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An Audit Report on

**The Texas Board of Architectural
Examiners: A Self-directed,
Semi-independent Agency**

December 2011

Report No. 12-009



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Overall Conclusion

The Texas Board of Architectural Examiners (Agency) accurately reported key financial statement balances for fiscal year 2010, and its key financial controls were working effectively. However, it did not maintain sufficient financial documentation to support a transfer of \$83,177 from its scholarship fund to its operating fund during fiscal year 2010.

The Agency transferred \$3,785,600 to the State's General Revenue Fund during fiscal year 2010, as required by Texas Civil Statutes, Article 8930, and its fiscal year 2010 ending fund balance was \$2,419,439, which represents an increase of \$394,241 (19 percent) from its fiscal year 2006 ending fund balance. The Agency's ending fund balance included the scholarship fund balance of \$219,883.

The Agency had an adequate process for setting fees. That process included analyzing costs to help ensure that the Agency meets its operational needs.

However, while the Agency collected sufficient revenue in fiscal year 2010 to cover its operational expenses, the Agency's budgeting process was not sufficient to fairly project Agency revenues and expenditures and the process was not fully documented. This limits the ability of the Agency's governing board to determine whether it should make adjustments to the Agency's fee structure or operating costs. The Agency also presented budget information to its governing board, the Legislature, the Office of the Governor, and the Legislative Budget Board that significantly understated the Agency's projected available ending fund balances.

The Agency had an adequate process for setting administrative penalties. That process ensured that administrative penalties conformed with and were consistently applied in accordance with the Texas Administrative Code and the Texas Occupations Code.

Background Information

Texas Civil Statutes, Article 8930 (the Self-directed, Semi-independent Agency Project Act), authorized the Texas Board of Architectural Examiners (Agency) to operate independently of the General Appropriations Act. The Self-directed, Semi-independent Agency Project Act is subject to Chapter 325 of the Texas Government Code (the Texas Sunset Act). Unless continued in existence as provided by that chapter, the Self-directed, Semi-independent Agency Project Act expires on September 1, 2013.

The Agency is a multi-profession regulatory agency that oversees the examination, registration, and professional regulation of architects, interior designers, and landscape architects. During fiscal year 2010, the Agency regulated approximately 16,862 new and continuing licensees.

The Agency adopts its own annual budget, which the Agency's governing board reviews and approves. It does not receive funds through the General Appropriations Act.

The Agency's current nine-member governing board is appointed by the Governor and confirmed by the Texas Senate. The governing board is composed of four architect members; one interior design member; one landscape architect member; and three members who represent the public, at least one of whom must be a person with a physical disability.

In addition, the Agency implemented policies and procedures in January 2011 regarding its fee-setting process as recommended in *An Audit Report on the Texas Board of Architectural Examiners: A Self-directed, Semi-independent Agency* (State Auditor's Office Report No. 10-003, September 2009). However, the Agency has not fully documented policies and procedures related to its administrative penalty assessment process as that audit report recommended.

The Agency reported inaccurate performance measure results in its reports to the Legislature and the Office of the Governor in fiscal year 2010 for three of four performance measures tested. Those measures were:

- Number of Examination Candidates.
- Number of Individual Licenses Renewed and Those Renewed Online.
- Number of Complaints Resolved.

The Agency accurately reported performance measure results for the Number of New Individual Licenses Issued. Auditors followed up on an additional performance measure—Number of Individuals Examined—that the State Auditor's Office reported as inaccurate in the September 2009 audit report. The Agency did not report results for that performance measure in fiscal year 2010.

The Agency lacked adequate policies and procedures to ensure that it accurately calculated and consistently reviewed and reported performance measures results. In addition, the Agency had not implemented four of five recommendations related to performance measures included in the September 2009 audit report. The Agency had partially implemented one recommendation related to performance measures.

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

Summary of Management's Response

Agency management agreed with the recommendations in this report. The Agency's detailed management responses are presented immediately following each set of recommendations in the Detailed Results section of this report.

Summary of Information Technology Review

Auditors performed a limited review of general and application controls over the information technology system that the Agency uses to track licensees' information (TBAsE) and determined that the data in TBAsE was reliable, except for the closing dates of enforcement investigation cases. Auditors tested controls over user access, password configuration, change management, and edit checks and determined that the TBAsE system contained adequately designed controls to

ensure that data is entered and processed accurately. Auditors identified some user access control weaknesses. To minimize the risks associated with disclosing weaknesses in information technology controls, auditors communicated details separately in writing to Agency management. In addition, auditors reviewed user access controls over the Uniform Statewide Accounting System (USAS) and the Uniform Statewide Payroll/Personnel System (USPS) and determined that the data in those systems were reliable for the purposes of this audit.

Summary of Objectives, Scope, and Methodology

The objectives of this audit were to:

- Verify the accuracy of certain key financial statement balances and the effectiveness of key financial controls at the Agency.
- Verify the accuracy of, and evaluate trends in, selected performance measures that the Agency uses.
- Evaluate the Agency's processes for setting fees and penalties.

The scope of this audit covered fiscal year 2010. Auditors reviewed the accuracy of selected account balances of the Agency's financial statements for fiscal year 2010 and the control processes that affect the accuracy of the selected account balances. Auditors reviewed the accuracy of selected Agency-reported performance measures for fiscal year 2010 and related control processes. Auditors also reviewed the Agency's process for setting fees and penalties and the automated systems and the processes that support the functions reviewed.

The audit methodology included collecting information and documentation, performing selected tests of amounts reported and other procedures, analyzing and evaluating the results of tests, and conducting interviews with Agency management and staff.

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Detailed Results

Chapter 1

The Agency Accurately Reported Key Financial Statement Balances for Fiscal Year 2010 and Had Effective Financial Control Processes and Procedures

The Texas Board of Architectural Examiners (Agency) accurately reported key financial statement balances for fiscal year 2010. In addition, it had key financial controls in place that were working effectively. However, the Agency did not maintain sufficient financial documentation to support the transfer of \$83,177 from its scholarship fund to its operating fund during fiscal year 2010.

Auditors reviewed fiscal year 2010 (1) revenue accounts representing 99 percent of the Agency's total revenues and (2) expenditure accounts representing 94 percent of the Agency's total expenditures. Auditors also reviewed asset and liability accounts. Table 1 lists the fiscal year 2010 financial statement accounts that auditors reviewed.

Table 1

| Financial Statement Accounts That Auditors Reviewed Balances as of August 31, 2010 | |
|---|------------------|
| Account | Reported Balance |
| Cash in State Treasury | \$ 1,202,879 |
| Short-term Investments | \$ 1,340,783 |
| Payroll Payable | \$ 140,657 |
| Licenses, Fees and Permits | \$ 2,900,044 |
| Salaries and Wages | \$ 1,359,193 |
| Payroll Related Costs | \$ 358,406 |
| Travel | \$ 62,609 |
| Materials and Supplies | \$ 78,377 |
| Other Expenditures | \$ 278,856 |

Source: Texas Board of Architectural Examiners' fiscal year 2010 unaudited financial report.

The Agency transferred \$3,785,600 to the State's General Revenue Fund during fiscal year 2010 as required by Texas Civil Statutes, Article 8930 (the Self-directed Semi-independent Agency Project Act), Sections 6(c) and 9. Specifically, the Agency:

- Transferred \$510,000 to the State's General Revenue Fund at the end of fiscal year 2010, as required by Texas Civil Statutes, Article 8930, Section

6(c). That is a fixed amount the Agency must annually transfer to the State’s General Revenue Fund independently of the number of licenses issued and renewed.

- Transferred \$3,275,600 in professional fee revenue to the State’s General Revenue Fund for fiscal year 2010. According to Texas Civil Statutes, Article 8930, Section 9, and Texas Occupations Code, Sections 1051.0652, 1052.0541, and 1053.0541, the Agency is required to collect a professional fee of \$200 for each new and renewed license issued to a landscape architect or interior designer. The Agency must also collect \$200 for each renewed architectural license. Of each \$200 collected, \$150 is designated for the State’s General Revenue Fund and \$50 is designated for the Foundation School Fund. Table 2 lists the license fees for each license type the Agency issues.

Table 2

| General Registration and Renewal License Fees for Architects, Landscape Architects, and Interior Designers | | | |
|--|--------------------|----------------------|--------------------|
| Fee Description | Architects | Landscape Architects | Interior Designers |
| Registration by Examination - Resident (new license) | \$155 ^a | \$355 | \$355 |
| Registration by Examination - Nonresident (new license) | \$180 ^a | \$380 | \$380 |
| Reciprocal Registration | \$400 | \$400 | \$400 |
| Active Renewal - Resident | \$305 | \$305 | \$305 |
| Active Renewal - Nonresident | \$400 | \$400 | \$400 |
| ^a The \$200 professional fee does not apply to a new architect license. The fee applies only upon renewal or when an applicant possesses an architectural license from another state (reciprocal registration). The professional fee applies to new and renewed landscape architect and interior designer licenses. | | | |

Source: Title 22, Texas Administrative Code, Section 7.10(b).

The Agency had effective key financial control processes and procedures in place to ensure the accuracy of key financial balances. Specifically, the Agency had controls that were designed to ensure that it:

- Properly recorded and approved expenditure transactions.
- Processed the receipt and deposit of license and fee payments.
- Reconciled its financial records to third-party statements.

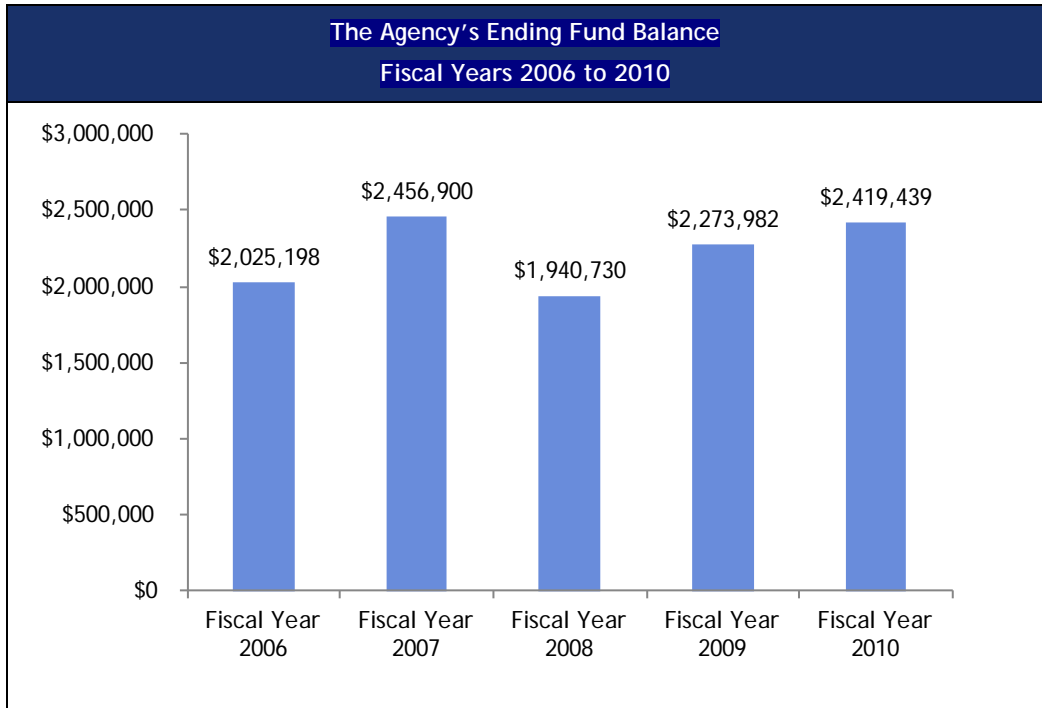
The Agency’s total fund balance has increased by \$394,241 (19 percent) since fiscal year 2006.

The Agency’s fund balance at the end of fiscal year 2010 was \$2,419,439, representing a \$394,241 (19 percent) increase from the Agency’s fiscal year

2006 ending fund balance of \$2,025,198. The Agency's total fund balance includes the scholarship fund, which totaled approximately \$219,883 at the end of fiscal year 2010 (see additional details about the scholarship fund below).

As shown in Figure 1, the Agency's total ending fund balance increased each year from fiscal year 2006 through fiscal year 2010, with the exception of fiscal year 2008. Part of the decrease in fiscal year 2008 can be attributed to the Agency spending a reported \$643,008 for remodeling its office space during that time period.

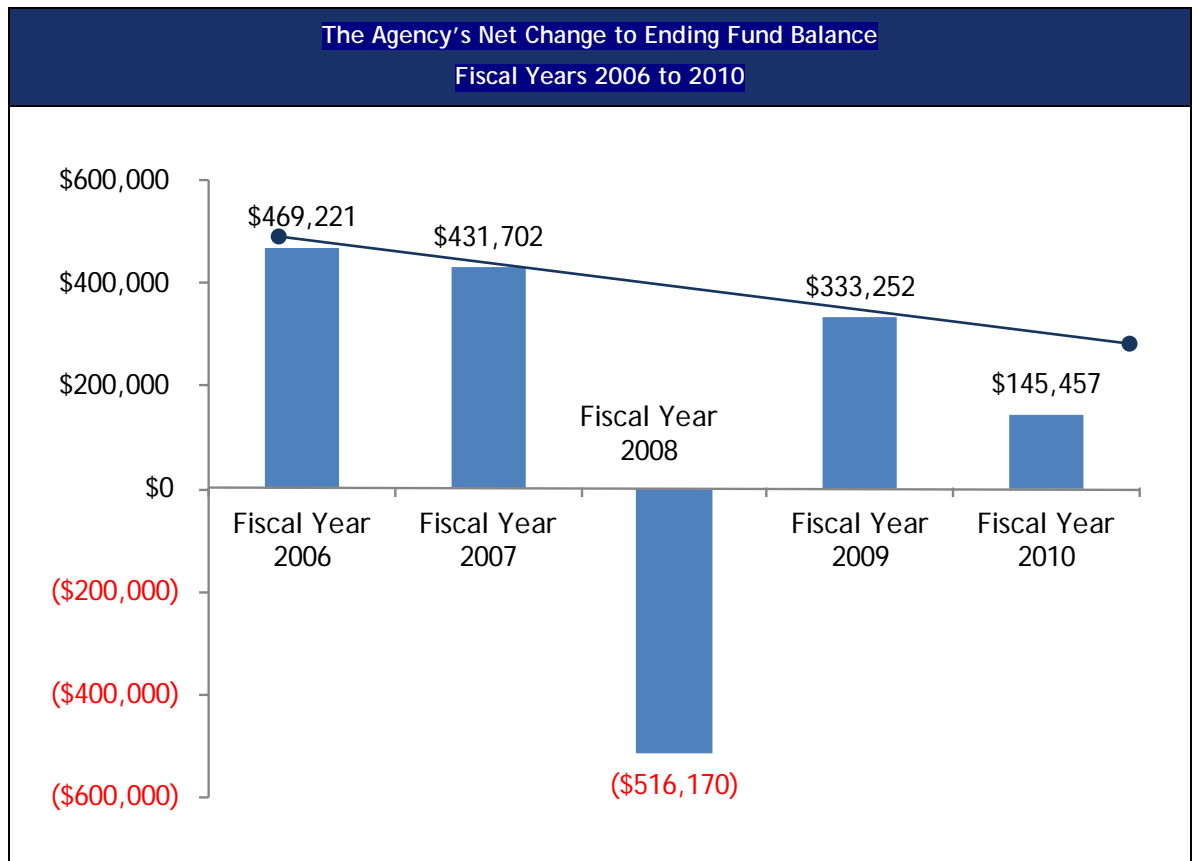
Figure 1



Source: Texas Board of Architectural Examiners' unaudited financial reports for fiscal years 2006 through 2010. The ending fund balances shown in this figure include the scholarship fund.

Figure 2 on the next page shows the Agency's reported net change in its fund balance for fiscal years 2006 through 2010. Each year, the total ending fund balance experienced a positive net change (increase) because the Agency's collected revenues exceeded operating expenditures with the exception of fiscal year 2008. Figure 2 on the next page shows that the Agency is nearing the break-even point in balancing its expenditures with its revenues.

Figure 2



Source: Texas Board of Architectural Examiners' unaudited financial reports for fiscal years 2006 through 2010.

The Agency did not maintain sufficient financial documentation to support a decrease in its scholarship fund during fiscal year 2010.

Scholarship Fund

The Agency is authorized to collect \$10 annually from its licensees to devote to a scholarship fund, which awards \$500 scholarships. The scholarship fund is maintained by the Agency in the Treasury Safekeeping Trust Company.

The Agency administers the scholarship fund to:

- Promote the professional architectural needs of the state.
- Increase the number of highly trained and educated architects available to serve the residents of the state.
- Improve the state's business environment and encourage economic development.
- Identify, recognize, and support outstanding applicants who plan to pursue careers in architecture.

Sources: Texas Occupations Code, Sections 1051.651 and 1051.653; Texas Civil Statutes, Article 8930, Section 9; and Agency records.

The Agency accurately reported its ending operating fund balance in its fiscal year 2010 annual financial report; however, it understated its scholarship fund balance by \$83,177 in its accounting records. The operating fund was overstated in its accounting records by the same amount. Therefore, the net effect of this misstatement had no effect in the Agency's ending total fund balance or the Agency's annual financial report. The Agency's accounting records noted that the scholarship fund balance at the end of fiscal year 2010 was \$136,705. However, based on a review of the scholarship fund financial activity in Agency records, auditors estimated that the ending balance should have been approximately \$219,883, or \$83,177 more than recorded in the Agency accounting records.

The Agency acknowledged that it incorrectly transferred scholarship funds to its operating fund during fiscal year 2010. The Agency also reported that it attempted to make adjusting

transactions to correct the erroneous entries; however, the supporting documentation for those adjusting transactions did not adequately explain or correct the errors. Texas Civil Statutes, Article 8930, Section 6 (b), requires the Agency to keep financial information necessary to completely and accurately disclose the Agency's financial condition and operations. Without sufficient supporting documentation, the Agency cannot assure its governing board and other users of its financial information that it has properly accounted for the funds it is charged with managing.

Recommendations

The Agency should:

- Develop and implement procedures to ensure that it accurately accounts for and records all scholarship fund transactions.
- Maintain sufficient documentation to support its financial transactions.

Management's Response

Procedures will be developed to ensure that Scholarship balances are monitored monthly for accuracy and Scholarship disbursements will be reviewed to ensure that they are properly recorded against the Scholarship Fund and that there are sufficient funds available. Agency staff are working with Comptroller staff to correct this fund imbalance between the Operating Fund and the Scholarship Fund. In addition, with the acquisition of MIP accounting software in January 2012, these balances will be easily retrievable for review and edits will be put in place.

The Agency Had Adequate Processes for Setting Fees and Administrative Penalties and It Consistently Applied Administrative Penalties; However, It Should Improve Its Budget Process

The Agency had an adequate process for setting fees. That process included analyzing costs to help ensure that the Agency meets its operational needs. However, while the Agency collected sufficient revenue in fiscal year 2010 to cover its operational expenses, the Agency's budgeting process was not sufficient to fairly project Agency revenue and expenditures and it was not fully documented. This limits the ability of the Agency's governing board to determine when it should make adjustments to the Agency's fee structure or operating costs. The Agency also presented budget information to its governing board, the Legislature, the Office of the Governor, and the Legislative Budget Board that significantly understated the Agency's projected available ending fund balances.

The Agency had an adequate process for setting and applying administrative penalties. That process ensured that administrative penalties conformed and were consistently applied in accordance with Title 22, Texas Administrative Code, Section 1.177, and Texas Occupations Code, Section 1051.452.

As of January 2011, the Agency implemented policies and procedures related to its fee-setting process as recommended in *An Audit Report on the Texas Board of Architectural Examiners: A Self-directed, Semi-independent Agency* (State Auditor's Office Report No. 10-003, September 2009). However, the Agency had not fully documented its policies and procedures related to its administrative penalty assessment process as the State Auditor's Office recommended in the September 2009 audit report.

Chapter 2-A

The Agency Had a Process for Setting Fees to Adequately Cover Operational Costs; However, It Had Not Documented That Process

As of fiscal year 2010, the Agency had not documented its fee-setting process as recommended in *An Audit Report on the Texas Board of Architectural Examiners: A Self-directed, Semi-independent Agency* (State Auditor's Office Report No. 10-003, September 2009). In fiscal year 2010, the Agency followed an undocumented process to add a \$5 fee for a duplicate pocket card. According to information provided to auditors, the Agency's process included an analysis of how much it cost the Agency to provide this service, and the Agency used the information from that analysis to determine the fee amount. The Agency's cost analysis was complete and appeared to be reasonable. In setting the fee, the Agency also (1) required the Agency's governing board to review and approve the proposed fee, (2) posted the proposed fee in the *Texas Register*, and (3) considered public input before implementing the fee.

The process the Agency used to set the duplicate pocket card fee was adequate to help ensure that the Agency covered its operational costs. In January 2011, after the end of the time period that the scope of this audit covered, the Agency implemented a documented fee-setting process that was similar to the process it used to set the duplicate pocket card fee.

Chapter 2-B

The Agency Should Improve and Document Its Budget Process to Ensure That Decision Makers Have Reliable Financial Information

The Agency reported that a key part of its process for reviewing its fees during the budget process included an analysis of historical, current, and forecasted budget information. However, the Agency has not fully documented its budget process, and the process it used in fiscal year 2010 is not sufficient to ensure that the Agency provides reliable information to its governing board and the Legislature.

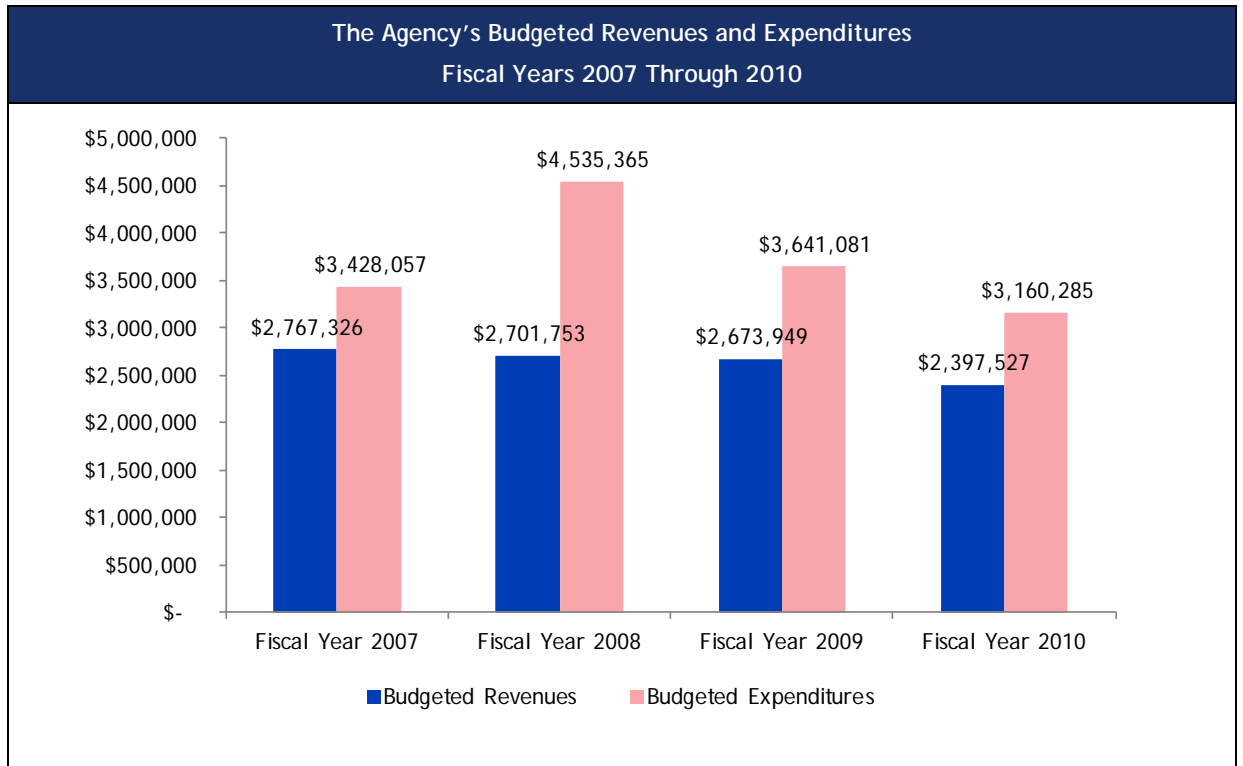
To help its governing board determine whether to adjust its fees or operational costs, the Agency provides a budget with projected revenues and expenditures for the following fiscal year. However, an analysis of Agency budgets that the governing board approved for fiscal year 2007 through fiscal year 2010 showed that the Agency's projected revenues and expenditures differed significantly from actual revenues and expenditures reported in the Agency's annual financial reports. The Agency reported that, as part of its budget process, it reviews and considers factors that affect its fee-generated revenue and expenditures. Those factors may include legislative mandates, economic conditions, registration trends, salaries and wages, training and travel requirements, and information technology needs. However, based on the Agency's documentation for fiscal year 2010, the Agency did not follow the reported budget process. Specifically:

- To project its revenue, the Agency multiplied the amount of revenue collected for 11 months during fiscal year 2009 times 90 percent. The Agency did not provide an adequate explanation or any analysis to support the formula it used to project revenues.
- To project its expenditures, the Agency calculated totals for items such as training, travel for staff and governing board members, and information technology needs. However, the Agency lacked documentation showing the analysis it used to project most of the expenditure amounts in its budget.

Overall, the Agency did not maintain sufficient documentation to support its projected fiscal year 2010 revenue and expenditure totals. Texas Civil Statutes, Article 8930, Section 6(b), requires the Agency to keep financial and statistical information sufficient to disclose completely and accurately the financial condition and operations of the Agency.

As Figure 3 shows, the Agency consistently forecasted that expenditures would exceed revenues for each fiscal year between 2007 and 2010.

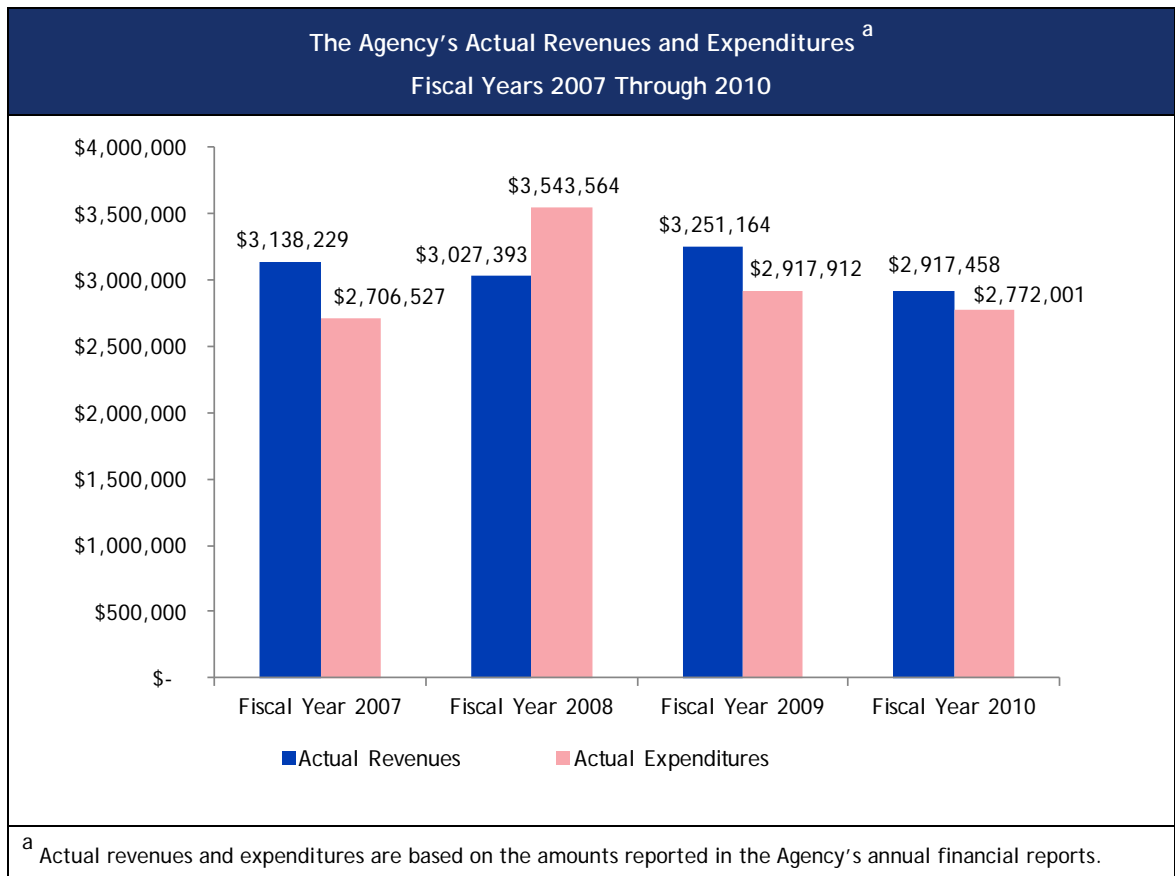
Figure 3



Source: Texas Board of Architectural Examiners' Board approved budgets for fiscal years 2007 through 2010.

However, as Figure 4 on the next page shows, except for fiscal year 2008, actual revenues exceeded expenditures. The Agency reported spending \$643,008 for remodeling its office space in fiscal year 2008, which accounted for part of the negative ending balance. (See Appendix 2 for more information about the Agency's projected and actual amounts for revenues and expenditures.)

Figure 4



Source: Texas Board of Architectural Examiners' unaudited financial reports for fiscal years 2007 through 2010.

The Agency reported in its annual financial reports that it had collected sufficient revenue to meet operational needs during fiscal years 2006 through 2010, except for fiscal year 2008. However, the Agency's contributions to the fund balance have trended downward during those years and the Agency is nearing the break-even point in balancing expenditures and revenue (see Figure 2 in Chapter 1 for additional information about the Agency's net change to its fund balances). The Agency has not increased fees for its primary licenses since November 2004, even though it has consistently projected that expenditures would exceed revenues. Instead, the Agency reduced its active renewal - resident fee by \$5 for all three license categories, effective July 2008. Table 2 in Chapter 1 lists the Agency's primary license fees during fiscal year 2010. (See Appendix 3 for a list of all fees effective during fiscal year 2010.)

The Agency also had not fully developed and documented a budget process. Having a fully developed and documented budget process would help the Agency ensure that it provides adequate financial information to assist its governing board to make informed financial decisions, such as decisions about adjusting fees or cutting costs. The Government Finance Officers Association and the National Advisory Council on State and Local Budgeting recommend that a budget process should include a comprehensive set of documented financial policies that define a balanced operating budget, circumstances when deviation from a balanced budget may occur, and how and when a fund balance may be used.

Furthermore, as a self-directed, semi-independent agency, preparation of a budget that fairly presents the Agency's operations is critical because the Agency is not funded through the General Appropriations Act and, therefore, it must rely on revenue that it collects from activities related to the issuance and renewal of licenses to meet its operation costs.

A well-developed and documented budget process would also help the Agency to ensure that it presents reliable financial information to other decision makers. The Agency is required by Texas Civil Statutes, Article 8930, Section 8(b), to annually provide on November 1 a budget covering two years to the Legislature, the Office of the Governor, and the Legislative Budget Board. Auditors reviewed the report the Agency submitted prior to the 2009 legislative session dated November 1, 2008, which included the Agency budget its governing board approved for fiscal year 2009 and a projected fiscal year 2010 budget. In that report, the Agency significantly understated its year-end fund balances for those fiscal years. Specifically:

- For fiscal year 2009, the Agency projected a fund balance of \$622,999, while its annual financial report showed an actual fund balance of \$2,273,982. That represented a fund balance understatement of \$1,650,983.
- For fiscal year 2010, the Agency projected a fund balance of \$180,050, while its annual financial report showed an actual fund balance of \$2,419,439. That represented a fund balance understatement of \$2,239,389.

Recommendations

The Agency should:

- Develop and implement policies and procedures to address its budget process and ensure that this process fairly represents the Agency's operations. In addition, the Agency should fully document this process.

- Consider following the best practices recommended by the Government Finance Officers Association and the National Advisory Council on State and Local Budgeting as a guide in developing its policies and procedures.
- Maintain all documentation that supports the information used in its budget preparation.

Management's Response

Management has taken corrective action in the form of a Budget Policy Statement and the written formalization of the Budgeting Process. These revised budget principles, which incorporate Generally Accepted Accounting Principles and Legislative Appropriation Request Guidelines and are consistent with the Best Practices of the GFOA and NACSLB noted by SAO, were successfully employed during the development of the 2012 Operating Budget submission to the Board in August of 2011. The Budget Policy Statement establishes that only a balanced budget will be presented to the Board for its review and approval, built with anticipated available funds. The Board has the option of using the Reserve Fund for emergencies or capital items if it chooses, should available funds be insufficient. The Operating Budget process details the preparation of the planned Expenditures and the anticipated Revenues for the coming twelve months. Notes will be kept during the development of the Operating Budget to ensure that each line item has been documented and justified.

The Agency Has Adequate Processes for Assessing Administrative Penalties; However, It Should Fully Document Those Processes

The Agency established adequate processes to help ensure that it consistently applies administrative penalty amounts on enforcement cases in accordance with Title 22, Texas Administrative Code, Section 1.177, and Texas Occupations Code, Section 1051.452.

Assessing Administrative Penalties

The Agency considered several factors during its processes for assessing administrative penalties. Those factors include:

- The seriousness of the conduct that is the grounds for imposing the penalty.
- The nature, circumstances, extent, and gravity of any relevant act or omission.
- The hazard or potential hazard created to the health or safety of the public.
- Whether any economic damage to property occurred.
- Where there is a history of previous grounds for imposing a penalty on the respondent.
- The penalty amount determined to be necessary to deter future violations.
- The registrant's efforts to correct his or her conduct.
- Any other matter that justice may require.

Source: Texas Occupations Code, Section 1051.452.

Those processes include multiple layers of management review, which may include reviews by the managing investigator, managing litigator, and executive director. The process also provides the respondent¹ an opportunity to challenge the Agency's assessment and appeal the enforcement case to the State Office of Administrative Hearings. Before an enforcement case can be presented to the Agency's governing board for its review and approval, the respondent must be in agreement with the enforcement investigation facts and proposed penalty.

Auditors tested 30 enforcement cases and did not identify any errors. Each enforcement case was reviewed by multiple levels of management prior to the Agency's governing board's review and approval and contained the required documentation to support the Agency's enforcement actions. The Agency used the penalty amounts listed in Title 22, Texas Administrative Code, Section 1.177, as a baseline and adjusted the amounts based on each violation's complexity and other factors (see text box for more information on the factors considered in assessing administrative penalties).

An Audit Report on the Texas Board of Architectural Examiners: A Self-directed, Semi-independent Agency (State Auditor's Office Report No. 10-003, September 2009) recommended that the Agency document all policies and procedures related to its penalty assessment process. The Agency provided several documents, including (1) policies and procedures that made reference to an enforcement system that the Agency had not used since 2005 and (2) undated procedures, which management reported had been in effect since 2006. The Agency also developed additional policies and procedures as of March 2011. However, those documented policies and procedures still did not fully address the Agency's process for assessing penalty amounts. Having written, comprehensive, and up-to-date policies and procedures can help the Agency ensure that enforcement processes are performed in a consistent manner.

¹ A respondent is the person accused of committing a violation of statutory provisions or rules enforced by the Agency.

Recommendations

The Agency should:

- Complete the process to document all enforcement policies and procedures and ensure that it fully documents its process for assessing administrative penalties.
- Adopt a process that includes the review and update of its policies and procedures on a scheduled basis and ensures that its policies and procedures include an effective date.

Management's Response

In response to the Auditors' assessment:

- *The agency is currently in the process of updating and comprehensively documenting all policies and procedures, including the process for assessing administrative penalties.*
- *The agency has developed a process for the adoption of policies and procedures which includes recording the effective date, as well as the effective date of any revision, repeal or replacement of a policy or procedure. The agency is adopting a process for the regular review and update of its policies and procedures.*

The Agency Did Not Report Accurate Performance Measures in Its Reports to the Legislature and the Office of the Governor

The Agency partially implemented only one of five recommendations related to performance measures included in *An Audit Report on the Texas Board of*

Architectural Examiners: A Self-directed, Semi-independent Agency (State Auditor's Office Report No. 10-003, September 2009) (see text box for a list and implementation status of the previous recommendations). During the review of the Agency's fiscal year 2010 performance measure results, auditors identified weaknesses in the Agency's performance measures processes that were similar to weaknesses discussed in the September 2009 audit report.

As a result of the weaknesses in its performance measure processes, the Agency reported in its biennial report to the Legislature and the Office of the Governor² inaccurate fiscal year 2010 results for three of four performance measures tested.

The Agency accurately reported results for the Number of New Individual Licenses Issued. A performance measure is considered accurate if the variance between the reported results and the actual results is 5 percent or less. However, the Agency reported inaccurate results for three other performance measures tested:

- Number of Examination Candidates.
- Number of Individual Licenses Renewed and Those Renewed Online.
- Number of Complaints Resolved.

Auditors had selected an additional performance measure for testing—Number of Individuals Examined—because that performance measure was reported as inaccurate in the September 2009 audit report. However, the Agency did not report that performance measure in fiscal year 2010. Agency management stated that, even though this measure was included in its fiscal year 2010 strategic plan, it had decided to cease reporting on this performance measure due to difficulties in gathering accurate data. The Agency did not document or communicate that decision to its governing board.

Overall, the Agency lacks adequate policies and procedures documenting the steps that staff should follow to calculate, review, and report its performance

Implementation Status of Previous Recommendations

An Audit Report on the Texas Board of Architectural Examiners: A Self-directed, Semi-independent Agency (State Auditor's Office Report No. 10-003, September 2009) contained five recommendations related to the Agency's performance measure processes. Specifically, the report recommended that the Agency should:

- Maintain adequate supporting documentation for performance measure calculations and reported results. (Partially Implemented)
- Ensure that it documents a measure definition for each performance measure reported. (Not Implemented)
- Ensure that its calculation methodologies and measure definitions agree. (Not Implemented)
- Implement a process to review performance measure results before they are reported to the Legislature and the Office of the Governor. (Not Implemented)
- Develop change management policies and procedures. The Agency implemented policies and procedures as of January 2011. However, auditors did not evaluate the implementation of those policies because the implementation occurred outside the audit scope. (Not Implemented)

² The Agency's biennial report was dated January 10, 2011.

measures. In addition, the Agency has not documented the process to create its biennial report. Lack of documented policies and procedures for its performance measure processes increases the risk that the Agency may report inconsistent or inaccurate information or not comply with its reporting requirements. Auditors identified additional weaknesses in the Agency's performance measure process, which are discussed below.

Number of Examination Candidates

The Agency reported inaccurate results for this performance measure because its calculation did not follow the performance measure's methodology, documented in the Agency's strategic plan. For fiscal year 2010, the Agency reported the number of candidates who remained eligible to take an examination on the last day of the reporting period. However, the methodology states that the Agency should report the total number of candidates who were eligible to take an examination during the reporting period. Based on that methodology, the Agency should have calculated and reported all of the candidates who were eligible to take the examination during fiscal year 2010, including candidates who had taken and passed the examination during fiscal year 2010. The September 2009 audit report also noted that the Agency's performance measure definition and methodology did not consistently match.

Number of Individual Licenses Renewed and Those Renewed Online

The Agency reported inaccurate results for this performance measure because its calculation did not follow the performance measure's methodology and definition. The Agency's calculation included inactive licenses and did not include reinstated licenses. In addition, the Agency included duplicate records in its calculation. Auditors also noted that the performance measure's methodology does not sufficiently identify the license types that should be included in the calculated results, which increases the risk that Agency employees will incorrectly include or exclude certain licenses from the calculation. The September 2009 audit report also noted that the Agency lacked a documented process for reviewing performance measure results for accuracy before they are reported to the Legislature and the Office of the Governor.

Number of Complaints Resolved

The Agency reported inaccurate results for this performance measure because it reported the number of complaints resolved during fiscal year 2009, rather than the number of complaints resolved during fiscal year 2010.

In addition, the documented methodology for this performance measure should be updated because it requires the Agency to identify the total number of cases closed during the reporting period and divide that total by the total

number of cases closed. This calculation will always result in an answer of “1.”

In addition, test results for fiscal year 2010 indicate that, even if the Agency had reported its calculated results for this performance measure, the number of complaints resolved would have been considered inaccurate. During the testing of controls, auditors determined that 3 of 61 cases tested were closed outside of the Agency’s performance measure reporting period. This indicates a control weakness that may prevent the Agency from reporting accurate results. Furthermore, for 29 (48 percent) of 61 records tested, the closing date documented in the Agency’s TBAsE system did not agree with the closing date in the supporting documentation. This was caused by the Agency’s process for closing a complaint case, which is triggered by different events. For example, a complaint case may be closed after the Agency issues a warning letter. In other complaint cases, the governing board may assess a penalty amount or require the respondent to attend training; those cases are not considered closed until the governing board order has been fully honored. However, the Agency did not always followed its procedures and closed some cases before the governing board order was fully honored and closed other cases several weeks after the governing board order was fully honored.

Statutory Reporting Requirements

The Agency is required by Texas Civil Statutes, Article 8930, Section 8(a)(4), to submit a report to the Legislature and Office of the Governor on the first day of each regular legislative session describing the Agency’s activities in four categories for the previous biennium. Those four categories are:

- Number of examination candidates.
- Licensees.³
- Certificate holders.
- Enforcement activities.

The Agency fulfilled its biennial reporting requirements by reporting Agency activity for each category. In its biennial report for fiscal year 2010, the Agency reported activity for the following:

- Number of Examination Candidates.
- Number of Individual Registrations.
- Average Days to Complaint Resolution.

³ The Agency does not differentiate between licensees and certificate holders. The Agency reports activity for licensees and certificate holders as the Number of Individual Registrations in its biennial report.

- Cases Resolved
- Open Cases as of September 1.

However, the Agency has not documented the process that should be used to create its biennial report, including the data sources for the activity reported. Without written policies and procedures that document the process for creating the biennial report, there is an increased risk that the Agency may report inconsistent or inaccurate information or not comply with its reporting requirements.

Recommendations

The Agency should:

- Document all modifications to its performance measures, update its strategic plan, and gain governing board approval of those modifications.
- Ensure that its calculation methodologies and performance measure definitions agree, and that its methodologies result in a meaningful and mathematically accurate result.
- Develop and implement policies and procedures for calculating, reviewing, and reporting of all performance measures. The Agency should consider using the *Guide to Performance Measure Management* (State Auditor's Office Report No. 06-329, August 2006) as a best practice guide to assist in the development of the policies and procedures.
- Ensure that employees have a clear understanding of the different circumstances under which a complaint case is considered closed and ensure that date is accurately documented in TBAsE.
- Develop and document policies and procedures for creating its biennial report.

Management's Response

In response to the Auditors' assessment:

- *In the future the agency will document very accurately all changes to its performance measures, update the Strategic Plan accordingly, and ensure Board approval of the changes. A staff member has been assigned specifically to address these and related issues.*
- *The agency will ensure that performance measure calculation methodologies and measure definitions agree, and that the results are*

meaningful and accurate. The agency's performance measures will clearly articulate when a case is "closed."

- *The agency will develop and use (and in fact already has developed, recently) policies and procedures regarding all aspects of performance measures, and has assigned a staff member specifically to this task. The agency is using the State Auditor's "Guide to Performance Measure Management, 2006 Edition" to create policies. At the time of this writing, 72 individual processes and procedures have been newly adopted or are pending adoption by the Executive Director.*
- *The agency already has created a new policy and procedure for creating its biennial report, commonly called the "8930 (a) report." At the time of this writing, this policy is pending adoption by the Executive Director.*

Further, the agency will ensure that all performance measures reported, regardless of where or when, will be calculated and presented in precisely the same manner as all other measures. That is, the same measures will be reported in the 8930 (a) report, quarterly reports, and all others—and calculated in the same manner. Lastly, all controls and procedural checks will be documented and kept for review.

The Agency Has Adequate Controls to Help It Ensure That Its Information Technology System Data Is Reliable; However, It Should Strengthen Its Change Management and User Access Controls

Auditors performed a limited review of general and application controls over TBAsE, the information technology system that the Agency uses to track licensees' information. Auditors determined that those controls were adequate to help ensure that the information in TBAsE is complete, accurate, and reliable for the purpose of this audit, except for the date that enforcement cases were deemed closed (see Chapter 3 for more information about the Number of Complaints Resolved performance measure). Auditors also identified some weaknesses that the Agency should address to ensure the continued reliability of the data in TBAsE. Specifically, auditors identified weaknesses in the following areas:

- **Change Management** - While the Agency had a change management process in place, it had not documented that process in fiscal year 2010. In November 2010, the Agency implemented change management policies and procedures to address changes to its information system as recommended in *An Audit Report on the Texas Board of Architectural Examiners: A Self-directed, Semi-independent Agency* (State Auditor's Office Report No. 10-003, September 2009). However, auditors were not able to evaluate those policies and procedures because the Agency implemented them after the end of the time period covered by the scope of this audit. In addition, the Agency lacked controls to ensure that all programming changes are reviewed and approved by an employee who did not create the changes before those changes are promoted into production.
- **User Access** - Auditors identified four user accounts that had a higher level of access rights than what appeared reasonable based on the users' job duties.
- **Password Controls** – Auditors identified weaknesses in the Agency's password controls.

To minimize risks, auditors communicated the details of the identified password control weaknesses separately in writing to Agency management.

Recommendations

The Agency should:

- Require that all programming changes be reviewed and approved by an employee who did not create the programming changes before the changes are promoted into production. The Agency should also require the approval to be documented.
- Periodically review all employees' user access levels to determine whether they are appropriate for the users' job requirements.
- Address the identified password control weaknesses.

Management's Response

In response to the Auditors' assessment:

- *The agency will document very accurately all changes to TBAsE, develop Policies and Procedures accordingly, and ensure management approval of the changes. Management approval will be documented as well.*
- *The agency will ensure that periodic reviews of employees' user access levels within TBAsE are carried out to determine whether those access levels are appropriate for the users' job requirements. Policies and Procedures are being developed to that end.*
- *The agency has implemented programming capable of expiring TBAsE passwords and allowing TBAsE users the ability to change their own login password upon expiration.*
- *The agency has implemented programming capable of encrypting TBAsE passwords. This programming feature will not allow TBAsE administrators the ability to view user passwords.*

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Verify the accuracy of certain key financial statement balances and the effectiveness of key financial controls at the Texas Board of Architectural Examiners (Agency).
- Verify the accuracy of, and evaluate trends in, selected performance measures the Agency uses.
- Evaluate the Agency's process for setting fees and penalties.

Scope

The scope of this audit covered fiscal year 2010. Auditors reviewed the accuracy of selected account balances of the Agency's financial statements for fiscal year 2010 and the control processes that affect the accuracy of the selected account balances. Auditors reviewed the accuracy of selected Agency-reported performance measures for fiscal year 2010 and related control processes. Auditors also reviewed the Agency's process for setting fees and penalties and the automated systems and the processes that support the functions reviewed.

Methodology

The audit methodology included collecting information and documentation; performing selected tests of amounts reported and other procedures; analyzing and evaluating the results of tests; and conducting interviews with Agency management and staff. Auditors also reviewed application, user access, and processing controls over the Agency's TBAsE information system. In addition, auditors reviewed user access controls over the Uniform Statewide Accounting System (USAS) and Uniform Statewide Payroll/Personnel System (USPS).

Information collected and reviewed included the following:

- USAS reports and Texas Safekeeping Trust Company statements.
- Agency fiscal year 2010 expenditure and revenue data from USAS.
- Agency payroll data from USPS.

- The Agency's fiscal year 2010 annual financial report.
- The Agency's fiscal year 2010 financial transactions.
- Agency expenditure and payable vouchers.
- Agency reconciliations for revenue collections.
- Data and supporting documents for selected performance measures.
- Agency policies and procedures.
- Reports required by Texas Civil Statutes, Article 8930 (the Self-directed, Semi-independent Agency Project Act), Sections 8(a) and 8(b).
- The Agency's strategic plan for fiscal years 2009 through 2013.
- The Agency's 2010 approved annual budget and supporting documentation.
- Enforcement cases that the Agency closed during fiscal year 2010.

Procedures and tests conducted included the following:

- Gaining an understanding of the Agency's overall control structure (control environment, control procedures, and accounting systems).
- Testing internal controls and selected significant accounts, including testing of detailed supporting documentation, to determine the accuracy of financial data in the Agency's annual financial report for fiscal year 2010.
- Testing selected performance measure data that the Agency reported annually and/or biennially to the Legislature and the Office of the Governor, and testing the internal controls over the system that produced the data.
- Evaluating the Agency's annual budget-setting and fee-setting processes and verifying that the fee amounts complied with (1) Texas Occupations Code, Chapters 1051 through 1053, and (2) Title 22, Texas Administrative Code, Section 7.10.
- Reviewing selected penalties assessed to ensure that they complied with the guidelines established in the Texas Administrative Code and the Texas Occupations Code.

Criteria used included the following:

- Texas Occupations Code, Chapters 1051 through 1053.
- Title 22, Texas Administrative Code, Chapters 1, 3, 5, and 7.
- Title 1, Texas Administrative Code, Section 202.24(a)(4)(D).
- Texas Civil Statutes, Article 8930 (the Self-directed, Semi-independent Agency Project Act).
- Agency policies and procedures.
- *Guide to Performance Measure Management* (State Auditor's Office Report No. 06-329, August 2006).
- Government Finance Officers Association (GFOA) best practices and advisories.

Project Information

Audit fieldwork was conducted from August 2011 through October 2011. 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.

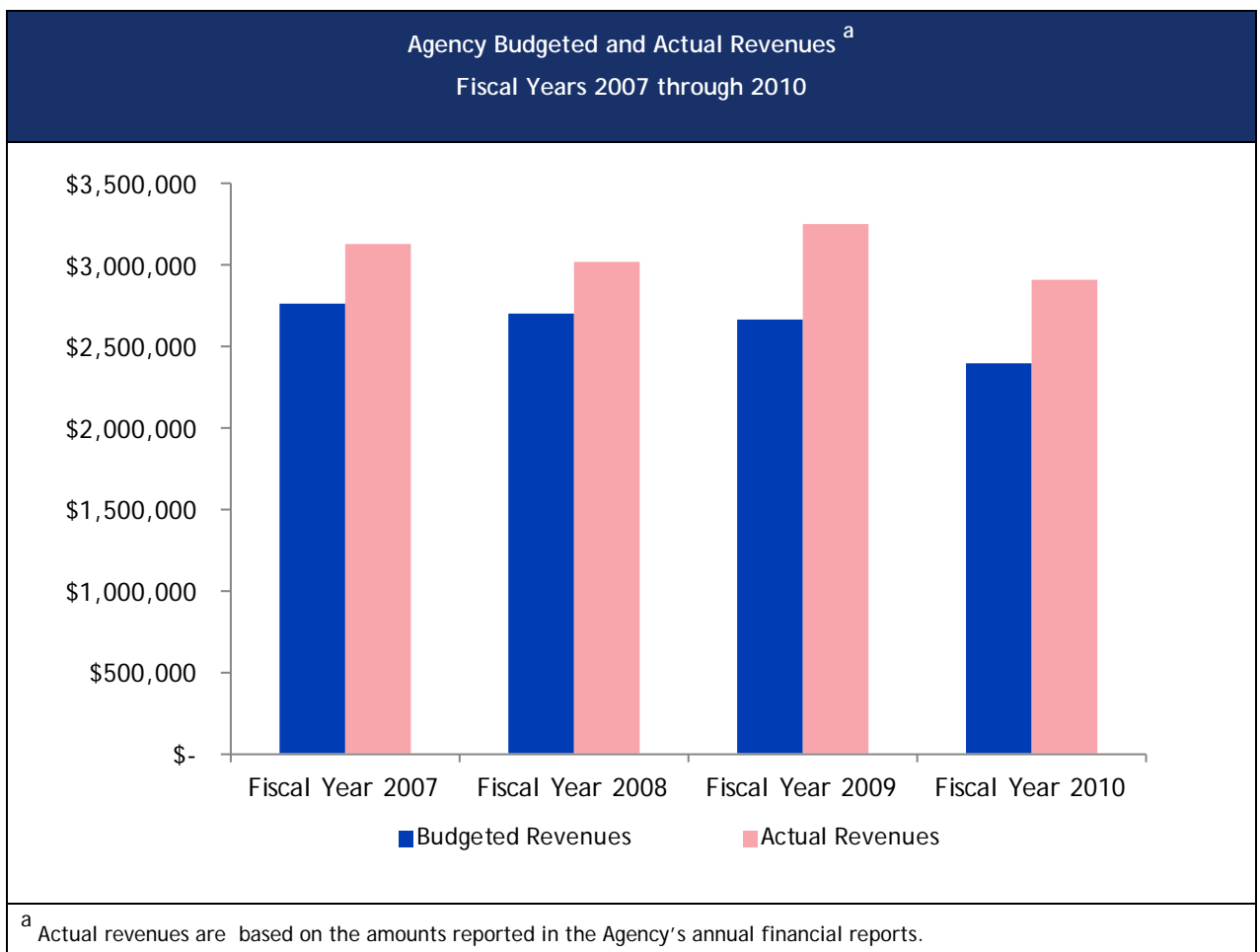
The following members of the State Auditor's staff performed the audit:

- Ileana Barboza, MBA, CGAP (Project Manager)
- Robert G. Kiker, CGAP (Assistant Project Manager)
- Isaac A Barajas
- Robert Burg, CPA, MPA
- Sherry Sewell, CGAP
- Sonya Tao, CFE
- J. Scott Killingsworth, CIA, CGAP, CGFM (Quality Control Reviewer)
- Ralph McClendon, CISA, CCP, CISSP (Audit Manager)

Comparison of Governing Board-approved Budgets to Annual Financial Reports

Auditors compared the Texas Board of Architectural Examiners' (Agency) governing board-approved budgets for fiscal years 2007 through fiscal year 2010 to actual collected revenues and incurred expenditures as reported in the Agency's annual financial reports. Contrary to its approved budgets, the Agency consistently collected more revenue and incurred fewer expenditures than projected. Figure 5 shows that, in fiscal year 2009, the Agency collected as much as \$577,215 more revenue than it originally projected.

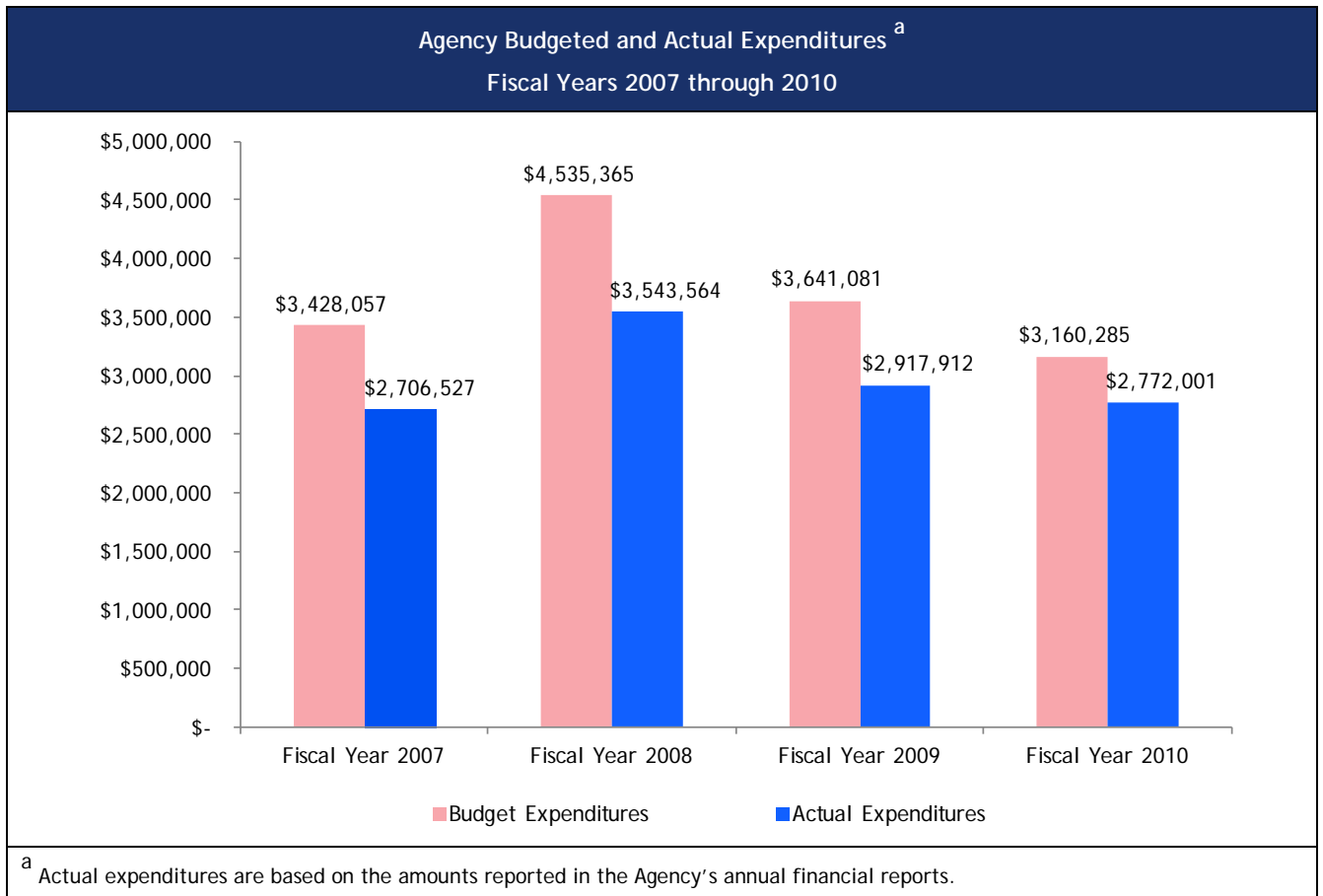
Figure 5



Source: Texas Board of Architectural Examiners' unaudited financial reports for fiscal years 2007 through 2010.

Figure 6 shows that the Agency consistently incurred fewer expenditures than budgeted. The fiscal year 2008 actual expenditures are higher than in other years partly due to the Agency's reported spending of at least \$643,008 to remodel its office space. However, the Agency still overbudgeted its fiscal year 2008 expenditures by \$991,801.

Figure 6



Source: Texas Board of Architectural Examiners' unaudited financial reports for fiscal years 2007 through 2010.

General Fees

Table 3 lists the Texas Board of Architectural Examiners' (Agency) fee schedule that was in effect during fiscal year 2010. As of October 2011, the Agency had not made any changes to its fee structure since September 1, 2008, with the exception of adding a \$5.00 fee for a duplicate pocket card, effective December 29, 2009. Table 3 also notes which license types are subject to a \$200.00 professional fee that the Agency must deposit into the State's General Revenue Fund, as required by Texas Civil Statutes, Article 8930, Section 9.

Table 3

| The Agency's Fee Schedule Fiscal Year 2010 | | | |
|--|--------------------------------------|--------------------------------------|--------------------------------------|
| Fee Description | Architects | Landscape Architects | Interior Designers |
| Exam Application | \$ 100.00 | \$ 100.00 | \$ 100.00 |
| Examination | Not Collected by Agency ^a | Not Collected by Agency ^b | Not Collected by Agency ^c |
| Registration by Examination-Resident | \$155.00 ^d | \$355.00 ^e | \$355.00 ^e |
| Registration by Examination-Nonresident | \$180.00 ^d | \$380.00 ^e | \$380.00 ^e |
| Reciprocal Application | \$ 150.00 | \$ 150.00 | \$ 150.00 |
| Reciprocal Registration | \$400.00 ^e | \$400.00 ^e | \$400.00 ^e |
| Active Renewal-Resident | \$305.00 ^e | \$305.00 ^e | \$305.00 ^e |
| Active Renewal-Nonresident | \$400.00 ^e | \$400.00 ^e | \$400.00 ^e |
| Active Renewal 1-90 days late-Resident | \$457.50 ^e | \$457.50 ^e | \$457.50 ^e |
| Active Renewal greater than 90 days late-Resident | \$610.00 ^e | \$610.00 ^e | \$610.00 ^e |
| Active Renewal 1-90 days late-Nonresident | \$600.00 ^e | \$600.00 ^e | \$600.00 ^e |
| Active Renewal greater than 90 days late-Nonresident | \$800.00 ^e | \$800.00 ^e | \$800.00 ^e |
| Emeritus Renewal-Resident | \$ 10.00 | \$ 10.00 | \$ 10.00 |
| Emeritus Renewal-Nonresident | \$ 10.00 | \$ 10.00 | \$ 10.00 |
| Emeritus Renewal 1-90 days late-Resident | \$ 15.00 | \$ 15.00 | \$ 15.00 |
| Emeritus Renewal greater than 90 days late-Resident | \$ 20.00 | \$ 20.00 | \$ 20.00 |
| Emeritus Renewal 1-90 days late-Nonresident | \$ 15.00 | \$ 15.00 | \$ 15.00 |
| Emeritus Renewal greater than 90 days late-Nonresident | \$ 20.00 | \$ 20.00 | \$ 20.00 |
| Inactive Renewal—Resident | \$ 25.00 | \$ 25.00 | \$ 25.00 |
| Inactive Renewal-Nonresident | \$ 125.00 | \$ 125.00 | \$ 125.00 |
| Inactive Renewal 1-90 days late-Resident | \$ 37.50 | \$ 37.50 | \$ 37.50 |
| Inactive Renewal greater than 90 days late-Resident | \$ 50.00 | \$ 50.00 | \$ 50.00 |

**The Agency's Fee Schedule
Fiscal Year 2010**

| Fee Description | Architects | Landscape Architects | Interior Designers |
|--|------------|----------------------|--------------------|
| Inactive Renewal 1-90 days late-Nonresident | \$ 187.50 | \$ 187.50 | \$ 187.50 |
| Inactive Renewal greater than 90 days late-Nonresident | \$ 250.00 | \$ 250.00 | \$ 250.00 |
| Reciprocal Reinstatement | \$ 610.00 | \$ 610.00 | \$ 610.00 |
| Change in Status-Resident | \$ 65.00 | \$ 65.00 | \$ 65.00 |
| Change in Status-Nonresident | \$ 95.00 | \$ 95.00 | \$ 95.00 |
| Reinstatement-Resident | \$ 685.00 | \$ 685.00 | \$ 685.00 |
| Reinstatement-Nonresident | \$ 775.00 | \$ 775.00 | \$ 775.00 |
| Certificate of Standing-Resident | \$ 30.00 | \$ 30.00 | \$ 30.00 |
| Certificate of Standing-Nonresident | \$ 40.00 | \$ 40.00 | \$ 40.00 |
| Replacement or Duplicate Wall Certificate-Resident | \$ 40.00 | \$ 40.00 | \$ 40.00 |
| Replacement of Duplicate Wall Certificate-Nonresident | \$ 90.00 | \$ 90.00 | \$ 90.00 |
| Duplicate Pocket Card | \$ 5.00 | \$ 5.00 | \$ 5.00 |
| Reopen Fee for closed candidate files | \$ 25.00 | \$ 25.00 | \$ 25.00 |
| Examination-Administrative Fee | \$ 00.00 | \$ 40.00 | \$ 0.00 |
| Examination-Record Maintenance | \$ 25.00 | \$ 25.00 | \$ 25.00 |
| Returned Check Fee | \$ 25.00 | \$ 25.00 | \$ 25.00 |
| Application by Prior Examination | \$ 0.00 | \$ 0.00 | \$ 100.00 |

^a The Agency's examination provider, the National Council of Architectural Registration Boards, sets the examination fee.

^b The Agency's examination provider, the Council of Landscape Architectural Registration Boards, sets the examination fee.

^c The Agency's examination provider, the National Council for Interior Design Qualification, sets the examination fee.

^d The fee for initial architectural registration by examination does not include the \$200 professional fee; the professional fee is imposed upon each renewal of architectural registration.

^e Includes a \$200.00 professional fee required by the State of Texas and deposited with the Comptroller of Public Accounts into the General Revenue Fund.

Source: Title 22, Texas Administrative Code, Section 7.10(b).

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