

TEXAS ANIMAL HEALTH COMMISSION
Internal Audit of Federal Funds Management
Fiscal Year 2016
(Report No: TAHC 016-002)



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CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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Audit Committee and Commissioners
Austin, Texas

We have conducted an internal audit of the Federal Funds Management at the Texas Animal Health Commission as of February 22, 2016. The results of our audit disclosed that the Commission has adequate systems and effective controls in place to provide assurance that the federal funds are being properly managed.

We appreciate the courtesy and cooperation the management of the Commission showed during the course of the engagement.

Monday Rufus & Co., P.C.

February 22, 2016
Austin, Texas

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Executive Summary

The Texas Animal Health Commission's (Commission) enabling statutes are in Chapters 161 through 168 of the Texas Agriculture Code, Vernon's Annotated Texas Statutes. The Commission is vested with the responsibility of protecting all livestock, domestic animals, and domestic fowl from diseases stated in the statute, and is authorized to regulate the entry of livestock, domestic animals, and domestic fowl into the state; and control the movement of livestock. The Commission is funded by a combination of state general revenue funds and federal funds from the United States Department of Agriculture (USDA). The Commission's staff of 161 full-time-equivalent (FTEs) is comprised of field inspectors, veterinarians, epidemiologists, laboratory personnel, and administrative staff. The Commission works closely with local, state, federal, livestock producers, industry partners, and the public, on animal health issues. The Commission is also supported by the veterinary community and the United States Department of Agriculture (USDA) to assure proper tracing of the movement of exposed and infected animals to determine the origin of infection and minimize the transmission of disease.

The Commission's legislatively approved appropriated budget for fiscal year 2015 was projected at \$10,427,543 of which \$1,942,303 (19%) was comprised of federal funds. The federal funds are mainly made up of cooperative agreements between the Commission and the USDA and are used to address cattle, swine, avian, diseases, and other animal programs. Cooperative agreement(s) funding from USDA is usually awarded for specific disease programs for one year periods which are usually different from the state's fiscal year period which starts on September 1st and ends on August 31st of the subsequent year. Therefore, if the same animal disease program is funded by USDA in a subsequent year (e.g. 04/01/2015-03/31/2016) the Commission will be requesting federal funds and reporting on cooperative agreements of overlapping state fiscal periods of 2015 and 2016.

The Commission follows the Veterinary Services (VS) Grants and Agreements Program Guide for each USDA cooperative agreement which requires a Project Proposal, Work Plan, Budget, and a Detailed Financial Plan. The VS Cooperative Agreement Program provides funding for surveillance, monitoring, reporting, and prevention and control activities through a comprehensive approach for animal health management.

Federal funds play a significant role in the Commission's operations and activities and are taken into consideration during the agency's legislative budgetary processes. The fiscal year 2014-2015 Legislative Appropriation Bill gave the Commission authority to carry forward (hereby appropriated) any unexpended balances from fiscal year 2014 to fiscal year 2015 which may assist in matching federal funds. The Commission is also authorized to increase its total number of Full-Time-Equivalents (FTE) employees above those appropriated in the Act for programs related to animal identification of or surveillance, control, or eradication of animal health pests or diseases contingent upon federal funds being available to pay for salary costs.

The Veterinary Services (VS) which is an agency of the USDA has identified the following distinct categories of Cooperative Agreements which are listed below:

1. Umbrella Agreement
 - Covers all animal disease activities with the exception of animal disease traceability
2. Animal Disease Traceability
 - Covers all activities identified for traceability
3. Other Agreements
 - Avian Health Agreements
 - Covers all activities for avian health when specific funds are allocated just for this type
 - Swine Enteric Corona Disease Agreements
 - Covers specific activities associated with SECD specific funding

The Commission's Financial Services requests federal funds from each USDA cooperative agreement on a quarterly basis using a Request for Advance or Reimbursement (SF-270 Form). A Federal Financial Report (SF-425 form) which reports the current status of the federal and non-federal matching funds is also submitted. Quarterly Accomplishment Reports and supporting detail documentation from various internal and external sources are submitted to USDA/APHIS/VS for each cooperative agreement program activity.

Internal Audit Results

The Commission has an adequate system and controls in place for proper management of federal funds. The Commission is in compliance with the requirements of the USDA Veterinary Services Grants and Agreements Program Guide in applying for grants or cooperative agreements, requesting reimbursement from cooperative agreements, and in submitting financial and program status reports regarding federal funds.

Summary of Management's Response

Objectives and Observations

Objective

The primary objectives of the internal audit were to determine the following:

- *Reliability and Integrity of Information*
- *Compliance with Policies, Procedures, Laws, and Regulations*
- *Efficiency and Effectiveness of Operating Procedures*
- *Safeguarding of Assets*

RESULTS

Internal Audit Objective 1: Reliability and Integrity of Information

Request for Advance or Reimbursement (SF 270) and Federal Financial Report (SF 425) documents were accurately prepared and timely submitted to the USDA in compliance with each cooperative agreement requirements during fiscal year 2015.

Commission federal funds accounting records agreed with the cooperative agreements awarded amounts, requested and deposited reimbursements, and remaining award balances in the cooperative agreements at the end of fiscal year 2015.

Commission federal funds financial activity reported for cooperative agreements at the end of fiscal year 2015 agreed to the federal funds activity reported in the Fiscal Year 2015 Annual Financial Report submitted to the State Auditor's Office as of August 31, 2015.

Internal Audit Objective 2: Compliance with Policies, Procedures, Laws, and Regulations

Required USDA reports and supporting documentation are timely submitted as required by the USDA, Veterinary Services Grants and Agreements Program Guide (February 2015).

Agency state matching funds expended were in compliance with the funds budgeted in the USDA cooperative agreements.

Internal Audit Objective 3: Efficiency and Effectiveness of Operating Procedures

The Commission's Financial Services federal funds accounting records agreed to cooperative agreements financial activity during fiscal year 2015.

The Financial Services coordinates with other agency divisions to ensure timely submittal of required USDA cooperative agreements quarterly financial and accomplishment reports program activities reports.

Internal Audit Objective 4: Safeguarding of Assets

The USDA Veterinary Services Grants and Agreements Program Guide requires that any individual who is authorized to execute proposal, contracts, agreements, etc. on behalf of the Commission be included in an Authorized Signatures list in the cooperative agreement.

Two or more Commission signatures from executive management were noted on required cooperative agreement reports and supporting documentation submitted to the USDA.

The requested amounts on the SF 270 (*Request for Advance or Reimbursement*) and SF 425 (*Federal Financial Report*) for cooperative agreements prepared by Financial Services agreed to deposits reported to the State Comptroller's Uniform Statewide Accounting System (USAS).

Appendix 1

Objective and Scope

Objective

The primary audit objectives of the internal audit were to evaluate the following:

- Reliability and Integrity of Information
- Compliance with Policies, Procedures, Laws, and Regulations
- Efficiency and Effectiveness of Operating Procedures
- Safeguarding of Assets

Scope

The scope of the internal audit included reviewing the effectiveness of control systems to ensure the reliability and integrity of the federal funds management information, compliance with policies and procedures, and required documentation to ensure compliance with the USDA Fiscal Year 2015, VS Grants and Agreements Program Guide and the Texas Administrative Code Rules.

Methodology

Our procedures included collecting information and documentation; performing selected tests and other procedures; analyzing and evaluating the results of the tests; reviewing operating policies and procedures, laws and regulations, and conducting interviews with the appropriate staff of the Commission; testing for compliance with policies, procedures and laws; and review of other pertinent reports and documentation.

Information collected and reviewed included the following:

- OMB Circular A-133: Part 4, Department of Agriculture
- Code of Federal Regulations: Subtitle B, Regulations of the USDA
- USDA, VS Grants and Agreements Program Guide (February 2015)
- USDA-APHIS-MRPBS-FMD-RAB Cooperative Agreement Audit (Sept 2015)
- Texas Administrative Code, Title 4
- The Commission's Legislative Appropriations (2014-2015)
- Interviews with the Director of Financial and Procurement Services and staff
- Fiscal Year 2016 Management's Risk Assessment Concerns
- State Auditor's Office Audit Reports
- Review of other pertinent reports and documents

Other Information

Our internal audit was conducted 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 internal audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our internal audit objectives. Our internal audit also conforms with the Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing*.

Appendix 2:

Federal Funds

USDA Veterinary Services (VS) Federal Cooperative Agreements	2013 Award	2014 Award	2015 Award
*Umbrella	\$1,936,856.00	\$2,072,107.00	\$2,062,752.00
Traceability (ADT)		500,000.00	500,000.00
Traceability (AHTS)	500,000.00		
Cattle Fever Tick			325,000.00
Swine Surveillance		9,300.00	17,300.00
EPS Livestock Market	120,120.00	133,100.00	
IDEXX		80,000.00	
SECD		67,200.00	
TB Gamma	87,173.02	82,993.00	
PRV Surveillance	8,030.00		
Total USDA Federal Funds**	\$2,652,179.02	\$2,944,700.00	\$2,905,052.00

Breakdown of *Umbrella Cooperative Agreement	2013 Award	2014 Award	2015 Award
Avian	\$231,500.00	\$272,950.00	\$261,610.24
Swine	296,914.00	306,367.00	307,012.80
Cattle	1,282,587.00	1,349,819.00	1,350,856.32
Equine	118,205.00	122,548.00	122,805.12
Zoonosis	7,650.00	20,423.00	20,467.51
Total Umbrella Federal Funds	\$1,936,856.00	\$2,072,107.00	\$2,062,751.99

**USDA is usually awarded for specific disease programs for one year periods which are usually different from the state's fiscal year period which starts on September 1st and ends on August 31st of the subsequent year.

Appendix 3

Background

In 1893, the agency was initiated to fight the Texas Cattle Fever epidemic, which had created a nationwide problem. Since then, the Texas Animal Health Commission (Commission) and the United States Department of Agriculture (USDA) have worked cooperatively with livestock producers on animal health issues. In recent years, the agency's primary objectives have been to control and eradicate livestock diseases, such as: Brucellosis in cattle and swine; tuberculosis in cattle; goats and cervidae; hog cholera in swine; pseudorabies in swine; scabies in cattle and sheep; Venezuelan equine encephalomyelitis (VEE); and equine infectious anemia (EIA) in horses.

The Commission's enabling statutes are in Chapters 161 through 168 of the Texas Agriculture Code, Vernon's Annotated Texas Statutes. The Commission is vested with the responsibility of protecting all livestock, domestic animals, and domestic fowl from diseases stated in the statute, or recognized as maladies by the veterinary profession. The Commission is authorized to act to eradicate or control any disease or agency of transmission for any disease that affects livestock, exotic livestock, domestic animals, domestic fowl, exotic fowl, or canines, regardless of whether or not the disease is communicable. In order to carry out these duties and responsibilities, the Commission is authorized to control the sale and distribution of all veterinary biologics, except rabies vaccine; regulate the entry of livestock, domestic animals, and domestic fowl into the state; and control the movement of livestock.

To carry out its mission, the Commission is supported by the veterinary community, competent laboratory system and epidemiology activities which oversee the diagnosis of diseases, and assures appropriate tracing of the movement of exposed and infected animals to determine the origin of infection and minimize the transmission of disease.

The Commission is composed of twelve members who are appointed by the Governor with the advice and consent of the Senate. The Governor designates the Chair.

The Commissioners appoint an Executive Director who supervises the Commission's activities. The Commission's operating budget is prepared and approved by the Commissioners on an annual basis, whereas the State legislative appropriation request is determined every two years. Both the budget and appropriations are reviewed and approved by the State Legislature. The Commission is divided into three divisions. The two operating divisions are the Animal Health Programs Division and Administrative Division, all of which report directly to the Executive Director. The Executive Division is headed by the Executive Director.

The Commission is funded by a combination of state general revenue funds and federal funds from the U.S. Department of Agriculture (USDA). For the 2014 – 2015 biennium, the TAHC has an authorized workforce of 161 full-time equivalent employees (FTEs). The Commission's staff is comprised of field inspectors, veterinarians, epidemiologists, laboratory personnel, and administrative staff.

Appendix 4

Report Distribution

As required by Gov't Code 2102.0091 copies of this report should be filed with the following:

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