management will continue to use the Disciplinary Matrix as a guide when assessing fines. The TSBDE would like to emphasize that any fees and fines collected are deposited to the State of Texas's General Revenue Fund. The Board's only authorized budget can be reviewed in the most recent General Appropriations Act.

The current Disciplinary Matrix will need to be adopted into rule by the TSBDE's Board. New, additional disciplinary actions will be opened for fine payments received after their due dates. Management will ensure accurate fine due dates are opened in the enforcement database as well as ensuring key fields are accurate and that fines are received in full before a compliance order can be closed. Information Technology will work with the Health Professions Council to grant necessary controls to employees in the licensing and enforcement database.

Overall, the Board’s Financial Processes Ensured That Expenditures Complied with Applicable Statutes and Rules; However, the Board Should Strengthen Certain Controls Over Its Expenditure Processes

Chapter 2
Rating:
Medium ³

The Board had processes and controls in place that ensured that longevity payments, pay actions, travel expenditures, and other (\$500 or more) expenditures complied with state laws and regulations. From September 2016 through February 2018, the Board’s expenditures totaled approximately \$7.3 million. Of that amount, salaries and wages totaled \$3.9 million and included \$58,480 in longevity payments, \$144,177 in travel expenditures, and \$1,454,357 in expenditures of \$500 or more. Additionally, 76 pay actions occurred for salary increases or one-time merit bonuses. These expenditures were appropriately approved, correctly coded in USAS, and accurately paid. Additionally, pay actions were classified in the Uniform Statewide Payroll/Personnel System (USPS) correctly, received all necessary approvals, and were supported. However, the Board should strengthen certain controls over its expenditure processes and document its policies and procedures related to those processes.

The Board should document its internal policies and procedures related to expenditure processing.

Incorrect Object Codes. The Board did not always ensure that it used the correct object code in USAS or USPS for expenditures, which increases the risk that the Board’s financial position is not accurately represented in its annual financial reports. Specifically, seven expenditures tested were coded incorrectly. For example, three of those expenditures were coded as intangible property instead of computer software maintenance.

Prior State Service Credits and Longevity Pay. The Board ensured that it identified and entered employees’ prior state service credits into USPS (see text box). However, it did not always identify prior service credits from internships and from work performed while employees were students at state institutions

State Service Credit

According to Texas Government Code, Section 659.046, an employee accrues lifetime service credit for the period in which the employee: (1) serves as a full-time, part-time, or temporary state employee or otherwise serves as an employee of the State, (2) serves as a member of the legislature, (3) holds a statewide office that is normally filled by vote of the people, or (4) serves as an academic employee of a state institution of higher education.

According to the Office of the Comptroller of Public Accounts’ (Comptroller) Payroll/Personnel Resource, service as a full-time, part-time, or temporary state employee includes time when that employee is a student during that service.

Sources: Texas Government Code, Section 659.046, and the Comptroller.

³ Chapter 2 is rated as Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

of higher education. Additionally, it did not always ensure that it made correct longevity payments.

Auditors tested the prior state service credited to and longevity payments made for all eligible Board employees from September 2016 through February 2018. During that time period, the Board ensured that only eligible employees received longevity pay for the period(s) in which they were eligible.

Overall, auditors determined that the Board entered employees' prior state service credits accurately and ensured that longevity payments were correct. Specifically:

- Seventy-three (95 percent) of 77 employees tested had accurate prior state service credits in USPS. Four employees had prior state service entered incorrectly as a result of Board error.
- Seventy-four (96 percent) of 77 employees received appropriate longevity payment amounts, including 31 employees that did not receive longevity pay for one or more pay periods from September 2016 through February 2018 because they were not eligible. Three employees received longevity payments that were incorrect due to the Board not crediting all prior state service.

The Board asserted it corrected all state service credits and longevity pay issues after auditors brought them to its attention.

Travel Expenditures. The Board has processes in place that ensured that travel expenditures and vouchers were for valid business purposes, were supported, and were paid in a timely manner. Auditors tested 25 travel vouchers totaling \$61,146.

However, the Board did not ensure that all travel expenses were allowable, appropriately approved, or accurately calculated. Specifically:

- Five (20 percent) of 25 travel vouchers tested contained lodging and gratuity expenses totaling \$929 that were not allowable according to Comptroller guidelines.
- One (4 percent) of 25 travel vouchers tested totaling \$5,894 did not have support that it was approved by the Director of Finance and Administration, as required by the Board's process.
- Three (12 percent) of 25 travel vouchers tested contained errors in calculating travel reimbursements.

Pay Actions. Auditors tested 76 pay actions and determined that the Board had appropriate controls to ensure that all pay actions complied with the Comptroller's requirement of six months between both a merit increase or a promotion, and that most pay actions had supporting documentation of the employee's performance. However, the Board did not always ensure that the personnel action forms used to document pay actions were accurate. Specifically, 28 (37 percent) of the 76 personnel action forms tested contained errors. The fields containing errors included the effective date of action, the current salary amount, and the type of pay action.

Other (\$500 or More) Expenditures. The Board ensured that its other (\$500 or more) expenditures complied with state statutes and Comptroller guidelines. Auditors tested 32 other (\$500 or more) expenditures totaling \$81,348 and determined that the Board:

- Ensured that all expenditures were allowable.
- Followed the appropriate procurement process.
- Retained required supporting documentation.
- Made all payments accurately and in a timely manner.

The Board's informal process requires the director of finance and administration and either the executive director, the general counsel, or the director of dental practice to approve expenditures for more than \$500. However, the Board did not always consistently follow that process. Specifically, the Board did not ensure that the executive director or appropriate division director documented their approval for 4 (13 percent) of the 32 expenditures totaling \$10,137.

Segregation of Duties in Processing Expenditure Transactions. The Board did not ensure that it had adequate segregation of duties when processing transactions in USAS and USPS. The Board had four authorized users in USAS, and two (50 percent) of those users had access to enter, change, and release transactions in USAS. From September 1, 2016, through February 28, 2018, the same user entered and released in USAS 24 documents that included 48 transactions totaling \$53,151.

In addition, during that same time period, the same user entered and released in USPS 34 payroll documents totaling \$4,581,874.

The Board not having documented policies and procedures for its financial processes contributed to the issues discussed above.

Recommendations

The Board should:

- Document approved policies and procedures for its financial processes, including reviews to ensure the accuracy of its information.
- Ensure that it correctly codes transactions in USAS and USPS.
- Ensure that it enters accurate employee state service and makes accurate longevity payments.
- Ensure that the personnel action forms used to document pay actions are accurate.
- Ensure that its travel expenditures are calculated accurately and are allowable.
- Ensure that travel and other (\$500 or more) expenditures are appropriately approved.
- Ensure that there is a segregation of duties when processing transactions in USAS and USPS.

Management's Response

Responsible for Implementation: Director of Finance & Administration by August 31, 2018.

Management agrees with the recommendations. The Finance Department will ensure USAS and USPS transactions are coded properly, enter accurate employee state service and make accurate longevity payments, ensure personnel actions forms are accurate and calculate allowable travel expenditures accurately. In addition, the finance division will ensure travel and expenditures over \$500 are approved appropriately and ensure there is a segregation of duties when processing transactions in USPS and USAS.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of the audit was to determine whether the Texas State Board of Dental Examiners (Board) has processes and related controls to help ensure that it administers financial transactions in accordance with applicable statutes, rules, and agency policies and procedures.

Scope

The scope of this audit covered the Board's activities related to revenues, payroll, longevity pay, travel expenditures, other (\$500 or more) expenditures, and applicable information technology systems from September 1, 2016, through February 28, 2018.

Methodology

The audit methodology included collecting information and documentation; interviewing Board staff regarding financial and operational processes; testing documentation related to revenue, payroll actions, longevity pay, and travel and other expenditures; reviewing access to and controls for key information systems; and analyzing and evaluating the results of audit tests.

Data Reliability and Completeness

Auditors used revenue data from the Board's regulatory tracking system, Versa Regulation, to test revenues. Additionally, auditors tested user access to and certain key application controls for Versa Regulation.

Auditors used the Uniform Statewide Accounting System (USAS) for expenditure data and the Uniform Statewide Payroll/Personnel System (USPS) for payroll data. Auditors also tested the Board's user access to USAS and USPS.

Based on the results of data review and IT testing, auditors determined that revenue data from Versa Regulation, expenditure data from USAS, and payroll data from USPS were sufficiently reliable for the purposes of this audit.

Sampling Methodology

Auditors selected nonstatistical samples of (1) revenue transactions related to fees and fines, (2) expenditure transactions related to travel, and (3) other

(\$500 or more) expenditures. Auditors selected risk-based items to test fee and fine revenue. They also selected other (\$500 or more) expenditure sample items primarily through random selection; additionally, auditors selected risk-based travel and other expenditure items for testing. The sample items were not necessarily representative of the populations; therefore, it would not be appropriate to project the test results to the populations.

In addition, auditors tested the entire population of payroll actions resulting in salary increases or one-time bonus payments and the entire population of longevity payments made during the audit scope.

Information collected and reviewed included the following:

- Board revenue data from Versa Regulation.
- Board expenditure data from USAS.
- Board payroll data from USPS.
- Board personnel files.
- License application documentation.
- Board cash batch and suspense account documentation.
- Board expenditure supporting documentation.
- Board compliance orders and supporting documentation.

Procedures and tests conducted included the following:

- Interviewed Board staff to identify the Board's financial and operational processes, including financial and administrative internal controls, and the information systems that support those processes.
- Tested samples of the Board's fee and fine revenues, travel expenditures, other expenditures, and longevity pay and payroll actions to determine compliance with the Board's policies and procedures and state laws and regulations.
- Reviewed the Board's *Disciplinary Matrix*, settlement orders, cash batch forms, suspense account deposit documents, monthly suspense clearing spreadsheets, purchase vouchers, travel vouchers, invoices, receipts, contracts, credit card statements, personnel action forms, and other documentation in personnel files.

- Reviewed supporting documentation related to both general and application controls over the Board’s financial systems.

Criteria used included the following:

- Texas Government Code, Chapters 659, 660, 771, 2155, 2157, 2251, and 2254.
- Texas Administrative Code, Title 1, Chapter 202; Title 22, Part 5; and Title 34, Chapters 5 and 20.
- Texas Occupations Code, Chapters 251 through 267 (the Dental Practice Act).
- Office of the Comptroller of Public Accounts’ *eXpendit* purchasing procedures; *Textravel* guidelines; and *Texas Payroll/Personnel Resource*.
- *State of Texas Procurement Manual*.
- Department of Information Resources’ *Security Control Standards Catalog*.

Project Information

Audit fieldwork was conducted from January 2018 through June 2018. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The following members of the State Auditor’s staff performed the audit:

- Link Wilson (Project Manager)
- Krista L. Steele, MBA, CPA, CFE, CIA, CGAP (Assistant Project Manager)
- Mohammad Ali Bawany, MS
- Daniel Spencer, MSA
- George D. Eure, CPA (Quality Control Reviewer)
- Michael Simon, MBA, CGAP (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Joe Straus III, Speaker of the House, Joint Chair

The Honorable Jane Nelson, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable John Zerwas, House Appropriations Committee

The Honorable Dennis Bonnen, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Texas State Board of Dental Examiners

Members of the Texas State Board of Dental Examiners

Mr. David Tillman, Presiding Officer

Mr. Jorge Quirch, Secretary

Mr. Rodney Bustamante

Ms. Kimberly Haynes

Mr. Bryan Henderson

Ms. Lorie Jones

Dr. Robert G. McNeill

Ms. Margo Y. Melchor

Ms. Lois M. Palermo

Ms. Kathryn Sisk

Mr. David H. Yu

Dr. Walton Boyd Bush, Executive Director



This document is not copyrighted. Readers may make additional copies of this report as needed. In addition, most State Auditor's Office reports may be downloaded from our Web site: www.sao.texas.gov.

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9500 (Voice), (512) 936-9400 (FAX), 1-800-RELAY-TX (TDD), or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

To report waste, fraud, or abuse in state government call the SAO Hotline: 1-800-TX-AUDIT.