

Internal Audit of the  
State/Federal Laboratory  
Austin, Texas  
As of January 04, 2016  
At The  
Texas Animal Health Commission  
(Report No: TAHC 016-001)



MONDAY RUFUS & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS



**MONDAY RUFUS & CO., P.C.**  
Certified Public Accountants & Advisors

Audit Committee  
and Commissioners  
Texas Animal Health Commission  
Austin, Texas

We have conducted an internal audit of the State/Federal Laboratory (Austin, TX) at the Texas Animal Health Commission (TAHC) as of January 04, 2016. The results of our audit disclosed that State/Federal Laboratory has adequate systems and effective processes in place to provide assurance that the laboratory is accurately and effectively performing testing procedures. However, we noted some opportunities for enhancing the controls at the State-Federal Laboratory. The report that accompanies this letter summarizes our comments and recommendations.

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

*Monday Rufus & Co., P.C.*

January 04, 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 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 Texas State-Federal Laboratory is located in Austin, Texas and has a staff of 13 FTEs. Laboratory microbiologists and technicians conduct USDA approved serological tests to support cooperative programs for brucellosis, pseudorabies, equine infectious anemia, tuberculosis, and ectoparasite identification for cattle fever tick, screwworm, and scabies programs, thereby providing state, federal, and private veterinarians and epidemiologists with scientific tools for diagnosing disease. The Director of Laboratories reports to the State Epidemiologist.

The Texas State-Federal Laboratory is a national leader in many aspects of brucellosis and tuberculosis testing and is the only state laboratory in the nation approved to conduct national slaughter surveillance samples for cattle brucellosis.

The laboratory employs daily internal quality assurance procedures and yearly external National Veterinary Services Laboratory (NVSL) proficiency testing to conform to internationally recognized laboratory quality standards.

Laboratory responsibilities include, but are not limited to:

- Establishing and maintaining a quality control program for laboratory integrity and employee safety;
- Ensuring protocols and procedures to maintain sample integrity throughout the testing process;
- Determining specifications for supplies, and ensuring vaccine and other biological products are properly shipped per state and federal regulations;
- Reporting serological results to producers and veterinarians in a timely manner;
- Supporting agency responses to foreign animal disease outbreaks; and

- Supporting Texas Veterinary Medical Diagnostic Laboratory (TVMDL) system as a surge capacity for response to a catastrophic foreign animal disease outbreak activating that lab system.

The Texas State-Federal laboratory supports animal health programs which include Cattle Brucellosis, Swine Health, Brucellosis in goats, Cattle Tuberculosis, and Tick and other ectoparasite identification. In fiscal year 2014 the State-Federal Laboratory received a total of 578,718 samples for testing. Of the 578,718 samples received, the Lab tested 571,842 and 6,876 not tested due to the invalidity of the samples content. In fiscal year 2015, the Lab received 803,129 samples, testing 797,202 of the samples with 5,927 not tested due to the invalidity of the samples content.

### **Internal Audit Results**

Our review of the State-Federal Laboratory considered the reliability and integrity of information, compliance with policies, procedures, and the efficiency and effectiveness of laboratory testing operations. The Commission's State-Federal Laboratory has policies and procedures in place to accurately and effectively test animal samples.

Management can enhance the State-Federal Laboratory operations by ensuring that lab technician training records are kept current and updated monthly as required by the Quality Manual. There should also be a process to ensure verification of Laboratory System database entry and supporting documentation by an independent person within the Commission. Additionally, management should ensure that State-Federal Laboratory employees making petty cash purchases comply with the TAHC Petty Cash rules regarding supporting documentation.

### ***Summary of Management's Response***

*Management appreciates the thoroughness of this audit process and the opportunity to learn of opportunities for improvement through increased compliance with current policies and procedures and also planning and implementing applicable improved policies and procedures. See itemized responses following each presented detailed finding.*

## **Detailed Issue, Recommendations, and Management's Response**

The primary objectives of the internal audit were:

1. Reliability and Integrity of Information
2. Compliance with Policies, Procedures, Laws, and Regulations
3. Efficiency and Effectiveness of Operating Procedures

### *Internal Audit Objective 1: Reliability and Integrity of Information*

Controls are in place to ensure that reports generated from the State-Federal Laboratory database received are entered and communicated to appropriate health care personnel and professionals.

Procedures are in place to retrieve information data stored in the State-Federal Laboratory database.

Procedures are in place to communicate sample tests results to clients and statewide TAHC region offices.

### **Finding 1: Missing Sample Test Lab Worksheet**

Criteria:

Lab Worksheets and supporting documents used for data entry into the Laboratory System database should be verified by an independent person to ensure the accuracy, reliability, and integrity of the data.

Condition:

During our audit testing, one Lab Worksheet (Sample Group # AU141003-24) which should have been used for data entry into the Laboratory System database could not be located.

Cause:

Data entry from the Lab Worksheets and supporting documents into the Laboratory System database is being entered by the two administrative technicians and is not being verified by an independent person at the State-Federal Laboratory.

Effect:

The reliability and integrity of the information being entered into the Laboratory System database may not be adequately supported by the original document information.

Recommendation:

Management should incorporate a process for an independent person to verify Laboratory System database entry and supporting documents.

***Management's Response:***

*We will use our Quality System process, Corrective Action / Preventive Action (CAPA), to investigate root cause and plan and implement corrective actions to prevent recurrence of the observed deficiency, to include consideration of additional management controls.*

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

The Commission has policies in place to provide reasonable assurance that the State-Federal Laboratory staff is proficient in the performance of their duties regarding data input into the State-Federal Laboratory system database.

**Finding 2: Lab Technician Employees Training Records Not Being Updated Monthly**

Criteria:

The State-Federal Laboratory Quality Manual states that lab personnel on-going competency is assured by completion of annual USDA proficiency tests for each test they are authorized to perform. The document also requires that training records be kept electronically in a folder on the Austin lab server; Quality Management System (QMS), and in the Laboratory Supervisor's office. Training records will also include information on the dates of training and who supervised the training as well as authorization to conduct testing. The electronic folder is updated monthly.

Condition:

During our testing of lab employees proficiency testing, supporting documentation could not be located for two lab employees to determine if they had taken or passed their proficiency tests during fiscal year 2015.

Cause:

The State-Federal Laboratory is not keeping lab employees training records updated monthly in an electronic folder in the Austin lab server as required by the State-Federal Laboratory Quality Manual's system wide document (SYS 01, Revision 8, Dated 9/24/2013).

Effect:

Management is in noncompliance with the Quality Manual requirements. Additionally, the integrity of the sample tests results may be subject to question if proof of certification is requested and not immediately available for lab personnel conducting the tests.

**Recommendation:**

The State-Federal Laboratory management should comply with the Quality Manual training records requirements in keeping all lab employees' training records current.

***Management's Response:***

*We will use our Quality System process, Corrective Action / Preventive Action (CAPA), to investigate root cause and plan and implement corrective actions to prevent recurrence of the observed deficiency, to include consideration of additional management controls and/or a new commercial electronic training records software.*

**Finding 3: Petty Cash Missing Receipt Documentation for Replenished Purchases**

**Criteria:**

The Texas Animal Health Commission Petty Cash Rule 2. Receipts require that all reimbursements of petty cash purchases require a dated receipt showing the vendor's name and the purchase amount. An employee who lacks a receipt may, as a last resort, substitute a memo listing the following:

- The reason a receipt was not provided or is not available;
- The item or service purchased;
- Date of purchase;
- Amount paid;
- Vendor name, address, and phone number; and
- The vendor's federal tax identification

**Condition:**

Two (2) purchases made on 5/4/2015 and 5/5/2015 for \$8.72 and \$23.22, respectively, did not have supporting receipts. The State-Federal Lab Petty Cash Log did list that the two purchases were made and also included the wording (No receipt found), but no memo as to the reason the receipts were not provided or available.

Cause:

State-Federal Laboratory personnel failed to substitute a memo as required by the Petty Cash Policy guidelines as to reason why receipts were not provide for the purchases.

Effect:

By not having a receipt or a memo written in lieu of the missing receipt, management may not be aware of items which may be purchased, since the bank statement expenditure information only shows the date, amount, name and location of the business, but does not show what item(s) were purchased.

Recommendation:

Management should ensure that State-Federal Laboratory employees making petty cash purchases comply with the TAHC Petty Cash Rule 2 regarding petty cash receipts and substitute memos.

***Management's Response:***

*We will get assistance from TAHC's Financial Services to investigate root cause and plan and implement corrective actions to prevent recurrence of the observed deficiency, to include consideration of additional internal management controls (e.g. timely management reviews).*

Internal Audit Objective 3: Efficiency and Effectiveness of Operating Procedures

**Finding 4: The State-Federal Laboratory Should Dispose of Obsolete or Unused Property**

Criteria:

Chapter 2175, Government Code, Title 10. General Government requires that state agencies report surplus or salvage property which has no value for the purpose for which it was originally intended or is not required for the agency's foreseeable needs, to the Texas Facilities Commission for disposal.

Condition:

During our testing of the fixed assets inventory, we noted two fixed asset items where one was broken and the other not functioning properly as intended when used. According to management, one of the fixed assets (Sterilamatic Autoclave; acquired 9/1/1980; cost \$2,300) tag # 55405019 was probably broken during the State-Federal Laboratory's move

in April of 2014 to their current facility location. To repair the 35 year old asset would have been cost-prohibitive. The other fixed asset (Centrifuge: acquired 02/01/2002; cost \$8,700) tag #71654200 was transferred from the TAHC Fort Worth Laboratory after it permanently closed the State-Federal Laboratory in August of 2013. The centrifuge had not been functioning properly before being transferred to the State-Federal Laboratory. The State-Federal Laboratory uses the asset as a backup centrifuge with lab personnel having to follow additional special instructions when using the machine in order to ensure it operates as intended.

**Cause:**

Management has not submitted written requests to the TAHC Staff Services division to have the assets processed for disposal pickup.

**Effect:**

Having obsolete fixed asset items in the State-Federal Laboratory which are not being used may:

- not be cost efficient since Staff Services personnel have to keep records and inventory the obsolete assets annually
- be accounted for and reported on annual reports submitted to other agencies such as the State Comptroller of Public Accounts:
- overstate the agency's fixed assets inventory value being reported on annual reports.
- be unnecessarily occupying the leased floor space, if the asset is a large item (e.g. freezer)

**Recommendation:**

State-Federal Laboratory management should follow Chapter 2175, Government Code, Title 10. General Government guidelines and properly dispose of the two obsolete fixed asset items.

***Management's Response:***

*We will submit requests to TAHC's Staff Services for assistance in proper accountable disposal of these obsolete items. We will adopt a policy that during periodic asset inventories, obsolescence will be evaluated and any obsolete items must be properly disposed within 3 months of the inventory.*

## **Appendix 1**

### **Objective and Scope**

#### **Objective**

The primary 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*

#### **Scope**

The audit scope of the internal audit included reviewing the effectiveness of the control systems to ensure the reliability and integrity of the State-Federal Laboratory management information, compliance with policies and procedures, and required documentation to ensure compliance of the statutory Texas Agriculture Code and 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; conducting interviews with the appropriate staff of the TAHC; testing for compliance with policies, procedures and laws, and review of other pertinent reports and documentation.

Information collected and reviewed included the following:

- The State-Federal Laboratory System database
- State-Federal Laboratory Policies and Procedures
- State-Federal Laboratory Quality Control Manual
- The Texas Agriculture Code, Chapters 161-168
- Texas Administrative Code, Title 4, Part2 – Texas Animal Health Commission
- Texas Animal Health Commission Strategic Plan 2015-2019
- Texas Animal Health Commission Legislative Budget for 2015
- Texas Animal Health Commission website (State-Federal Laboratory)

## **Other Information**

Our audit was conducted in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. 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. Our audit also conforms with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing*.

## **Appendix 2**

### **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 3**

### **Report Distribution**

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

#### **Governor's Office of Budget and Planning**

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