

STATE OFFICE OF ADMINISTRATIVE HEARINGS
Austin, Texas

INTERNAL AUDIT REPORT

on

Fixed Assets

Fiscal Year 2022



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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Kristofer Monson
Chief Administrative Law Judge
State Office of Administrative Hearings
Austin, Texas

We performed procedures to determine the effectiveness and efficiency of the State Office of Administrative Hearings' (SOAH) internal control structure over the Fixed Assets Area (the Area); and, its compliance with applicable Texas Government Code chapters, the Texas Administrative Code rules; and, SOAH's established policies and procedures, for the 9 months ended May 31, 2022.

The results of our procedures performed disclosed that SOAH's internal control structure over the Area were generally adequate and no material instances of noncompliance were noted; however, we did identify certain matters, included in this report, that are opportunities for strengthening internal controls and ensuring compliance with state requirements and SOAH's established policies and procedures. Based on the degree of risk or effect of these matters in relation to the audit objective(s), these matters are rated as either Priority, High, Medium, or Low, which is further described in the "Summary and Related Rating of Observations/Findings and Recommendations," included in page 9 of this report.

We have discussed the comments and recommendations from the audit of the Area with various SOAH personnel; and, will be pleased to discuss them with you in further detail.



June 13, 2022

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INTRODUCTION

The State Office of Administrative Hearings (SOAH) was established in 1991 by the 72nd Legislature to serve as the State's independent forum to conduct adjudicative hearings in the executive branch of state government. The establishment of SOAH separates the adjudicative function from the investigative, prosecutorial, and policymaking functions performed by state agencies and also by local governmental entities (collectively "Agencies" in this report). SOAH's enabling statute is the Texas Government Code Chapter 2003, and its procedural rules are found in Title 1, Part 7 of the Texas Administrative Code.

SOAH is headed by a Chief Administrative Law Judge (ALJ) who is appointed by the Texas governor for a renewable two-year term. The Chief ALJ serves as SOAH's executive director and is responsible for agency operations and policymaking, since SOAH does not have a governing board. To be eligible for appointment as the chief ALJ, the individual must be licensed to practice law in Texas, and have practiced administrative law and/or conducted administrative hearings under the Texas Administrative Procedure Act for at least five years combined. The chief ALJ hires the ALJs to conduct hearings. An ALJ must be licensed to practice law in Texas, and is only responsible to the chief ALJ or the senior or master ALJs, as designated by the chief ALJ. SOAH's ALJs are not responsible to or subject to the supervision, direction, or indirect influence of any individuals from the referring agency.

SOAH's key activities include the following:

- **Administrative License Revocation (ALR) program** provides contested hearings before SOAH for administrative suspension, denial, or disqualification of a driver's license by the Texas Department of Public Safety (DPS). SOAH oversees these hearings and issues final decisions concerning individuals accused of allegedly driving while intoxicated. ALRs are the most common type of contested cases heard by SOAH.
- **Administrative Hearings** are conducted for contested cases under the Government Code Chapter 2001, the Administrative Procedure Act, for a state agency that does not employ an administrative judge; when SOAH is required to conduct the administrative hearing by other law; and, for a fee and under a contract, matters voluntarily referred by a governmental entity. SOAH issues an order, a proposal for decision, or final decision on these cases in accordance with applicable state rules.
- **Alternative Dispute Resolution (ADR) Procedures**, such as mediations, assist parties involved in contested cases to come to an agreement to avoid more costly and lengthy administrative hearings, where appropriate.

The majority of SOAH's staff are ALJs who preside over cases and issue proposals for decision and/or orders. SOAH organizes these ALJs into the following 7 teams, by subject area:

- 1) ADR
- 2) ALR & Field Operations
- 3) Central Panel
- 4) Individuals with Disabilities Education Act (IDEA)
- 5) Master Panel
- 6) Tax
- 7) Utilities

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Each ALJ is assigned to a *Home Team*, but often also works on cases in other subject areas. While all ALJs must meet a minimum level of experience, there are specific experience requirements to preside at contested case hearings for natural resources, tax, and utilities. In addition to SOAH's own procedural rules, including those for ALR and the appraisal review board appeals, in certain cases, SOAH also uses other procedural rules from the Public Utility Commission of Texas; the Texas Commission on Environmental Quality; the Comptroller of Public Accounts; the Employees Retirement System of Texas; and, the statutes and rules related to IDEA and the Texas Education Agency.

Hearings are held at SOAH's main office in Austin, and 7 field offices located in Corpus Christi, Dallas, El Paso, Fort Worth, Houston, Lubbock, and San Antonio. ALR hearings are also held at 31 additional remote locations which are typically local government offices.

2022 Internal Audit Plan

Following are the internal audit functions to be performed, as identified in SOAH's 2022 Internal Audit Plan, dated February 10, 2022 and submitted to the Chief ALJ on February 10, 2022:

- Risk Assessment & Preparation of the 2022 Internal Audit Plan
- Fixed Assets Audit
- Interagency Contract Billing and Invoicing Audit (limited scope)
- Follow-up of Prior Year Internal Audits
- Preparation of the 2022 Internal Audit Annual Report
- Other Tasks

This report contains the results of our audit of the Fixed Assets Area. The reports for the remaining internal audit area and other functions to be performed will be issued upon completion.

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INTERNAL AUDIT SCOPE AND OBJECTIVES

In accordance with the **International Standards for the Professional Practice of Internal Auditing**, the audit scope encompassed the examination and evaluation of the adequacy and effectiveness of the audit area's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope includes the following objectives:

- **Reliability and Integrity of Financial and Operational Information** – Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- **Compliance with Laws, Regulations, Policies, Procedures, and Contracts** – Review the systems established to ensure compliance with those laws, regulations, policies, procedures, and contracts that could have a significant impact on operations and reports, and determine whether the organization is in compliance.
- **Safeguarding of Assets** – Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- **Effectiveness and Efficiency of Operations and Programs** – Appraise the effectiveness and efficiency with which resources are employed.
- **Achievement of the Organization's Strategic Objectives** – Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

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EXECUTIVE SUMMARY

Fixed Assets

Background

Texas Government Code (GC) Chapter 403, Subchapter L, and Texas Administrative Code (TAC) Rule §5.200 provide state agencies with the requirements for the accounting of state property; and, SOAH has developed internal policies and procedures that reflect processes for compliance with these requirements. SOAH has a designated Property Manager, who is responsible for identifying and accurately recording SOAH's property in the Centralized Accounting, Payroll/Personnel System (CAPPS) Asset Management module, and the State Property Accounting (SPA) system. The SPA system is a component of the Uniform Statewide Accounting System (USAS) that is maintained by the Comptroller of Public Accounts (CPA) and serves as the state asset repository that allows for centralized reporting of capitalized and controlled assets by state agencies. Over the next few years, the CPA plans to retire SPA and transition state agencies to CAPPS, contingent on the development and implementation of CAPPS Asset Management module modifications. The CPA's expected final transition date is September 2024; therefore, until that date, SPA remains the state's capital asset system of record, and SOAH is required to continue recording assets in CAPPS and interfacing with SPA.

SOAH uses the capitalization threshold guidance as provided by the CPA. As such, SOAH's capitalized assets, which solely consist of furniture and equipment, are those with an initial unit cost equal to or greater than \$5,000, and have an estimated useful life greater than one year; while, controlled assets are those that do not meet the capitalization threshold, but are considered high-risk, such as computers. As of May 31, 2022, SOAH had capitalized and controlled assets with a total initial cost of \$99,945 and \$437,281, respectively. During the audit period from September 1, 2021 to May 31, 2022, SOAH added 31 laptops, totaling \$56,578, to the controlled assets maintained in SPA; and, removed 123 assets (capital and controlled) and other items, totaling \$66,698 from SPA, including surplus property not maintained in SPA.

The majority of SOAH's capitalized and controlled assets are IT-related; such as, servers and laptops; therefore, purchased property is generally first received by and assigned to the IT department in CAPPS, where a sequential tag number is affixed to each item. SOAH uses red asset tags for capital assets and blue asset tags for controlled assets. Information; such as, tag numbers, serial numbers, and item description numbers are entered into CAPPS; and, as part of the bi-weekly batch interface, SPA is updated with this information. All subsequent changes in location or assignment are tracked using the *Asset Transfer Form* (Form). Once the IT department completes initial set-up of equipment and deploys it to an end user, the end user then becomes the custodian and is responsible for physical security and reasonable care of the property. The custodian signs the Form and sends it to the Property Manager, who updates applicable property information in SPA. The custodian is also required to sign the Form when the property is relinquished.

SOAH complies with GC Chapter 2175 and the rules promulgated by the Texas Facilities Commission (TFC) when transferring, selling, or disposing of its surplus or salvage property. In accordance with CPA requirements, CPA disposal codes are entered into SPA for surplus or salvage property; and either the TFC, or SOAH with prior authorization from TFC, will occasionally sale surplus items. If items are sold by the TFC, the funds received are transferred to SOAH.

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In accordance with SOAH's established policies and procedures, an annual physical inventory of all agency property is performed, which is reconciled to information in the SPA system. As part of the physical inventory process, the Property Manager sends *Property Accountability Report by Location* reports to each custodian, which reflects the assets that are assigned to them, and requests that the custodian sign the report to indicate existence or denote exceptions of the assets listed. Noted changes, updates, and/or variances resulting from the physical inventory are reported to the Property Manager, who will update CAPPS and SPA, as needed. A report on the results of the physical inventory is prepared by the Property Manager and submitted to the Chief Financial Officer (CFO) for review and approval. The CFO then completes the *Certification of Physical Inventory Conducted by Agency* form and submits it to the CPA no later than September 20th of each year. SOAH completed its most recent physical inventory on August 16, 2021.

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AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of the audit was to assess the internal control structure over the Fixed Assets (Area), and its established policies and procedures, as applicable to the Area, for the purpose of determining compliance with applicable laws and regulations provided in the Texas Government Code and Texas Administrative Code.

Scope

The scope of this audit was to ensure fixed assets were accurately reported in the SPA and CAPPs systems; and, in accordance with established policies and procedures, and applicable state laws and regulations, for the 9-month period from September 1, 2021 to May 31, 2022 (audit period).

Methodology

The audit methodology included a review of applicable laws and regulations; SOAH's established policies and procedures, and other internal and external documentation; and, remote interviews and correspondence with the Property Manager.

We obtained and/or reviewed the following internal and external documentation:

- a. Texas Government Code (GC) Chapter 403, Subchapter L. Property Accounting; and, Texas Administrative Code (TAC) Rule §5.200 State Property Accounting System.
- b. Texas Comptroller of Public Accounts (CPA), Financial Policies & Procedures (FPP) N.005, *SPA Process User's Guide*.
- c. SOAH's *Asset Management Procedure*
- d. Completed CPA forms related to property management:
 - i. Form 73-286, Notice of Agency Head and Designation of Property Manager dated November 10, 2021.
 - ii. Form 73-283, Certification of Physical Inventory Conducted by Agency dated August 16, 2021.
 - iii. Form 73-284 Certification of Request for Agency Reporting Status dated May 6, 1993.
- e. SPA property reports as of August 31, 2021 and May 31, 2022; and, SPA reports listing additions and disposals of property in SPA during the audit period.
- f. An example of the Asset Transfer Form.
- g. SPA Property Accountability Report by Location, Asset Transfer Forms, photos of asset tags and serial numbers, and disposal documentation for selected assets.

We performed various procedures to achieve the objective of our audit; to include, the following:

1. Reviewed and obtained an understanding of sections of the GC, TAC, and other requirements established by the CPA, applicable to the Area.

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2. Obtained and reviewed SOAH's written policies and procedures; and, conducted interviews, to obtain an understanding of controls, processes and current practices in place over the Area, and to evaluate whether such controls adequately ensure compliance with applicable requirements identified in procedure 1 above.
3. Reviewed SOAH's completed CPA forms to ensure compliance with the TAC and CPA requirements.
4. Assessed the adequacy of access rights assigned to users of the SPA system.
5. Selected a sample of controlled assets added to SPA during the audit period and performed the following:
 - a. Reviewed the invoice to ensure the asset met the controlled asset threshold, and was properly reported in CAPPS and SPA (value, description, service date);
 - b. Ensured the asset's location and assigned custodian agreed in CAPPS and SPA; and,
 - c. Ensured the proper SPA codes were assigned to the asset in SPA.
6. Selected a sample of disposed assets removed from SPA during the audit period and performed the following:
 - a. Ensured an Asset Transfer Form was properly completed;
 - b. Ensured selected asset number was included in the Computer Recovery Program shipping information report for salvaged assets sent to the Computer Recovery Program; and,
 - c. Ensure proper authorization was obtained for the TFC for assets that were sold or donated by SOAH.
7. Selected a sample of assets from the SPA physical inventory report as of May 31, 2022, and performed the following:
 - a. Reviewed a picture of the asset tag with the State logo and serial number to ensure asset was accounted for and properly tagged; and, the asset number and description was properly reported in SPA, and proper color tag was used for capital and controlled assets; and,
 - b. Obtained the most recent *Property Accountability Report by Location* from the FY 2021 physical inventory which included the selected asset, and ensured it was signed by the custodian indicating the asset was in their possession; and, the serial number, asset number and description agree.
8. Performed a comparison of the asset locations and custodians reported in the May 2022 CAPPS Active Property Listing by Location report to the May 2022 Certified Physical Inventory report.
9. Performed a reconciliation between the May 2022 CAPPS Active Property Listing by Location report and the May 2022 Certified Physical Inventory report.

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**SUMMARY AND RELATED RATING OF
OBSERVATIONS/FINDINGS AND RECOMMENDATIONS**

As SOAH’s internal auditors, we used our professional judgment in rating the audit findings identified in this report. The rating system used was developed by the Texas State Auditor’s Office and is based on the degree of risk or effect of the findings in relation to the audit objective(s). The table below presents a summary of the observations/findings in this report and the related rating.

Summary of Findings & Recommendations and Related Ratings		
Finding No.	Title	Rating
1	Asset Tags	Low
2	Asset Location and Assigned Custodian	Low
3	Asset Disposal	Medium
4	CAPPS / SPA Reconciliation	Medium
Observation No.		
1	Policies & Procedures	-
2	SPA User Access	-

Description of Rating

A finding 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(s) and reduce risks to the audited entity.

A finding 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(s) and reduce risks to the audited entity.

A finding 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(s) and reduce risks to a more desirable level.

A finding 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.

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OBSERVATIONS/FINDINGS AND RECOMMENDATIONS

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/ Other Impact
1	6/13/2022	Fixed Assets	<p>1. Asset Tags</p> <p>TAC §5.200(h) requires state agencies to permanently mark each item of personal property in the agency’s possession as property of the State of Texas; and, assign it a unique property inventory number, which should be printed on a label and attached to the item in a highly visible location.</p> <p>Based on our virtual review of 1 capital and 4 controlled assets selected from SOAH’s SPA inventory report, we observed that the capital asset did not have an attached State of Texas asset tag. Thus, the item was not labeled with the assigned property asset number.</p> <p>Recommendation</p> <p>We recommend that SOAH attach an asset tag to this asset and ensure asset tags are attached to all capital and controlled assets to be compliant with TAC §5.200(h).</p> <p>Management’s Response</p> <p>The agency agrees and has made corrective actions to ensure an asset tag is visible. The agency will update its procedures to ensure the property manager reviews each capitalized and controlled item when received to ensure an asset number is assigned and placed in a highly visible location on the item.</p> <p>2. Asset Location and Assigned Custodian</p> <p>In accordance with TAC §5.200(h)(4)(B), an internal state agency must maintain an asset’s current location information in the SPA system. To ensure compliance with this requirement, SOAH’s <i>Asset Management Procedure (AM Procedure)</i> states that when items are received, they must be assigned to a custodian, whom is responsible for the item/asset; and generally, all laptops received are assigned to the IT system analyst. Once the asset is deployed, an Asset Transfer Form is completed and the custodian and location are updated in CAPPs and SPA. Our comparison of the location and custodian reported in CAPPs vs SPA, for 267 items, disclosed the following:</p> <ul style="list-style-type: none"> • In 8 instances, there was no location entered into SPA. • In 6 instances, the location in SPA differed from CAPPs. <p>In addition, we randomly selected 5 of the 31 asset additions to SPA during the audit period, and compared the custodian listed in CAPPs to what was listed in SPA, which disclosed 1 instance where the custodian in CAPPs differed from SPA.</p> <p>Recommendation</p> <p>We recommend that SOAH perform a review of information reported in CAPPs and SOAH for agreement, and update the location and custodian, as needed, to ensure compliance with TAC §5.200(h)(4)(B) and SOAH’s <i>AM Procedure</i>.</p> <p>Management’s Response</p> <p>The agency agrees and has made corrective actions to ensure all assets are assigned a location and custodian. The agency will update its procedures to include a monthly review is performed to ensure accuracy.</p>	<p>To ensure compliance with TAC §5.200(h).</p> <p>To ensure compliance with TAC §5.200(h)(4)(B)) and SOAH’s AM Procedures.</p>

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/ Other Impact
1	6/13/2022	Fixed Assets	<p>3. Asset Disposal</p> <p>Our testing of compliance with various requirements for 5 assets that were disposed of during the audit period disclosed the following:</p> <ul style="list-style-type: none"> • Asset Transfer Forms, as required by SOAH’s <i>AM Procedure</i>, were not available for any of the 5 disposed assets. • Evidence of TFC authorization was not made available for an asset that was disposed using method code #35 (TFC Authorized Sale or Donation), which per the CPA, requires approval from the TFC before assets are sold or donated. <p>Recommendation</p> <p>We recommend that SOAH ensure Asset Transfer Forms are completed and retained when assets are salvaged; and, ensure TFC authorization is obtained when required.</p> <p>Management’s Response</p> <p>The agency agrees and will update its procedures to ensure forms, emails, and other documentation are maintained to substantiate asset disposals.</p> <p>4. CAPPS / SPA Reconciliation</p> <p>We performed a reconciliation between the May 2022 CAPPS and SPA reports and noted the following variances:</p> <ul style="list-style-type: none"> • In 4 instances, an asset was valued between \$274 - \$600 more in CAPPS than in SPA; • In 2 instances, an asset was valued \$2,515 less in CAPPS than in SPA; • In 1 instance, an asset valued more than \$5,000 was missing from the SPA report, but included in the CAPPS report; and, • In 31 instances, assets were included in the SPA report, but not the CAPPS Active Property Report. However, the CAPPS Individual Property Accountability Reports reflected inclusion of these assets. <p>Recommendation</p> <p>We recommend that SOAH perform a reconciliation of these 2 reports on a periodic basis to ensure completeness and accuracy of the information reported. Furthermore, SOAH should or continue to report the error in the CAPPS reporting function, to the CPA, to determine if there is a needed update.</p> <p>Management’s Response</p> <p>The agency agrees and has corrected the issues identified. In addition, the agency will also update its procedures to include a quarterly reconciliation between the systems. The agency will also work with the Texas Comptroller of Public Accounts to understand why certain funding elements are not sent to SPA from CAPPS, which caused some of the variances.</p>	<p>To ensure compliance with SOAH’s AM Procedures and the CPA requirements for disposals.</p> <p>To ensure SOAH is properly recording, and reporting assets.</p>

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/ Other Impact
OBSERVATIONS				
1	6/13/2022	Fixed Assets	<p>1. Policies & Procedures</p> <p>SOAH’s <i>AM Procedure</i> states that the Property Manager reconciles inventory in CAPPs and SPA utilizing reports in business objects, and compare items between CAPPs and SPA and resolve any discrepancies. Per discussions with staff, we understand that this procedure is not performed since the interface between SPA and CAPPs for reconciliation is currently not available; and, a certain CAPPs report that was planned to be used does not provide the expected information. In lieu of this procedure, the Property Manager reviews bi-weekly batch interface errors. However, this procedure may not be effective based on the number of variances we identified (and reported) as part of the reconciliation we performed.</p> <p>Recommendation</p> <p>We recommend that SOAH consider a more effective reconciliation process and update their AM Procedure to agree to their current practice(s).</p> <p>Management’s Response</p> <p>The agency agrees and will update its procedures to include a monthly review of location and custodian assignment. Additionally, quarterly CAPPs/SPA reconciliation will be implemented.</p> <p>2. SPA User Access</p> <p>To ensure users are assigned SPA access rights that align with their level of authority, a state agency will notify the CPA when they have a change request. Upon such notice, the CPA assigns the user a Designated Title Code (DTC), which is used to identify the user’s level of authority and/or responsibility.</p> <p>In November 2021, the current Property Manager was promoted to this position; however, his SPA assigned DTC of “U” for User (no responsibility for agency property), has not been revised to “P” for property manager.</p> <p>Recommendation</p> <p>We recommend that SOAH contact the CPA and have the Property Manager’s DTC changed to “P”.</p> <p>Management’s Response</p> <p>The agency agrees and has submitted a security ticket to the Texas Comptroller of Public Accounts to get the user’s profile information updated in SPA.</p>	<p>To ensure SOAH’s policies and procedures agree to their current practices.</p> <p>To ensure the correct level of authority is assigned to SOAH’s property manager.</p>