



An Audit Report on
The Board of Public Accountancy:
A Self-directed, Semi-independent Agency

December 2017
Report No. 18-007



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Overall Conclusion

The Board of Public Accountancy (Board) had controls to accurately report financial data and appropriately set fees and assess penalties.

Financial Reporting and Financial Processes. The **Board's fiscal year 2016 annual financial report** was accurate, complete, and properly reported. The Board had effective financial processes and controls over revenues, expenditures, and other financial information to help ensure that it accurately reported key financial statement amounts.

Scholarship Program. The Board had effective processes and related controls to help ensure that it administered its Fifth-year Accounting Student Scholarship Program in compliance with statutes and rules. It awarded a total of \$1,741,800 in scholarship funds in academic years 2015-2016 and 2016-2017.

Fees and Penalties. The Board had a documented process for settings fees that was based on its budgetary needs, and it complied with statutes and rules when calculating license fees from September 1, 2015, through May 31, 2017. The Board also had a documented process to assess penalties consistently and in compliance with statutory requirements. However, the Board did not have documented policies and procedures for abating penalties for the late payment of license fees; as a result, it did not always document its decision to abate penalties for the late payment of license fees.

Self-directed, Semi-independent (SDSI) Reporting. The Board complied with the SDSI reporting requirements of Texas Government Code, Section 472.104. However, it did not accurately report in its annual SDSI report the results for one of the two performance measures tested for fiscal year 2016.

Information Systems. The Board should address certain weaknesses related to user access and change management. To minimize security risks, auditors communicated details about certain issues directly to the Board in writing. However, auditors did not identify any significant issues regarding the reliability of data in the Board's information systems.

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

Background Information

The Board of Public Accountancy (Board) regulates the public practice of accounting in Texas. Its major functions include licensing and continuing professional education, qualifications (examination), enforcement, and peer review.

Effective September 1, 2001, the Board became a self-directed, semi-independent (SDSI) agency. It is permitted to continue as an SDSI agency until at least September 1, 2019, when it will be subject to sunset review.

The Board establishes its own budget, which must be supported with the revenue the Board generates. Its governing board includes 15 members and, as of August 15, 2017, the Board regulated 74,000 certified public accountants.

Sources: Texas Government Code, Texas Occupations Code, and the Board.

This audit was conducted in accordance with Texas Finance Code, Section 16.004; Texas Government Code, Section 472.103; and Texas Occupations Code, Section 1105.004.

For more information regarding this report, please contact Michael Simon, Audit Manager, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.

Table 1 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.)

Table 1

Summary of Chapters and Related Issue Ratings		
Chapter	Title	Issue Rating ^a
1	The Board Had Effective Controls to Help Ensure the Accuracy and Completeness of Its Financial Data	Low
2	The Board Had Effective Controls to Administer Its Fifth-year Accounting Student Scholarship Program in Compliance with Statutes and Rules, But It Should Formalize Its Reallocation Process and Implement Controls to Help Ensure the Accuracy of Scholarship Data	Low
3	The Board Had a Budget Process and Complied with Requirements for Setting Fees and Imposing Penalties; However, It Should Formalize Its Processes for Assessing Direct Administrative Costs and Abating Penalties for the Late Payment of Fees	Medium
4	The Board Complied with SDSI Reporting Requirements, But It Should Improve Its Performance Measure Reporting	Low
5	The Board Should Strengthen Certain Controls Over Passwords, User Access, and Change Management; It Should Also Comply with Certain Requirements in the Texas Administrative Code	High

^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.

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.

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.

A chapter is rated Low if the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(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.

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. In its responses, the Board specified the actions that it asserts it has taken or that it plans to take to address the recommendations.

Audit Objectives and Scope

The objectives of this audit were to:

- Determine whether the Board has processes and related controls to help ensure the accuracy and completeness of financial and performance data.

- Evaluate the Board's **processes for setting** fees and penalties.

The scope of this audit covered financial and performance information, applicable processes, and other supporting documentation from September 1, 2015, through May 31, 2017.

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Detailed Results

Chapter 1

The Board Had Effective Controls to Help Ensure the Accuracy and Completeness of Its Financial Data

Chapter 1
Rating:
Low ¹

The Board of Public Accountancy's (Board) fiscal year 2016 annual financial report was accurate, complete, and properly reported. The Board had effective financial processes and controls over revenues, expenditures, and other financial information to help ensure that it accurately reported key financial statement amounts. However, the Board should strengthen certain aspects of its financial reconciliations process.

Financial Data

The Board's fiscal year 2016 annual financial report was accurate, complete, and properly reported. In addition, the notes to its fiscal year 2016 annual financial report were complete, complied with reporting requirements, and were accurate and supported.

The Board established appropriate segregation of duties among the individuals who entered and posted revenue and expenditure transactions in the Uniform Statewide Accounting System (USAS).

Auditors tested the accuracy of selected Board revenue and expenditures transactions from September 1, 2015, through May 31, 2017, and determined the following:

- License, Fee, and Permit Revenue. The Board accurately collected, recorded, and sufficiently supported all license, fee, and permit revenue transactions tested, and related controls were operating effectively.
- Professional Fee and Service Expenditures. The Board accurately recorded and sufficiently supported all professional fee and service expenditures tested, and related controls were operating effectively.
- Other Expenditures. The Board accurately recorded and sufficiently supported all other expenditures tested, and related controls were operating effectively. Other expenditures were for items such as

¹ Chapter 1 is rated Low because 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.

temporary employee services, court costs, employee training, and insurance premiums.

Financial Reconciliations

The Board's accounting policies and procedures required five types of monthly reconciliations (see text box for additional details). Auditors tested

Financial Reconciliations

The Board's accounting policies and procedures required monthly reconciliations of:

- Cash in Sage Micro Information Products (Sage MIP) and revenue in the Uniform Statewide Accounting System (USAS).
- Expenditures in Sage MIP and expenditures in USAS.
- Online credit card receipts according to the Board's internal records and online credit card receipts according to monthly Texas Treasury Safekeeping Trust Company (Trust Company) statements.
- Deposits according to the Board's internal records and deposits according to monthly Trust Company statements.
- Revenue according to the Board's internal records and revenue according to monthly Trust Company statements.

Source: The Board.

a sample of 20 reconciliations (4 of each type of reconciliation) from September 1, 2015, through May 31, 2017, and determined that the Board had performed those reconciliations, as required.

However, for 12 (60 percent) of 20 reconciliations tested, the preparer did not sign or date the reconciliation. In addition, 4 (33 percent) of those 12 reconciliations were not dated by the reviewer. Therefore, auditors were unable to determine whether those 12 reconciliations were prepared and reviewed in a timely manner by two separate individuals. The Board's accounting policies and procedures did not require the deposit, revenue, or credit card reconciliations to be signed or dated. Having a preparer and reviewer document that reconciliations were performed and reviewed in a timely manner enhances accountability.

Recommendation

The Board should update its accounting policies and procedures to require the preparer and reviewer to sign and date all monthly reconciliations.

Management's Response

The Board's Director of Administrative Services/Chief Financial Officer implemented enhanced procedures in November 2017.

The Board Had Effective Controls to Administer Its Fifth-year Accounting Student Scholarship Program in Compliance with Statutes and Rules, But It Should Formalize Its Reallocation Process and Implement Controls to Help Ensure the Accuracy of Scholarship Data

Chapter 2
Rating:
Low ²

The Board had effective processes and controls to help ensure that it administered its Fifth-year Accounting Student Scholarship Program in compliance with statutes and rules. Specifically:

- The Board had documented policies and procedures regarding the methodology and detailed processes for administering its Fifth-year Accounting Student Scholarship Program. Those policies and procedures adequately addressed the Board’s primary process to allocate available and approved scholarship funds to the participating higher education institutions based on the three factors that Texas Occupations Code, Section 901.654, required (see text box for additional details).
- Members of the Board of Public Accountancy approved the total amount of scholarship funds to be made available to the participating higher education institutions in academic years 2015-2016 and 2016-2017.
- Board management reviewed and approved the amount of scholarship funds allocated to all participating higher education institutions in academic years 2015-2016 and 2016-2017.
- The Board used a system-generated report to determine the initial amount of scholarship funds to be allocated to each participating higher education institution. The logic in that report was mathematically accurate and considered each of the three factors in Texas Occupations Code, Section 901.654.

Fifth-year Accounting Student Scholarship Program

The Fifth-year Accounting Student Scholarship Program was established in 1991 to aid disadvantaged students who needed assistance in financing a fifth year of college often necessary to meet increasing educational requirements to take the certified public accountant (CPA) Exam. Funds are allocated to Texas higher education institutions, whose financial aid offices make the decisions on providing scholarships to individual students.

The Board is responsible for administering the accounting scholarship trust fund, which is funded from a \$10 legislatively mandated fee that is added to each Texas CPA’s annual license renewal.

Texas Occupations Code, Section 901.654(b), requires the Board to consider at a minimum the following factors related to each person applying for a scholarship:

- Financial need.
- Ethnic or racial minority status.
- Scholastic ability and performance.

Sources: Texas Occupations Code and the Board.

² Chapter 2 is rated Low because the audit identified strengths that support the audited entity’s ability to administer the program(s)/functions(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.

Auditors tested a risk-based sample of 15 higher education institutions that participated in the Fifth-year Accounting Student Scholarship Program in academic years 2015-2016 and 2016-2017 and determined that the total amount of scholarships those higher education institutions awarded to students did not exceed the amounts that the Board allocated to those higher education institutions. The total amount of the scholarships that all participating higher education institutions awarded in academic years 2015-2016 and 2016-2017 was less than or equal to the total amount of scholarship funds approved by the members of the Board of Public Accountancy.

However, the Board incorrectly entered into its AS/400 System³ certain statistical data provided by the participating higher education institutions. Specifically, for 7 (47 percent) of the 15 higher education institutions tested during academic years 2015-2016 and 2016-2017, the number of minority degrees completed differed from the source data. That caused the Board to misallocate a net total of \$2,084 in additional scholarship funds to those seven higher education institutions during academic years 2015-2016 and 2016-2017.

Table 2 summarizes information on the Fifth-year Accounting Student Scholarship Program for academic years 2015-2016 and 2016-2017.

Table 2

Fifth-year Accounting Student Scholarship Awards From September 1, 2015, through August 31, 2017				
Academic Year	Total Number of Higher Education Institutions That Participated in the Scholarship Program	Total Amount of Scholarship Funds Approved by the Members of the Board of Public Accountancy	Total Number of Scholarships Awarded	Total Amount of Scholarships Awarded
2015-2016	62	\$1,500,000	472	\$1,206,941
2016-2017	60	750,000	327	534,859
Totals		\$2,250,000	799	\$1,741,800

Source: The Board.

Reallocation Process

According to the Board, not all participating higher education institutions have a sufficient number of eligible accounting students to award all scholarship funds allocated to them. The participating higher education institutions must release any unexpended scholarship funds back to the

³ See Chapter 5 for additional information on the AS/400 System. The Board uses that system to process and store the majority of its non-accounting information.

Board. The Board had a process to reallocate those funds to participating higher education institutions that formally requested additional funds. However, it did not adequately document the details of its reallocation process in its policies and procedures. For example, the policies and procedures did not describe the factors the Board would consider when determining whether it would or would not fulfill a higher education institution's request for additional funds. Having documented policies and procedures would help the Board ensure that it reallocated unexpended scholarship funds in a consistent manner.

Recommendations

The Board should:

- Document and implement procedures to help ensure the accuracy of scholarship-related data entered into its AS/400 System.
- Update its policies and procedures to formally document its process for reallocating unexpended scholarship funds.

Management's Response

The Board's Director of Qualifications implemented enhanced procedures in November 2017.

The Board Had a Budget Process and Complied with Requirements for Setting Fees and Imposing Penalties; However, It Should Formalize Its Processes for Assessing Direct Administrative Costs and Abating Penalties for the Late Payment of Fees

Chapter 3
Rating:
Medium ⁴

The Board had a documented process for setting fees, and it complied with requirements when it calculated license fees. However, the Board did not have documented policies and procedures for abating penalties for the late payment of license fees.

In addition, the Board had a documented process to assess administrative penalties, but its policies and procedures for calculating the administrative costs related to disciplinary matters did not reflect its actual process.

Budgeting

The Board had a documented process for setting fees that was based on its budgetary needs. The Board developed a five-year operating budget projection, which it based on actual direct and indirect operating costs; it used that projection to determine the amount of revenues necessary to carry out its activities. The Board then adjusted its license fees, if necessary, to collect the desired amount of revenue. The Board adjusted each type of license fee based on an analysis of the projected number of licensees and the cost to administer each type of license. The members of the Board of Public Accountancy approved the budgets and fees for fiscal years 2016 and 2017.

The Board's cash reserve for fiscal year 2016 was \$2,044,009. That balance was in compliance with the requirements of the Board's cash reserve policy.

Setting Fees

The Board complied with the requirements of the Texas Occupations Code and Texas Administrative Code when calculating license fees from September 1, 2015, through May 31, 2017. Auditors tested 30 license fee transactions and determined that the Board accurately calculated and appropriately assessed and collected license fees.

Abating Penalties for the Late Payment of Fees

According to the Board, from September 1, 2015, through May 31, 2017, it abated \$66,926 in penalties for the late payment of fees for 26 CPA license holders. However, it did not have documented policies and procedures for

⁴ Chapter 3 is rated 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.

abating penalties for the late payment of license fees. As a result, the Board did not always document its decision to abate penalties for the late payment of license fees. Specifically, for 2 (22 percent) of 9 abatements tested, the Board did not retain documentation of:

- The licensee’s formal request to abate the late fee penalties.
- The executive director’s authorization to abate the late fee penalties.
- The letter the Board sent to inform the licensee that it had approved the abatement of late fee penalties.

Formally documenting the abatement process would help the Board to ensure that it consistently applies its process for abating penalties for the late payment of fees.

Imposing Penalties

Examples of Penalties

The Board may impose penalties for violations such as:

- Lack of independence.
- Practicing without a license.
- False, fraudulent, misleading, or deceptive advertising.
- Failure to satisfy peer review requirements.

Sources: Texas Occupations Code, Chapter 901, and Title 22, Texas Administrative Code, Section 519.9(a).

The Board had a documented process to assess administrative penalties consistently and in compliance with its statutory requirements (see text box for examples of penalties). Auditors reviewed the agreed consent orders (ACOs) and other documentation for 30 disciplinary matters that resulted in administrative penalties between September 1, 2015, and May 31, 2017. For all 30 ACOs tested, the Board accurately calculated and imposed administrative penalties in accordance with the limits in Title 22, Texas Administrative Code, Section 519.9(a). The administrative penalties associated with those 30 ACOs totaled \$520,750. Each of those 30 ACOs also identified the final penalty amount and was signed and dated by the Board’s executive director and the presiding officer of the Board of Public Accountancy.

The Board’s policy statement regarding administrative penalties stated that, in determining the amount of a penalty, the Board would consider a list of six factors that were the same as the six factors that Texas Occupations Code, Section 901.552, requires the Board to consider when determining the amount of an administrative monetary penalty. However, for 6 (20 percent) of the 30 disciplinary matters tested, the Board did not explicitly document its consideration of those factors. Therefore, auditors were unable to determine whether the Board considered all factors specified in Texas Occupations Code, Section 901.552, when it determined the amount of the administrative penalties. The administrative penalties assessed for those 6 disciplinary matters totaled \$328,500.

Direct Administrative Costs

Texas Occupations Code, Section 901.501, authorized the Board to impose on a licensee the direct administrative costs the Board incurred in taking disciplinary action. The Board's enforcement policies and procedures stated that the Board would calculate administrative costs based on the amount of time the investigative attorney and the investigative attorney's assistant spent on the disciplinary matters. However, the Board's enforcement policies and procedures did not reflect the Board's actual process, which excluded the cost of the investigative attorney when calculating administrative costs.

Auditors tested a sample of 27 disciplinary matters that included the assessment of direct administrative costs. For 2 (7 percent) of the 27 tested disciplinary matters with administrative costs, the Board assessed administrative costs that exceeded the amounts supported by documentation. The Board assessed \$3,129 in direct administrative costs that were not supported in the documentation associated with those two disciplinary matters.

Recommendations

The Board should:

- Document and implement policies and procedures to help ensure that it consistently applies its process of abating penalties for the late payment of fees.
- Implement a process to document its consideration of all factors prescribed by Texas Occupations Code, Section 901.552, when determining the amount of administrative penalties.
- Update its enforcement policies and procedures to reflect its current process for calculating administrative costs and follow those updated policies and procedures.

Management's Response

The Board's Director of Licensing is implementing enhanced documentation for abating penalties to be completed in December 2017.

The Board's General Counsel implemented additional controls to document determining administrative penalties in September 2017 and procedures for administrative costs are to be completed in December 2017.

The Board Complied with SDSI Reporting Requirements, But It Should Improve Its Performance Measure Reporting

Chapter 4
Rating:
Low ⁵

The Board complied with the SDSI reporting requirements of Texas Government Code, Section 472.104 (see text box for additional information). However, in its required SDSI reports the Board did not accurately report results for the performance measure **Average Time (in days) for Complaint Resolution**.

Reports Required by Texas Government Code, Section 472.104

The Board complied with the reporting requirements in Texas Government Code, Section 472.104, for the period from September 1, 2015, through May 31, 2017. Specifically, the Board submitted its biennial and annual SDSI reports to the required recipients by the required due dates. Those reports included all required information.

Performance Measures

Average Time (in days) for Complaint Resolution. In its fiscal year 2016 annual SDSI report, the Board reported inaccurate results for that performance measure as of August 31, 2016. The Board reported 149.4 days as the average time for complaint resolution; however, the actual amount for the average time for complaint resolution was 158.4 (a 6 percent difference).

The Board did not enter 172 complaints that it closed during fiscal year 2016 into its AS/400 System until sometime between September 12, 2016, and July 19, 2017. Therefore, the Board underreported by 172 complaints the total number of complaints it closed during fiscal year 2016. The Board should have reported 3,021 complaints closed during fiscal year 2016; instead, it reported 2,849. As a result, the Board's calculation of the average complaint resolution time was understated (as discussed above). While the automated queries the Board used for that performance measure were accurate, the Board should implement controls to help ensure that it enters all closed complaints into its AS/400 System in a timely manner to improve the accuracy of this reported performance measure.

Required SDSI Reports

Texas Government Code, Section 472.104, requires the Board to:

- Submit a biennial report with specific information to the Legislature and the governor by the first day of each legislative session.
- Submit, by November 1, an annual report with specific information to the governor, the committee of each house of the Legislature that has jurisdiction over appropriations, and to the Legislative Budget Board. The annual report must include the results of a number of performance measures.

⁵ Chapter 4 is rated Low because 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.

Number of Individual Licensed (Active) CPAs. For fiscal year 2016, the Board accurately reported the Number of Individual Licensed (Active) CPAs as 73,260. However, the system-generated report it used to calculate that performance measure was as of the time and date the Board ran that report, and the Board did not retain an extract (“snapshot”) of the underlying data/records that supported the numbers in that report. Therefore, it was not possible to obtain a data set that listed all individual licensed (active) CPAs as of September 1, 2016. However, auditors verified that the report produced accurate results. Auditors also reviewed a copy of the report that the Board ran on September 1, 2016, and confirmed that it matched the Number of Individual Licensed (Active) CPAs the Board reported in its fiscal year 2016 annual SDSI report.

Recommendations

The Board should:

- Enter all closed complaints into its AS/400 System in a timely manner.
- Document and implement a process to retain an extract of the underlying data/records in its AS/400 System to support the results of system-generated reports that it uses to report performance measures.

Management’s Response

The Board’s General Counsel addressed entering closed complaints timely into the IBM iSeries in July 2017.

The Board’s Director of Information Resources implemented enhanced procedures to address retaining an extract of underlying data in the IBM iSeries in August 2017.

The Board Should Strengthen Certain Controls Over Passwords, User Access, and Change Management; It Should Also Comply with Certain Requirements in the Texas Administrative Code

Chapter 5
Rating:
High ⁶

Auditors did not identify any significant issues in the reliability of the data in the Board’s information systems. However, the Board should strengthen its information technology controls to address significant security risks that could affect the reliability of data used for reporting financial information and performance measure data.

Passwords

Auditors identified certain weaknesses related to password settings. To minimize security risks, auditors communicated details about certain issues directly to the Board’s management in writing.

User Access

The Board had not performed formal reviews of user access to its information systems, including its databases and servers (see text box for a description of the systems tested). As a result, auditors identified the following weaknesses in user access:

- AS/400 System - Two programmers had knowledge of the passwords to top-level administrative accounts, which would allow them to implement changes into the production environment. In addition, four generic accounts were no longer necessary and should be disabled or deleted.
- Online Payment System - Three programmers and two data entry specialists had access that would allow them to implement changes into the production environment.
- Sage MIP Database - One employee in the accounting department and one former employee had administrative access to the production

Board Information Systems Tested

Auditors performed limited reviews of four information technology systems the Board used to manage the data it reported and that were applicable to the audit objectives:

- The AS/400 System, which the Board used to process and store the majority of the Board’s non-accounting information, from application through qualification, into licensing and, as necessary, enforcement.
- Online Payment System, a Web-based application that individual CPAs and firms use to renew their licenses online.
- Sage Micro Information Products (Sage MIP) system, which is the **Board’s internal accounting system** and general ledger. The Board used that system to record and report accounting activity, prepare its annual financial report, and generate other financial reports.
- Uniform Statewide Accounting System (USAS), which the Board used to prepare its annual financial report.

Source: The Board.

⁶ Chapter 5 is rated High because 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.

database. Neither account required direct, administrative access to the Sage MIP database.

Implementing effective user access controls helps to ensure that access to critical information systems is appropriately restricted to minimize the risk of unauthorized changes to data.

Change Management

The Board did not have an adequate change management process to help ensure that it appropriately documented, tested, and approved changes to its information systems and that someone other than the programmer who developed a change migrated changes into production.

The Board's change management policy specified that:

- All changes should be tested prior to implementation into production.
- Executive management must approve changes prior to implementation into production.
- Adequate documentation must be retained.
- Development staff must not be permitted to have access to production systems (segregation of duties).

However, the Board did not have a formally documented process or controls to help ensure compliance with its change management policy. For all three changes tested, the Board did not have documentation showing user acceptance testing, management's approval to implement the change into production, and implementation into the production environment by someone other than the developer. Implementing and enforcing a standardized, effective change management process would help to ensure that changes to information resources do not alter data or promote weaknesses that could jeopardize data.

Texas Administrative Code

The Board's information systems security policies generally defined employees' responsibilities for securing the Board's information technology resources and data from unauthorized or accidental modification or

Title 1, Texas Administrative Code, Chapter 202

Title 1, Texas Administrative Code, Chapter 202, established a baseline of security standards for Texas state agencies and higher education institutions.

In March 2015 the Department of Information Resources made significant revisions to Title 1, Texas Administrative Code, Chapter 202, to align those rules with the requirements of the Federal Information Security Management Act of 2002 and the National Institute of Standards and Technology's standard 800-53.

As mandated by the March 2015 revisions to Title 1, Texas Administrative Code, Chapter 202, the Department of Information Resources issued a *Security Control Standards Catalog* that defined the security control standards for all state agencies to use to provide information security according to risk levels.

Source: The Department of Information Resources.

disclosure. However, the Board had not updated the majority of its information technology security policies since March 2013 and, therefore, those policies did not always align with (1) the revised requirements of Title 1, Texas Administrative Code, Chapter 202, and (2) the Department of Information Resources' *Security Control Standards Catalog* (see text box for additional details).

For example, the Board's information technology security policies did not establish a process for performing and documenting an annual risk assessment of Board information and information systems. As a result, the Board did not perform or document a risk assessment of its information and information systems from September 1, 2015, through May 31, 2017, as required by Title 1, Texas Administrative Code, Section 202.25, and the Department of Information Resources' *Security Control Standards Catalog*.

Application Controls

The AS/400 system had effective application controls to help ensure the reliability of data in that system. For example, that system:

- Auto-generated sequential control numbers to ensure the uniqueness of records.
- Used a matching, double-input requirement for key identification fields.
- Had edit checks to ensure that valid data must be entered into fields in a standard data format.

However, the AS/400 system did not have an application control to prevent a user from entering a complaint "closed" date that is prior to the complaint's "opened" date. That could result in inaccurate data in the system. Of the 3,021 complaints closed from September 1, 2015, through May 31, 2017, 2 complaints had closed dates that were prior to their opened dates.

Recommendations

The Board should:

- Address the weaknesses identified in the password settings for its information systems.
- Develop, document, and implement formal reviews of user access for its information systems, and conduct those reviews at least annually.
- Assign user access rights appropriately based upon users' job responsibilities.
- Develop, document, and implement a formal change management process to help ensure that changes to its information systems comply with its change management policy.
- Review and update its information technology security policies to ensure compliance with the requirements in Title 1, Texas Administrative Code, Chapter 202, and the Department of Information Resources' *Security Control Standards Catalog*.
- Perform and document a risk assessment of its information and information systems as required by Title 1, Texas Administrative Code, Section 202.25, and the Department of Information Resources' *Security Control Standards Catalog*.
- Implement an application control in the AS/400 system to prevent a user from entering a complaint closed date that is prior to that complaint's opened date.

Management's Response

The Board's Director of Information Resources is enhancing procedures and all recommended tasks will be completed by February 2018.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether the Board of Public Accountancy (Board) has processes and related controls to help ensure the accuracy and completeness of financial and performance data.
- Evaluate the Board's processes for setting fees and penalties.

Scope

The scope of this audit covered financial and performance information, applicable processes, and other supporting documentation from September 1, 2015, through May 31, 2017.

Methodology

The audit methodology included collecting information and documentation, performing selected tests and other procedures on the information obtained, analyzing and evaluating the results of tests, and conducting interviews with Board management and staff. In addition, the methodology included performing a limited review of the general and application controls over the information technology systems that the Board used to manage and report financial data and performance measure data.

Data Reliability and Completeness

Auditors used revenue and expenditure information from the Uniform Statewide Accounting System (USAS) and Sage Micro Information Products (Sage MIP). To determine the reliability of financial information in USAS and Sage MIP, auditors reviewed the validity and completeness of the information by (1) reviewing user access, (2) performing a high-level review of data fields and their contents for appropriateness, and (3) comparing that information to other sources. In addition, auditors reviewed the Board's reconciliation process for the financial information in Sage MIP and USAS. Auditors determined that the data in both systems was sufficiently reliable for the purposes of this audit.

Auditors used complaint and enforcement data from the Board's AS/400 System to review the Board's process for imposing fees and penalties and to

verify the accuracy of performance measures. To determine the reliability of that data, auditors (1) tested access to that system, (2) tested change management for that system, (3) reviewed record completeness, (4) reviewed data fields and their contents for accuracy and validity, and (5) tested certain application controls. Auditors determined that the data in the AS/400 System was sufficiently reliable for the purposes of this audit.

Sampling Methodology

To assess the Board's financial processes related to calculating, collecting, and recording revenue, auditors used professional judgment to select a risk-based sample of transactions related to licensing fees and penalties imposed through disciplinary actions. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

To assess the Board's financial processes related to expenditures, auditors used professional judgement to select a risk-based sample of transactions related to professional fees and services, the Fifth-year Accounting Student Scholarship Program, and other expenditures. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

To assess the Board's financial reconciliation processes, auditors selected a nonstatistical sample through random selection designed to be representative of the population of the following monthly financial reconciliations:

- Cash in Sage MIP and revenue in USAS.
- Expenditures in Sage MIP and expenditures in USAS.
- Online credit card receipts according to the Board's internal records and online credit card receipts according to monthly Texas Treasury Safekeeping Trust Company (Trust Company) statements.
- Deposits according to the Board's internal records and deposits according to monthly Trust Company statements.
- Revenue according to the Board's internal records and revenue according to monthly Trust Company statements.

Test results may be projected to the population, but the accuracy of the projection cannot be measured.

To assess the Board's processes for administering its Fifth-year Accounting Students Scholarship Program, auditors used professional judgment to select

a risk-based sample of higher education institutions that participated in that program in academic years 2015-2016 and 2016-2017. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

Auditors also used professional judgment to select risk-based samples of Board enforcement actions, abated penalties for the late payment of fees, and two performance measures. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

Information collected and reviewed included the following:

- The Board's policies and procedures.
- The Board's fiscal year 2016 annual financial report.
- Purchase orders, invoices, and supporting documentation for Board purchases.
- Expenditure data from USAS and revenue data from Sage MIP.
- Board reconciliations for cash, online credit card payments, deposits, revenue, and expenditures.
- Data and supporting documentation for the Board's Fifth-Year Accounting Student Scholarship Program.
- Board meeting packets, budget information, and supporting documentation for the Board's budget process.
- Data and supporting documents for abated penalties for the late payment of fees.
- Data and supporting documents for the Board's closed complaints, including those resulting in administrative penalties and/or direct administrative costs.
- The Board's required annual and biennial reports for self-directed, semi-independent (SDSI) agencies.
- Data and supporting documents for selected performance measures.

Procedures and tests conducted included the following:

- Interviewed Board staff to identify the Board's financial and operational processes, including financial and administrative controls.

- Tested internal controls and selected significant accounts, including testing of detailed supporting documentation, to determine the accuracy of selected financial data in the Board’s annual financial report for fiscal year 2016.
- Tested internal controls, including testing of detailed supporting documentation, to determine whether the Board administered its Fifth-year Accounting Student Scholarship Program in compliance with statutes, rules, and other requirements.
- Evaluated the Board’s annual budget and fee-setting process.
- Tested selected licensing fee transactions and selected administrative penalty transactions to determine whether the Board accurately calculated and appropriately assessed those fees and penalties.
- Tested selected performance measure data that the Board reported in its required annual SDSI report for fiscal year 2016.
- Reviewed supporting documentation related to the general controls and application controls over the Board’s network, Sage MIP, AS/400 System, and Online Payment System.

Criteria used included the following:

- Texas Government Code, Chapter 472.
- Texas Occupations Code, Chapter 901.
- Title 22, Texas Administrative Code, Part 22.
- Title 1, Texas Administrative Code, Chapter 202.
- The Office of the Comptroller of Public Accounts’ financial reporting requirements.
- The Board’s policies and procedures.

Project Information

Audit fieldwork was conducted from June 2017 through October 2017. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- Justin H. Griffin, CISA (Project Manager)
- Bill Morris, CPA (Assistant Project Manager)
- Jennifer Fries, MS
- Arnton W. Gray
- Joy Myers, MPP
- Nathan Stein
- Robert G. Kiker, CGAP (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. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objectives.

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

Table 3

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)/functions(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

Board of Public Accountancy

Members of the Board of Public Accountancy

Mr. Manuel Cavazos IV, CPA, Presiding Officer
Ms. Donna J. Hugly, CPA, Assistant Presiding Officer
Mr. Robert M. McAdams, CPA, Treasurer
Mr. Steve D. Peña, CPA, Secretary
Mr. William Lawrence, Executive Committee Member-at-large
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Ms. Lisa A. Friel, CPA
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Ms. Roselyn Morris, PhD, CPA
Mr. Benjamin Peña, CFE, CPA
Ms. Debra S. Sharp
Ms. Kimberly E. Wilkerson
Mr. William Treacy, Executive Director



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