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An Audit Report on

Selected Financial Controls at the State Office of Administrative Hearings

June 2012

Report No. 12-036



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Overall Conclusion

The State Office of Administrative Hearings (SOAH) should improve the accuracy and consistency of information related to its activities, cost allocations, and budget that it reports to agency management, the Legislative Budget Board, the Office of the Governor, and the Legislature. Improving its accounting, budgeting, and reporting processes would help SOAH to more reasonably project the total funds the agency needs to operate and help agency management make informed decisions. While SOAH has made improvements to its information technology based on prior audit recommendations, it should make further improvements to help ensure that all financial data is secure. In addition, four key performance measures tested for fiscal year 2011 were certified with qualification.

In order to improve its processes, SOAH should:

- Improve its budgeting processes and controls.
- Improve the accuracy of the information presented in its *Hearings Activity Report*.
- Improve its processes for collecting and recording time worked.
- Continue to improve controls over its systems to help ensure that financial data is secure.
- Update its policies and procedures over the collection, calculation, review, and reporting of performance measures.

Those issues are discussed in more detail below.

Budget Methodology

SOAH uses a methodology for developing its budgets that should be improved because the methodology does not consider the actual costs of providing services.

Background Information

The State Office of Administrative Hearings (SOAH) was created in 1991 by the 72nd Legislature to be a neutral, independent agency for the resolution of conflicts and disputes between state agencies or governmental entities, private citizens, corporations, or other entities regulated by or doing business with or in the State of Texas.

In fiscal year 2011, SOAH was appropriated \$10,543,565 and 127 full-time equivalent positions. It reported hearing 6,944 (17.1 percent) general docket cases and 33,620 (82.9 percent) administrative license revocation (driver license suspension) cases during fiscal year 2011.

This audit was conducted in accordance with Texas Government Code, Sections 321.0131 and 321.0132.

For more information regarding this report, please contact Verma Elliott, Audit Manager, or John Keel, State Auditor, at (512) 936-9500.

While SOAH develops budget projections related to interagency contracts based on its projected workload, it develops the remainder of its budget based only on the amounts of funds it received in prior years. SOAH does not develop a comprehensive budget that is based on the costs of the services the agency provides. Without developing a budget based on the costs of providing services, SOAH cannot adequately evaluate its operations and reasonably project its needs. As a result, SOAH overestimated the General Revenue totals and underestimated the State Highway Fund totals it would need to cover its expenses in fiscal year 2011.

Hearings Activity Report

SOAH reported inaccurate information in two of the three parts of its *Hearings Activity Report* for September 1, 2010, through August 31, 2011. Auditors considered information in the *Hearings Activity Report* to be materially accurate if it was within 5 percent of calculated results. The *Hearings Activity Report* summarizes SOAH's performance and costs and is not used as a basis for the agency's billing or its annual financial report. SOAH submits the report to the Legislative Budget Board and the Office of the Governor by May 1 and November 1 of each fiscal year.

Part I and Part II contained inaccurate information due to calculation errors and SOAH not following the definitions of how to report the information. For example, in Part I, SOAH overstated the number of cases pending at the end of the fiscal year by 62 percent because it used a mathematical formula rather than obtaining a count of all pending cases. In addition, the costs reported in Part II did not reflect actual costs for each agency, fund type, and category.

Based on information in SOAH's timekeeping and accounting systems, SOAH reported accurate information that complied with definitions in Part III, which reports judges' indirect time.

Time Collection Process

SOAH's time collection process and timekeeping systems are not integrated and do not allow individuals or management to identify overreported, underreported, or unreported time for any given day. Auditors identified weaknesses related to unrecorded, duplicate, and data entry timekeeping errors. The majority of the calculations related to SOAH's budget, *Hearings Activity Report*, and performance measures depend on time worked information.

Information Technology Controls

While SOAH has made improvements to its information technology based on prior audit recommendations, it should make further improvements to help ensure that all financial data is secure. For example, SOAH is using systems that are no longer supported by the vendor, which increases the risk of a loss of the application operations and underlying data that might not be remediated by the vendor.

Performance Measures

Four key performance measures tested for fiscal year 2011 were certified with qualification because SOAH did not have updated policies and procedures over the collection, calculation, review, and reporting of its performance measures. Those four performance measures were:

- Number of Cases Disposed.
- Number of Administrative License Revocation Cases Disposed.
- Number of Administrative Fine Cases Disposed.
- Average Time to Dispose of a Case (Median Number of Days).

Auditors communicated other, less significant, issues to SOAH management separately in writing. Those issues were related to SOAH's budget process, methods of finance, *Hearings Activity Report*, information technology, and performance measures.

Summary of Management's Response

SOAH did not agree with some of the findings in Chapters 1 and 2. However, it agreed to implement most of the recommendations in this report. SOAH's management responses are presented in Appendix 5.

Summary of Objectives, Scope, and Methodology

The objectives of this audit were to determine whether SOAH has processes and related controls to help ensure that:

- Budgets are prepared using a reasonable methodology and appropriate data.
- Financial data is secure.
- The *Hearings Activity Report* is accurate and complete.

The audit scope included reviewing budget processes for the 2010-2011 and 2012-2013 biennia; the *Hearings Activity Report* for the period of September 1, 2010, through August 31, 2011; and four key performance measures for fiscal year 2011. Audit work included a review of supporting data, spreadsheets, documentation, systems, and calculations.

The audit scope also included the information technology systems and processes that SOAH used to produce and calculate its budget, *Hearings Activity Report*, and performance measures. Audit work included a review of logical security controls related to user access and passwords; a review of application controls; and a review of controls related to data backups and system configuration, as well as a

follow up on technology-related issues identified in *An Audit Report on the State Office of Administrative Hearings* (State Auditor's Office Report No. 06-063, August 2006).

The audit methodology included collecting data, information, and documentation; performing selected tests and other procedures on the information obtained; analyzing and evaluating data and the results of tests; and conducting interviews with SOAH management and staff.

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Detailed Results

Chapter 1

SOAH Should Improve Its Processes and Controls over Its Budgeting Methodology

The State Office of Administrative Hearings (SOAH) uses a methodology for developing its budgets that should be improved because the methodology does not consider the actual cost of providing services. While SOAH develops budget projections related to interagency contracts based on its projected

workload, it develops the remainder of its budget based on only the amounts of funds it received in prior years. Additionally, SOAH does not capture actual costs in its internal accounting system for each method of finance. Not developing a budget based on actual costs and not capturing actual costs for each method of finance are the basis for the issues discussed in Chapters 1-A and 1-B.

SOAH's Methods of Finance

SOAH receives funding from four methods of finance. The type of case heard or the agency for which SOAH is performing the service determines which method of finance will provide the funds to cover the costs associated with SOAH's hearings. Those four methods of finance are:

Fund 0001

- **General Revenue** - General Revenue funds the cost to provide hearings for 35 agencies. SOAH does not seek reimbursement of costs from those 35 agencies.
- **Interagency Contracts** - Any agency—other than the 35 agencies funded by General Revenue and the Department of Public Safety's administrative license revocation cases—that requires a hearing must enter into a contract with SOAH so that SOAH can seek reimbursement of costs from the agency. Interagency contracts can be negotiated up front (lump sum) or billed at an hourly rate based on the amount of time spent on the hearing at a \$100/hour rate as specified in the General Appropriations Act. Because SOAH does not receive any funds until services are rendered and billed, it does not necessarily receive the appropriated amount each year. SOAH also includes, within interagency contract services, contract claims and appraisal review board cases.
- **Appropriated Receipts** - SOAH seeks reimbursement for the cost of providing official transcripts of a hearing when requested.

Fund 0006

- **State Highway Fund** - The State Highway Fund provides direct funding for administrative license revocation cases (driver license suspension cases) that the Department of Public Safety refers to SOAH. SOAH does not seek reimbursement of costs from the Department of Public Safety.

See Appendix 2 for a detailed list of agencies associated with each method of finance.

In addition, SOAH uses different methodologies to allocate direct, indirect, and administrative costs among funds in its accounting, budgeting, and reporting processes. None of the methodologies accurately allocates actual costs among the methods of financing. SOAH also lacks documented policies and procedures for its budgeting process.

Chapter 1-A

SOAH's Budgeting Process Does Not Produce a Comprehensive Budget That Reasonably Projects Costs

SOAH does not develop a budget that is based on the costs of the services the agency provides. Without developing a budget based on the costs of providing services, SOAH cannot adequately evaluate its operations and reasonably project its needs during the appropriation process. As a result of its insufficient budget methodology, SOAH underestimated the amount of State Highway funds and overestimated the amount of General Revenue funds it needed to cover its expenses for fiscal year 2011 (see Appendix 4 for more information).

SOAH uses historical levels of service to determine its projected workload, which is the number of hearings and the associated time it expects to conduct for each agency it serves. However, to develop its budget, SOAH:

- Bases its projections for three of its four methods of finance (see text box) primarily on the amount of funds it received

in prior years. For example, for the 2012-2013 biennium, SOAH carried forward the same amount of funds that it received in prior years for administrative license revocation cases (driver license suspension cases) rather than determining how much it would actually cost to provide the projected workload for driver license suspension cases.

- Considers its projected workload to develop its budget projection only for the interagency contracts method of finance.
- Applies a pre-established per hour billing rate rather than a rate based on costs to develop its budget for interagency contracts. For example, for the 2012-2013 biennium SOAH used the \$100 per hour billing rate specified in the General Appropriations Act (82nd Legislature). Auditors calculated that its actual cost per direct hour for fiscal year 2011 was \$125 based on the data in SOAH’s systems and the Uniform Statewide Payroll/Personnel System (USPS).

When preparing its budget, SOAH calculates historical costs for its operations. While historical costs can be a useful tool in developing reasonable budget projections, SOAH’s methodology for calculating those costs limits their usefulness of any analysis performed on those costs. Specifically:

- SOAH allocated total historical costs for Fund 0001 and Fund 0006 based on estimated percentages that were not based on the actual past expenditures associated with each fund. Using estimated percentages that are not reconciled to actual historical costs increases the risk that SOAH may make budget decisions using inaccurate information.
- SOAH calculated historical costs in total for Fund 0001 and Fund 0006 rather than by method of finance (see text box for a list of the methods of finance in each fund). For example, interagency contract funds are billed to state agencies based on services received; whereas the Legislature directly appropriates General Revenue funds to SOAH. Because Fund 0001 contains three methods of finance and, therefore, three different revenue sources, that approach does not provide SOAH with enough detail to analyze and determine costs related to each revenue source, reasonably project its future revenue needs, and monitor and evaluate the overall budgetary effect of changes within the different methods of finance.

<u>Method of Finance</u>	<u>Amount</u>
Fund 0001:	
General Revenue	\$ 3,305,957
Interagency Contracts	\$ 3,545,187
Appropriated Receipts	\$ 150,000
Fund 0006:	
State Highway Fund	\$ 3,239,763

Recommendations

SOAH should develop and implement a comprehensive and consistent budget methodology for each of its methods of finance. This methodology should include:

- Using the actual historical costs of providing services for each of its four methods of finance.
- Applying its actual historical costs to its projected workload for each method of finance.
- Using its projected workload to determine the projected revenue and expenditures it will need to provide its projected levels of service by each method of finance.

Chapter 1-B

SOAH's Allocation of Expenditures Within Its Internal Accounting System Is Not Materially Accurate

SOAH does not allocate its expenditures among its methods of finance or accurately allocate direct, indirect, and administrative-related costs within its internal accounting system.

SOAH uses its internal accounting system (Sage MIP Fund Accounting) to track and allocate expenditures by fund. It does not allocate expenditures to each method of finance within the funds. As a result, SOAH cannot determine what portion of expenditures that it allocates to Fund 0001 belongs to General Revenue, Interagency Contracts, or Appropriated Receipts. It is important that SOAH's accounting system reflect the actual expenditures for each method of finance so that it can (1) effectively monitor the funding levels associated with each method of finance, (2) determine whether funding levels are appropriate, and (3) determine whether contractual requirements with various agencies are being fulfilled.

SOAH allocates expenditures to Fund 0001 and Fund 0006 based on estimated percentages rather than on the actual costs associated with each fund. This increases the risk that SOAH is not accurately tracking the costs related to each fund. For fiscal year 2011, based on data in SOAH's systems and USPS, auditors determined that SOAH over allocated expenditures to Fund 0001 by \$209,311 in fiscal year 2011 (see Table 1 on the next page.)

Table 1

Comparison of Allocation of Expenditures in SOAH's Internal Accounting System and Auditors' Allocation of Expenditures		
Fiscal Year 2011		
Fund	SOAH's Internal Accounting System	Auditors' Calculation
Fund 0001		
General Revenue	Not Available ^a	\$3,253,518
Interagency Contracts	Not Available ^a	3,552,037
Appropriated Receipts	127,435	127,435
Totals for Fund 0001	\$7,142,301	\$6,932,990
Totals for Fund 0006	\$3,778,088	\$3,987,399
^a SOAH does not capture this level of information in its internal accounting system.		

Sources: USPS and SOAH's internal accounting and timekeeping systems.

Auditors identified the following instances in which SOAH's allocation of expenditures within its internal accounting system for fiscal year 2011 was not reflective of actual costs:

- SOAH allocated to Fund 0006 (State Highway Fund) direct salary costs for driver license suspension cases based on estimated percentages. However, according to SOAH's timekeeping systems, auditors calculated the actual percentage for allocating those costs was an average of 41 percent at year end. As a result, SOAH allocated \$1,981,236 to the State Highway Fund for direct salaries for driver license suspension cases, rather than the \$1,394,005 in actual direct costs calculated by auditors.
- SOAH allocated 100 percent of non-payroll administrative costs to Fund 0001, even though the majority of the cases heard in fiscal year 2011 were driver license suspension cases funded by the State Highway Fund (Fund 0006).

While using estimated percentages can help SOAH increase efficiency for day-to-day operations, it should perform periodic reviews to determine the actual costs incurred for each method of finance and adjust its allocated expenditures in its internal accounting system and its estimated percentages to reflect those actual costs.

While SOAH appropriately allocated direct non-payroll expenditures (travel, court costs, and other expenditures) at the time that the expense was incurred, it allocated expenditures for indirect non-payroll expenditures and for all judges' salaries based on a ratio, rather than on the cost of actual services provided. In addition, SOAH did not appropriately allocate expenditures

among direct, indirect, and administrative categories because it did not properly allocate judges' salaries in its internal accounting system (see Chapter 2 for more information).

Recommendations

SOAH should:

- Develop and implement a methodology for allocating costs in its internal accounting system that reflects the actual cost of performing all types of services.
- Use the allocated costs in its internal accounting system throughout all of its processes, including its reporting and budgeting.

Chapter 1-C

SOAH Does Not Have Documented Policies and Procedures for Its Budgeting Process

SOAH lacks documented policies and procedures for preparing its budget. In addition, its budgeting process lacks adequate reviews. While SOAH's current process includes informal, minimal reviews of the spreadsheets used to calculate its budget, those reviews are not sufficient. Auditors identified calculation and recording errors in the spreadsheet that SOAH used to allocate historical cost and project its workload for its fiscal year 2012 budget. SOAH may have been able to identify and correct those errors if the spreadsheet had undergone a formal, documented review. Having documented policies and procedures that include adequate reviews would help SOAH to detect many of the inconsistencies noted above and help ensure that its budgeting processes are consistent and produce accurate results.

In addition, SOAH's interagency contract with the Commission on Environmental Quality (Commission) does not comply with statutory requirements. The General Appropriations Act requires SOAH to refund any difference between the amount paid under the contract and the funding necessary to provide the agreed-upon services. However, SOAH's contract with the Commission includes a clause allowing for a 20 percent variance before any amounts must be refunded.

Recommendations

SOAH should:

- Develop and implement documented policies and procedures for its budget process that include formal reviews of all spreadsheets used in its budget process to determine whether consistent methodologies are applied and whether the spreadsheets are accurate and complete.
- Ensure that its contracts are in accordance with all statutory requirements.

SOAH Should Improve the Accuracy of Its Hearings Activity Report

SOAH reported inaccurate information in two of the three parts of its *Hearings Activity Report* for September 1, 2010, through August 31, 2011. Auditors considered information in the *Hearings Activity Report* to be materially accurate if it was within 5 percent of calculated results.

Hearings Activity Report

Article VIII, General Appropriations Act (81st Legislature) requires SOAH to submit to the Legislative Budget Board and the Office of the Governor:

"[A] report [that] shall indicate, for each agency served, the person hours allocated to the agency's cases and the cost, both direct and indirect, of conducting the hearings. The report shall also indicate, for each agency served, the number of cases received, the number of cases disposed of, the number of administrative fine cases disposed of and the median number of days between the date a case is received by SOAH and the date the case is finally disposed of, during the reporting period."

The *Hearings Activity Report* summarizes SOAH's performance and costs and is not used as a basis for the agency's billing or its annual financial report. SOAH's *Hearings Activity Report* is divided into three parts. The report also contains definitions on how each part and category should be calculated.

Part I, which reports statistics on the numbers and types of cases, and Part II, which reports the direct time spent and costs associated with each case, contained inaccurate information due to calculation errors and SOAH not following the definitions of how to report the information. Based on information in SOAH's timekeeping and accounting systems, SOAH reported accurate information that complied with definitions in Part III, which reports judges' indirect time. SOAH submits the report to the Legislative Budget Board and the Office of the Governor by May 1 and November 1 of each fiscal year (see text box).

See Appendix 3 for a summary of the amounts reported in each section of the *Hearings Activity Report*.

All three parts of the *Hearings Activity Report* are reliant on data contained in multiple computer systems that are not integrated, are highly manual, and have poor controls. Therefore, the information contained in the *Hearings Activity Report* is only as reliable as the underlying data (see Chapter 3 for information about the weaknesses in SOAH's timekeeping systems and processes).

Auditors identified various issues that affected multiple sections of the *Hearings Activity Report* for September 1, 2010, through August 31, 2011. Specifically:

- Auditors identified numerous timekeeping issues (see Chapter 3-A) related to unrecorded, duplicate, and data entry timekeeping errors. These timekeeping issues affected the time worked hours category in Part I and the direct time category in Part II of SOAH's *Hearings Activity Report*. Because the direct, indirect, and administrative costs in Part II of the *Hearings Activity Report* rely on the direct time category's completeness,

auditors also could not determine the effect of the identified timekeeping issues on the accuracy of associated costs.

- SOAH used an erroneous mathematical calculation to calculate the number of pending cases that affected the reported results for the Number of Cases Pending at Start of Reporting Period and Cumulative Number of Cases Pending at End of Reporting Period categories in Part I of the *Hearings Activity Report*.
- SOAH reported inaccurate information that was not in accordance with its definitions for its direct salaries charges reported under direct costs. As a result, it also reported inaccurate information for indirect costs and administrative costs.

Chapter 2-A

SOAH Reported Information in Part I of Its *Hearings Activity Report* That Was Inaccurate and Did Not Comply with Definitions

Part I - Workload and Cost Allocation Summary

This portion reports statistics on the numbers and types of cases for the reporting period. It presents the information in each category by agency served and provides a summary by category.

Auditors tested all eight of the case-related categories in Part I of the *Hearings Activity Report* for September 1, 2010, through August 31, 2011 (see text box for a summary of the information presented in Part I). SOAH groups its cases into two primary classifications: administrative license revocation cases (driver license suspension cases) and general docket cases (see text box for more information about these case types).

Types of Cases

Administrative License Revocation Cases - These are driver license suspension cases that the Department of Public Safety refers to SOAH. In a driver license suspension case, a driver has failed or refused a breath or blood alcohol test, has been arrested for driving or boating while intoxicated, and has requested a hearing on the proposed suspension of his or her driver license. Driver license suspension cases, which are funded through the State Highway Fund (Fund 0006), accounted for 82.9 percent of SOAH's total reported cases in fiscal year 2011.

General Docket Cases - These are all cases that are not driver license suspension cases. These cases can include, but are not limited to, contract claims, tax, licensing and enforcement hearings, and other hearings. General docket cases, which are funded through the General Revenue fund and interagency contracts, accounted for 17.1 percent of SOAH's total reported cases in fiscal year 2011.

SOAH reported accurate information for six of eight categories for general docket cases; however, it reported accurate information for only two of six categories for driver license suspension cases. When combined, SOAH reported accurate overall totals for three of eight categories (see Table 2 on the next page for a summary of accuracy of each category and Appendix 3 for detailed information).

Table 2

Part I - Workload and Cost Allocation Summary			
Categories in Part I	Reported Total for Driver License Suspension Cases	Reported Total for General Docket Cases	Reported Total for All Cases
Number of Cases Pending at Start of Reporting Period ^a	Inaccurate	Accurate	Inaccurate
Cumulative Number of Cases Pending at End of Reporting Period ^a	Inaccurate	Accurate	Inaccurate
Time Worked Hours	Unable to Determine	Unable to Determine	Unable to Determine
Number of Cases Received	Unable to Determine	Accurate	Unable to Determine
Number of Administrative Fine Cases Disposed	Not Applicable ^b	Unable to Determine	Unable to Determine
Number of Cases Disposed	Accurate	Accurate	Accurate
Total Cases Worked ^a	Accurate	Accurate	Accurate
Median Days at SOAH	Not Applicable ^b	Accurate	Accurate
^a Rider 6, page VIII-3, General Appropriations Act (81st Legislature) did not require SOAH to report results for these specific categories. ^b For driver license suspension cases, six of the eight categories reported in the <i>Hearings Activity Report</i> contain information related to those cases.			

Source: SOAH's *Hearings Activity Report* for September 1, 2010, through August 31, 2011.

Driver License Suspension Cases

Of the six categories reported for driver license suspension cases, SOAH reported inaccurate information for two categories and materially accurate information for two categories. Auditors were unable to determine the accuracy of the remaining two categories.

SOAH overstated two categories because it used a mathematical formula rather than compiling a list of cases.

SOAH overstated number of cases pending at start of reporting period by 57 percent (4,974 cases) and cumulative number of cases pending at the end of reporting period by 62 percent (5,511 cases).

The overstatements occurred because SOAH calculated the number of pending driver license suspension cases through a mathematical formula that relies on other categories reported rather than obtaining a count of all pending cases. This differs from the methodology SOAH used to calculate the number of pending general docket cases.

In addition, because SOAH used mathematical formulas, it did not compile a list of the case numbers for the driver license suspension cases that were pending at end of the reporting period. SOAH also did not extract a list of the cases it received during the reporting period. Therefore, SOAH was unable to reconcile its reported amounts to an actual list of cases pending or received. Compiling a list would help SOAH to determine whether its mathematical formula is accurate and help it ensure that all components are correctly reported. While the Department of Public Safety owns and maintains the driver license suspension hearings database, SOAH should still obtain documentation to support its reported numbers.

Auditors could not determine the accuracy of two categories because SOAH lacked sufficient supporting documentation and complete information in its timekeeping systems.

For time worked hours, SOAH lacked complete timekeeping information and for number of cases received, SOAH lacked sufficient supporting documentation. Specifically:

- Time worked hours. As discussed in Chapter 3-A, SOAH had timekeeping weaknesses related to unrecorded, duplicate, and data entry timekeeping errors. Because SOAH lacked complete information; auditors could not determine how much should have been reported for this category.
- Number of cases received. SOAH disposes of information related to a driver license suspension case two months after the case is resolved unless the case is in appeal, which is in accordance with its records retention policy. As a result, there was not sufficient documentation supporting SOAH's reported information for this category to permit auditors to determine the accuracy of this category. In addition, as discussed above, SOAH did not compile a list of the case numbers included in the total reported. Upon request, SOAH subsequently provided a list of cases received in fiscal year 2011, but auditors were unable to verify that list because of the lack of supporting documentation.

Although SOAH reported materially accurate information for two categories, auditors identified issues that increase the risk that SOAH could report inaccurate information in future reports.

SOAH reported materially accurate information for the number of cases disposed and total cases worked categories. However, auditors identified some issues that increase the risk that SOAH could report inaccurate information in these two categories in future reports.

To arrive at the number of cases disposed for driver license suspension cases, SOAH counted from its driver license suspension time system the number of instances in which a judge charged time for preparing a case's final order. Using time as the basis for this calculation is not as reliable as counting the number of closed cases from its driver license suspension hearing system

because there is an increased risk of time not being reported or being inaccurately entered. Auditors identified several errors in SOAH's methodology for determining the number of cases disposed. While these errors did not result in SOAH reporting materially inaccurate information in its *Hearings Activity Report* for fiscal year 2011, they increase the risk that SOAH may report materially inaccurate information for other time periods. Specifically:

- Auditors identified 1,172 cases that SOAH heard and closed in fiscal year 2011 for which the judges did not charge time for writing the final order. Because it relied on its timekeeping system to calculate this category, SOAH did not include those 1,172 cases heard and closed in fiscal year 2011 in its reported totals.
- Auditors identified 567 driver license suspension cases that SOAH counted as disposed twice. Some of those cases were appeals and others were erroneously duplicated. Including appeals in the count of disposed driver license suspension cases is inconsistent with SOAH's calculation for disposed general docket cases, which did not include appeals.

General Docket Cases

Of the eight categories reported for general docket cases, auditors could not determine the accuracy of two categories. SOAH reported materially accurate information for the remaining six categories.

SOAH reported materially accurate information for six categories.

SOAH reported materially accurate information for the following six categories:

- Number of cases pending at start of reporting period.
- Cumulative number of cases pending at end of reporting period.
- Number of cases received.
- Number of cases disposed.
- Total cases worked.
- Median days at SOAH.

Auditors could not determine the accuracy of two categories.

Because SOAH lacked complete information in its timekeeping systems and used calculations that did not comply with the definitions in the *Hearings Activity Report*, auditors could not determine the accuracy of two of the eight categories reported for general docket cases. Specifically:

- Time worked hours. Auditors could not determine the material accuracy of this category because of timekeeping issues identified in Chapter 3-A.
- Number of administrative fine cases disposed. SOAH did not calculate the number of administrative fine cases disposed in accordance with the category's definition. According to the *Hearings Activity Report*, this category "reflects the number of cases resolved in which an administrative fine or penalty was an issue in the proceeding. It does not necessarily reflect the number of cases in which an administrative fine was recommended or awarded." However, SOAH counted only the cases in which an administrative fine was assessed, rather than all cases in which an administrative fine or penalty was an issue in the proceeding. It should be noted that SOAH reported the same number for this category in its *Hearings Activity Report* that it reported for its Number of Administrative Fine Cases Disposed performance measure (see Chapter 4 for more information about SOAH's performance measures). However, the performance measure definition states that SOAH should include only those cases in which payment of an administrative fine was recommended or required.

Recommendations

SOAH should:

- Ensure that it compiles and maintains a list of all driver license suspension cases included in its reported categories at the time the category is calculated and perform any necessary steps to ensure that all cases are appropriately included, whether through reconciliation or collaboration with the Department of Public Safety.
- Consider retaining support, whether electronically or in original hard-copy form, to support information entered into the systems it relies upon for reporting.
- Ensure that all categories in the *Hearings Activity Report* are consistently calculated and in accordance with definitions.

SOAH Reported Information in Part II of Its *Hearings Activity Report* That Did Not Reflect Actual Costs and Did Not Comply with Definitions

Auditors tested all seven categories in Part II of SOAH’s *Hearings Activity Report* for September 1, 2010, through August 31, 2011 (see text box for a summary of the information presented in Part II). One category reports the amount of time spent directly on hearings. The other six categories report SOAH’s total expenditures for a reporting period as direct, indirect, and administrative costs (see text box for more information about those cost types).

Part II - Summary of Services Provided

This portion reports the direct time spent on and the costs associated with each case. It presents the information in each category by case and subtotals by agency served.

Direct, Indirect, and Administrative Costs

Direct costs: These are costs that directly benefit a specific service, such as performing a hearing. In SOAH’s *Hearings Activity Report*, direct costs are comprised of salary costs for a judge’s time spent working on each case and other direct expenditures for a judge’s travel, court costs, and other hearing-related costs.

Indirect costs: These are costs that indirectly benefit specific services, such as the cost to manage hearing files. In the *Hearings Activity Report*, indirect costs comprise the personnel costs for docketing, legal services, and hearing division support staff and managers.

Administrative costs: These are costs that are not associated with a specific function, such as for rent or utilities. In the *Hearings Activity Report*, administrative costs comprise personnel costs, such as financial personnel and management costs, as well as equipment, supplies, and other operating expenditures.

The total expenditures that SOAH reported in the *Hearings Activity Report* were consistent with the total expenditures reported in the Uniform Statewide Accounting System for fiscal year 2011. In addition, SOAH reported accurate information for the direct hearing related expenses it reported under direct costs. However, SOAH reported inaccurate information that was not in accordance with its definitions for its direct salaries charges reported under direct costs. As a result, it also reported inaccurate information for indirect costs and administrative costs. Auditors were unable to determine the accuracy of the direct time category (see Table 3 for a summary of accuracy of each category and Appendix 3 for detailed information).

Table 3

Part II - Summary of Services Provided	
Categories in Part II	Reported Total
Direct Time	
Hearing-related Time Direct - Hours	Unable to Determine
Direct Costs	
Hearing-related Time Direct - Charges	Inaccurate
Hearing-related Expenses Direct - Travel	Accurate
Hearing-related Expenses Direct - Court Costs	Accurate
Hearing-related Expenses Direct - Other Costs	Accurate
Indirect Costs	
Hearings Program Support	Inaccurate
Administrative Costs	
Administrative	Inaccurate

Source: SOAH’s *Hearings Activity Report* for September 1, 2010, through August 31, 2011.

Auditors could not determine whether SOAH reported materially accurate information for one category.

Auditors could not determine whether SOAH reported materially accurate information in the direct time category because of timekeeping issues identified in Chapter 3-A. Because the reported costs per case rely on this category's completeness, auditors could not determine the effect on the accuracy of associated costs discussed below.

SOAH did calculate the direct time category in accordance with the definition in the *Hearings Activity Report*. Specifically, the *Hearings Activity Report* states that direct time is the total amount of hours classified as direct within SOAH's timekeeping systems. SOAH did not include time spent on non-case-specific activities, such as training and leave, in its calculations for direct time, which is in accordance with the definition.

SOAH does not allocate salaries across direct, indirect, and administrative costs in a manner that reflects the actual costs incurred per case.

While SOAH's allocation methodology is reasonable for allocating administrative expenditures unrelated to judges' and paralegals' time, it does not allocate salaries in a manner that reflects the actual direct, indirect, and administrative costs incurred per case. Driver license suspension cases, interagency contract cases, and General Revenue cases are funded through different methods of finance. Because of this, it is important that SOAH appropriately allocate costs among its cases and agencies so that it accurately reports costs associated with each method of finance.

SOAH allocates all costs within the *Hearings Activity Report* by dividing the total expenditures by the total direct hours for the reporting period and multiplying the result by the direct time recorded to each case to derive the cost per case for each category. This methodology does not reflect the actual costs for each case, agency, or method of finance. For example:

- For tax division cases referred by the Office of the Comptroller of Public Accounts, SOAH's timekeeping system recorded a minimal amount of time as spent by dedicated tax division judges¹ on other types of cases for the Office of the Comptroller of Public Accounts in fiscal year 2011. Therefore, 96 percent of the salary costs for those judges should be reported as costs for tax cases for the Office of the Comptroller of Public Accounts. However, SOAH allocated the costs for tax division judges among all cases and entities, including cases funded through the State Highway Fund, in its *Hearings Activity Report*. In its *Hearings Activity*

¹ Rider 9, page VIII-4, General Appropriations Act (81st Legislature) states that the contractual agreement between the Office of the Comptroller of Public Accounts and SOAH for tax division cases shall stipulate the cost of dedicated tax division judges. Texas Government Code, Section 2003.101(c), states that the tax division judges may conduct hearings for other state agencies; however, this requires notification to the Office of the Comptroller of Public Accounts in writing.

Report for September 1, 2010, through August 31, 2011, SOAH reported total costs for tax cases of \$585,894. Auditors calculated that the actual for tax cases was \$617,462.

- SOAH did not allocate actual costs for driver license suspension cases, which are funded through the State Highway Fund. Costs reported for driver license suspension cases include an average cost of all judges' time, regardless of whether that judges' hours are or are not included in the related direct time category. In its *Hearings Activity Report* for September 1, 2010, through August 31, 2011, SOAH reported total costs to the State Highway Fund of \$4,541,731. Auditors calculated that the actual costs to the State Highway Fund were \$3,987,399.

SOAH's allocation methodology for its *Hearings Activity Report* may not fully comply with Rider 6, page VIII-3, General Appropriations Act (81st Legislature), which states that "The report shall indicate, for each agency served, the person hours allocated to the agency's cases and the cost, both direct and indirect, of conducting the hearings."

SOAH reported inaccurate information for one direct cost category.

SOAH reported inaccurate information for direct salaries. This occurred because SOAH did not accurately allocate judges' and paralegals' salaries between direct, indirect, or administrative costs. Specifically, SOAH included 100 percent of judge salaries in its calculation of direct salary costs. The *Hearings Activity Report* definition states that only costs attributable to hours classified as direct in SOAH's timekeeping systems should be reported as direct salaries. To accurately reflect the associated direct salary costs, SOAH should have excluded the portion of the salaries not attributable to the reported totals for the direct time category discussed above, such as training and leave.

In addition, SOAH did not include any of the cost for paralegals in its calculation for direct salaries. Although this is in accordance with the definition for direct costs, it is inconsistent with the definition for direct time. Specifically, the definition for direct time includes direct hours for SOAH judges, paralegals, and temporary judges. In contrast, the definition for direct costs states that total costs attributable only to direct hours for SOAH judges should be included. Including the costs for paralegals' direct time would more accurately reflect the direct costs of providing services.

In its *Hearings Activity Report* for September 1, 2010, through August 31, 2011, SOAH reported total direct salaries of \$6,537,024. Auditors calculated that actual direct salaries totaled \$3,968,789.

SOAH reported accurate information for three direct cost categories.

SOAH reported materially accurate information in the direct expense categories of travel, court costs, and other costs. At the time of entry of these

costs in its internal accounting system, SOAH records the case associated with each cost; therefore, these costs are not allocated based on direct time. Auditors traced all amounts reported in the *Hearings Activity Report* for September 1, 2010, through August 31, 2011, directly to the cases and costs reported in SOAH's internal accounting system.

SOAH reported inaccurate information for indirect costs.

For indirect salary costs, SOAH did not include the portion of judges' salaries for case-related time that is not billed or charged to referring agencies. Instead, SOAH included those costs in direct salary costs. SOAH should utilize information already presented in Part III for judges' case-related time not billed or charged to agencies to help it determine the portion of associated costs in this category.

SOAH also included 100 percent of paralegals' salaries as an indirect cost. SOAH should have included the portion of paralegal salaries spent directly on cases as direct salaries and time spent on training and leave as administrative costs. In its *Hearings Activity Report* for September 1, 2010, through August 31, 2011, SOAH reported total indirect costs of \$2,757,213. Auditors calculated that total indirect costs were \$2,603,677.

SOAH reported inaccurate information for administrative costs.

For administrative costs, SOAH did not include the portion of judges' and paralegals' salaries related to non-case-specific activities. In its *Hearings Activity Report* for September 1, 2010, through August 31, 2011, SOAH reported total administrative costs of \$1,394,260. Auditors calculated that total administrative costs were \$4,116,031.

SOAH should utilize information already presented in Part III for judges' non-case-specific time to help it determine the portion of associated costs in this category.

Recommendations

SOAH should ensure that all costs reported in its *Hearings Activity Report* are:

- Reflective of actual costs in each of the three expense categories: direct, indirect, and administrative.
- Reflective of actual hours spent and costs associated with the individual cases and agencies listed.

SOAH Reported Accurate Information That Complied with Definitions in Part III of its *Hearings Activity Report*

Part III - 360 Report
 This portion summarizes judges' case-related time by case that is not billed to referring agencies and non-case specific activities by activity.

Based on information in SOAH's timekeeping and accounting systems, SOAH reported accurate information that complied with definitions for both categories in Part III of its Hearings Activities Report for September 1, 2010, through August 31, 2011, which reports judges' indirect time (see text box). Specifically:

- Auditors traced the reported total number of case-related judges' hours not billed to agencies to the key system used to calculate that total without exceptions.
- Auditors traced the reported total number of non-case-related judges' time to the key system used to calculate that total without exceptions.

Table 4 summarizes the accuracy of each category in Part III (see Appendix 3 for detailed information).

Table 4

Part III - 360 Report	
Categories in Part III	Reported Total
Case-related ALJ ^a Hours Not Billed to Agencies	Accurate
Non-case-related ALJ Time	Accurate
^a ALJ is Administrative Law Judge.	

Source: SOAH's *Hearings Activity Report* for September 1, 2010, through August 31, 2011.

The information reported in Part III of the *Hearings Activity Report* is only as reliable as the underlying data (see Chapter 3-A for more information on the underlying data issues).

SOAH Uses Inconsistent Methodologies to Allocate Its Costs

SOAH uses different methodologies to allocate direct, indirect, and administrative costs among funds in its accounting, budgeting, and reporting processes. None of the methodologies accurately allocates actual costs among the methods of financing.

The allocation of costs reported in SOAH's *Hearings Activity Report* did not match the allocation of costs in SOAH's internal accounting system. This

resulted in SOAH reporting totals for each expense category in its *Hearings Activity Report* that differed from the totals shown in its internal accounting system. In addition, SOAH uses a third cost allocation methodology to develop its budget. However, none of the reported costs using any of the three methodologies are reflective of actual costs. See Appendix 4 for a comparison of all three methodologies and actual costs as calculated by auditors.

SOAH should provide consistent and accurate information about hearing-related costs to agency management, the Legislative Budget Board, Office of the Governor, and the Legislature so they can make informed planning and funding decisions.

Recommendation

SOAH should develop and implement a single cost allocation methodology that is reflective of actual costs for its accounting, budgeting, and reporting processes.

SOAH Should Address Weaknesses in Its Time Collection Processes and Continue to Improve Controls Over Its Information Technology Systems

SOAH's current time collection processes and systems do not allow individuals or management to identify overreported, underreported, or unreported time. It should be noted that auditors did not review the accuracy of SOAH's billing processes. SOAH uses two timekeeping systems that are not integrated and do not capture indirect or paralegal time related to driver license suspension cases. In addition, SOAH's process for reviewing the time entered into its timekeeping systems is not working as intended.

SOAH has worked to address prior audit issues and improve its management of information technology. However, SOAH continues to use non-supported software and does not consistently ensure that users' access to its systems is appropriately managed.

Chapter 3-A

SOAH's Time Collection Processes and Systems Do Not Ensure That All Time Worked Is Completely or Accurately Recorded

SOAH's current time collection processes and systems do not allow individuals or management to identify overreported, underreported, or unreported time for any given day. It is important that SOAH completely and accurately collect time worked because the majority of the calculations related to SOAH's *Hearings Activity Report*, budget, and performance measures depend on this information.

SOAH currently has two timekeeping systems for case-related time, and it records leave in USPS. In addition, SOAH maintains an additional database to track leave time not recorded in USPS, such as leave taken for exercise time. Those two case-related timekeeping systems are:

- **TimeSlips.** SOAH uses this system to record direct and indirect time that judges and paralegals spend on general docket cases, as well as administrative time spent related to general docket and driver license suspension cases.
- **Lotus Notes-Time.** SOAH uses this system to record direct time that judges spend on driver license suspension cases.

The two timekeeping systems and the leave database are not integrated. Auditors identified several weaknesses in SOAH's timekeeping systems related to unrecorded, duplicate, and data entry timekeeping errors. This occurred because SOAH did not reconcile the total amount of time reported to the total amount of time its employees worked in a given day. Auditors communicated other specific issues related to SOAH's timekeeping processes

to SOAH management separately in writing. Examples of issues related to SOAH's timekeeping processes include:

- As discussed in Chapter 2, auditors identified 1,172 cases for which the judges did not charge all of their time worked. For fiscal year 2011, auditors matched the cases in the driver license suspension hearings database to the cases in the driver license suspension time database. For 1,172 cases heard and closed in fiscal year 2011, the judges did not charge time for writing the final order. Because of the varying nature of this activity, auditors could not determine how much time should have been charged for this activity to each case.
- Auditors identified 567 driver license suspension cases for which final order time was charged more than once in the Lotus Notes-Time system. This occurred because time entries were either erroneously duplicated or the second entry was a valid entry related to an appealed case. Because of SOAH's records retention schedule discussed above, auditors could test only those entries related to appealed cases. Of the 11 appealed cases tested, 3 (27.3 percent) were invalid entries.
- Auditors identified 75 erroneously duplicated entries, which resulted in the time entered being overstated by a total of 45.7 hours, in SOAH's TimeSlips system. Of those hours, 28.6 were related to interagency contract agencies, which are billed based on case-related time.
- Three (6.3 percent) of 48 time entries tested in SOAH's Lotus Notes-Time system contained data entry errors that resulted in time being overreported by 26.75 hours.

SOAH's process for reviewing data entered into its timekeeping systems is not adequate.

SOAH's process for reviewing the time entered into the TimeSlips and Lotus Notes-Time systems is not working as intended. SOAH's process requires judges and team leaders to receive, review, and approve reports that summarize the case-related time entered into the timekeeping systems. However, auditors noted several errors that this review process did not identify. For example, one report was approved even though the total hours worked for one day was recorded as 32 hours. This overstatement occurred because the time worked for one activity was erroneously entered as 25.0 hours instead of 0.25 hours.

Recommendation

SOAH should develop and implement a comprehensive process to capture, adequately account, and review all time for judges and staff.

While SOAH Has Worked to Address Prior Audit Issues, It Should Continue to Address Weaknesses in Its Information Technology Controls

SOAH has worked to improve its information technology operations and address issues identified in *An Audit Report on the State Office of Administrative Hearings* (State Auditor's Office Report No. 06-063, August 2006). Specifically, SOAH:

- Revised application access in some of its systems.
- Fully utilized some vendor-supplied functionality.
- Improved the security administration process for various applications.

In addition, SOAH ensured that administrative access to its application resources was reasonable and its information technology policies were documented. The agency also was working to update its technology environment.

However, SOAH continues to use software that the vendors no longer support. Using that software is a risk because, in addition to the absence of product support, the vendors often cease offering patches to fix bugs, and unsupported and unpatched operating systems are often a target for malicious code.

In addition, auditors identified some weaknesses in SOAH's management of user access that increases the risk to data in its various applications. Specifically, auditors identified:

- Access rights that were in excess of what users needed to perform their designated job duties or that were not updated when a user's job duties changed.
- Access rights that did not allow for proper segregation of duties.
- A lack of documentation for SOAH's application security roles and permissions.

Recommendations

SOAH should:

- Develop and implement a plan for the replacement of software that is no longer supported by the vendor.
- Implement security within its systems to help ensure that appropriate access restrictions and adequate segregation of duties are in place.
Specifically:
 - ♦ Ensure that employees have the minimum rights necessary to perform their designated job duties.
 - ♦ Modify or remove access to SOAH applications as needed when a user's job duties or assignments change.
 - ♦ Implement access rights that support proper segregation of duties.
 - ♦ Gain an understanding of and document the security roles and permissions for all applications in use.

SOAH Accurately Calculated All Four Key Performance Measures Tested

Certified with Qualification

A measure is certified with qualification when reported performance appears accurate but the controls over data collection and reporting are not adequate to ensure continued accuracy.

SOAH reported reliable results for all four key performance measures tested for fiscal year 2011. A performance measure result is considered reliable if it is certified or certified with qualification.

The following four performance measures were certified with qualification for fiscal year 2011:

- Number of Cases Disposed.
- Number of Administrative License Revocation Cases Disposed.
- Number of Administrative Fine Cases Disposed.
- Average Time to Dispose of a Case (Median Number of Days).

While SOAH reported accurate results for all four key performance measures tested, it did not have up-to-date, written policies and procedures describing the processes the agency used to collect, calculate, review, and report its performance measure data. In addition to reporting the results to the Automated Budget and Evaluation System of Texas (ABEST), SOAH also reports the results for all four performance measures tested in its *Hearings Activity Report* (see Chapter 2). Without detailed policies and procedures and documented reviews, there is an increased risk that SOAH will not report accurate performance measure results in the future. The State Auditor's Office's *Guide to Performance Measure Management* is a helpful resource for developing documented policies and procedures for performance measure reporting.

Recommendation

SOAH should develop and implement detailed, written policies and procedures for the collection, calculation, review, and reporting of performance measure results.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine whether the State Office of Administrative Hearings (SOAH) has processes and related controls to help ensure that:

- Budgets are prepared using a reasonable methodology and appropriate data.
- Financial data is secure.
- The *Hearings Activity Report* is accurate and complete.

Scope

The scope of this audit included reviewing SOAH's budget processes and procedures for the 2010-2011 and 2012-2013 biennia and the *Hearings Activity Report* for September 1, 2010, through August 31, 2011. Additionally, the scope of this audit included four key performance measures that SOAH reported for fiscal year 2011 and the information technology systems and processes used by SOAH to produce and calculate its budget, *Hearings Activity Report*, and performance measures. Audit work included a review of supporting data, spreadsheets, documentation, systems, and calculations.

Methodology

The audit methodology included collecting information and documentation from SOAH; reviewing policies and procedures, statutes, and rules related to SOAH's budget preparation, financial data, *Hearings Activity Report*, and key performance measures; analyzing and evaluating data and the results of tests; and conducting interviews with SOAH management and staff. Auditors also reviewed logical security controls related to user access and passwords; reviewed application controls; and reviewed controls related to data backups and system configuration. Auditors also followed up on technology-related issues that the State Auditor's Office previously identified in *An Audit Report on the State Office of Administrative Hearings* (State Auditor's Office Report No. 06-063, August 2006).

Auditors assessed the reliability of SOAH's financial data and the data used to develop the budget, develop the *Hearings Activity Report*, and calculate key

performance measures by interviewing SOAH staff members knowledgeable of the data and testing key data elements.

With the exception of the limitations identified in SOAH's record retention and timekeeping processes (see Chapter 3), auditors determined that the data in the following key systems was sufficiently reliable for the purposes of this audit:

- Sage MIP Fund Accounting (MIP). SOAH uses this financial accounting application to maintain its general ledger and for its financial reporting process. Auditors performed data reliability tests on expenditure data from MIP and reconciled that data to the Office of the Comptroller of Public Accounts' Uniform Statewide Accounting System. Auditors also reviewed password requirements and edit checks to determine whether they were adequately designed and operating effectively.
- Case Management System (CMS). SOAH uses this application to maintain case information for general docket cases.
- TimeSlips. SOAH uses this timekeeping and billing application to (1) generate agency billings, (2) record direct and indirect time that judges and paralegals spent on general docket cases, and (3) record time that judges spent on administrative activities. Because it was outside the scope of this audit, auditors did not confirm the accuracy of the billing information contained in this system.
- Lotus Notes-Time. SOAH uses this commercial application to record direct time that judges spent on administrative license revocation cases (driver license suspension cases).
- Lotus Notes-Hearings. The Department of Public Safety (Department) maintains this commercial application, which the Department and SOAH use to record case information from driver license suspension cases. Because auditors did not engage the Department for this audit, auditors did not confirm the accuracy of information that the Department entered into the system.
- Lotus Notes-Appeals. SOAH uses this commercial application to maintain case information for driver license suspension cases on appeal. Auditors relied on this data to draw a sample for testing.
- HR Leave Database. SOAH uses this database to track employee leave and post leave to the Uniform Statewide Payroll/Personnel System (USPS) when applicable.

Information collected and reviewed included the following:

- Policies and procedures for information security, collection of financial data, and the creation of the *Hearings Activity Report* and performance measures.
- Documentation supporting SOAH's calculations of budgeted amounts, *Hearings Activity Report*, and key performance measures.
- Data stored in multiple information systems and databases that SOAH used to calculate and report performance measure results, develop the *Hearings Activity Report*, and compile its annual budgets.
- Salary and leave information contained within the Office of the Comptroller of Public Accounts' USPS.

Procedures and tests conducted included the following:

- Interviewed management and key personnel at SOAH.
- Reviewed and tested compliance with SOAH policies and procedures, performance measure definitions, the General Appropriations Act, the Texas Government Code, and *The Guide to Performance Measure Management* (State Auditor's Office Report No. 06-329, August 2006).
- Performed general and application control tests on SOAH's key systems, including its financial accounting system (MIP).
- Assessed the accuracy of and related internal controls over the key performance measures included in SOAH's *Hearings Activity Report* by recalculating and tracing the reported information to source documentation when possible.
- Traced the amounts that SOAH reported in its budget and used in its final calculations to the source documentation to determine the accuracy of those amounts.
- Compared budgeted costs to actual costs incurred for fiscal year 2011.
- Reviewed SOAH's allocation of costs between the various methods of finance.
- Compiled time and leave reported in SOAH's information systems and databases and in the Office of the Comptroller of Public Accounts' USPS.
- Tracked key information in SOAH's information systems to supporting documentation when possible.

- Performed data reliability tests on the information obtained by auditors to determine the reliability of system-produced data.

Criteria used included the following:

- General Appropriations Act (81st and 82nd Legislatures).
- Texas Government Code, Chapters 771 and 2003.
- Title 1, Texas Administrative Code, Chapters 155, 159, 163, 165, and 167.
- *Guide to Performance Measure Management* (State Auditor's Office Report No. 06-329, August 2006).
- Automated Budget and Evaluation System of Texas performance measure definitions.
- SOAH policies and procedures.
- *Hearings Activity Report* definitions.

Project Information

Audit fieldwork was conducted from December 2011 through April 2012. 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:

- Mary Ann Wise, CPA, CFE (Project Manager)
- John Boyd, CIDA (Assistant Project Manager)
- Ishani Baxi, CIDA
- Lindsay R. Johnson
- Anca Pinchas, Macy, CPA, CIDA
- Michael Yokie, CISA
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Verma L. Elliott, CPA, CIA, CGAP, MBA (Audit Manager)

Agencies Served by SOAH per Method of Finance

Table 5 lists the 35 agencies for which the costs of hearings conducted by the State Office of Administrative Hearings (SOAH) are funded through General Revenue appropriations. Table 5 also lists the agencies for which SOAH provided services in fiscal year 2011 and the method of finance which funded those services.

Table 5

Agencies Served by SOAH in Each Method of Finance Fiscal Year 2011	
Method Of Finance	Agencies Served
General Revenue ^a (Fund 0001)	<ul style="list-style-type: none"> ▪ Alcoholic Beverage Commission ▪ Board of Chiropractic Examiners ▪ Board of Examiners of Psychologists ▪ Board of Pharmacy ▪ Board of Plumbing Examiners ▪ Board of Podiatric Medical Examiners ▪ Board of Professional Geoscientists ▪ Board of Professional Land Surveying ▪ Board of Tax Professional Examiners ▪ Board of Veterinary Medical Examiners ▪ Commission on Fire Protection ▪ Commission on Law Enforcement Officer Standards and Education ▪ Department of Agriculture ▪ Department of Housing and Community Affairs ▪ Department of Insurance (not including the Division of Workers' Compensation) ▪ Department of Licensing and Regulation ▪ Department of Public Safety (non-administrative license revocation hearings) ▪ Department of Transportation (not including the Motor Vehicle Division) ▪ Employees Retirement System ▪ Executive Council of Physical Therapy and Occupational Therapy Examiners ▪ Fire Fighters' Pension Commissioner ▪ Funeral Service Commission ▪ Higher Education Coordinating Board ▪ Optometry Board ▪ Parks and Wildlife Department ▪ Public Utility Commission of Texas ▪ Racing Commission ▪ Real Estate Commission (not including residential service companies and Texas Timeshare Act hearings) ▪ Secretary of State ▪ Securities Board ▪ Teacher Retirement System ▪ Texas Board of Nursing

**Agencies Served by SOAH in Each Method of Finance
Fiscal Year 2011**

Method Of Finance	Agencies Served
	<ul style="list-style-type: none"> ▪ Texas Lottery Commission ▪ Texas Medical Board ▪ Texas State Board of Dental Examiners
State Highway Fund (Fund 0006)	<ul style="list-style-type: none"> ▪ Department of Public Safety (administrative license revocation hearings)
Interagency Contracts - Lump Sum (Fund 0001)	<ul style="list-style-type: none"> ▪ Commission on Environmental Quality ▪ Office of the Comptroller of Public Accounts
Interagency Contracts - All Other Billable ^b (Fund 0001)	<p>Contract Claims</p> <ul style="list-style-type: none"> ▪ Department of Criminal Justice ▪ General Land Office ▪ University of Houston System ▪ The University of Texas at El Paso <p>Appraisal Review Board</p> <ul style="list-style-type: none"> ▪ Office of the Comptroller of Public Accounts <p>Hourly</p> <ul style="list-style-type: none"> ▪ Board of Architectural Examiners ▪ Board of Professional Engineers ▪ Department of Aging and Disability Services ▪ Department of Family and Protective Services ▪ Department of Insurance ▪ Department of Motor Vehicles ▪ Department of State Health Services ▪ General Land Office ▪ Juvenile Probation Commission ▪ Office of the Attorney General ▪ State Board of Public Accountancy ▪ Texas Education Agency

^a Article VIII, General Appropriations Act (81st Legislature) lists 35 agencies under which the cost of hearings shall be funded by the amounts appropriated to SOAH by the General Revenue Fund. Auditors did not confirm that SOAH provided services to all 35 agencies in fiscal year 2011.

^b These are agencies for which SOAH reported it conducted a hearing during fiscal year 2011 and are not funded through another method of finance.

Source: SOAH's *Hearings Activity Report* for September 1, 2010, through August 31, 2011; data from SOAH's internal accounting system; and Article VIII, General Appropriations Act (81st Legislature).

Amounts Reported in SOAH's Hearings Activity Report for September 1, 2010, through August 31, 2011

Table 6 lists the totals reported by the State Office of Administrative Hearings (SOAH) for administrative license revocation cases (driver license suspension cases) and general docket cases in each category of the three parts of its *Hearings Activity Report* for September 1, 2010, through August 31, 2011.

Table 6

Amounts Reported in SOAH's <i>Hearings Activity Report</i> For September 1, 2010, through August 31, 2011				
Category	Driver License Suspension Cases	General Docket Cases	Administrative Time Not Attributable to Any Specific Cases	Total
Part I Workload and Cost Allocation Summary				
Number of Cases Pending at Start of Reporting Period	8,774	1,937	0	10,711
Number of Cases Received	31,450	9,525	0	40,975
Number of Cases Disposed	31,316	6,403	0	37,719
Cumulative Number of Cases Pending at End of Reporting Period	8,908	5,059	0	13,967
Number of Administrative Fine Cases Disposed	0	144	0	144
Median Days at SOAH	0	73	0	73
Total Cases Worked	33,620	6,944	0	40,564
Time Worked Hour	30,659.4	44,525.4	0	75,184.8
Part II Summary of Services Provided				
Hearing Related Time Direct - Hours (Direct Time)	30,659.4	44,525.4	0	75,184.8
Hearing Related Time Direct - Charges (Direct Salary Costs)	\$2,665,713.93	\$3,871,310.28	0	\$6,537,024.21
Hearing Related Expenses Direct - Travel (Direct Expenditures)	\$51,864.14	\$ 29,138.96	0	\$81,003.10
Hearing Related Expenses Direct - Court Costs (Direct Expenditures)	\$130,509.02	\$19,641.86	0	\$150,150.88
Hearing Related Expenses Direct - Other Costs (Direct Expenditures)	\$717.71	\$21.25	0	\$738.96
Hearings Program Support (Indirect Costs)	\$1,124,355.66	\$1,632,856.99	0	\$2,757,212.65
Administrative - Indirect (Administrative Costs)	\$568,561.03	\$825,698.56	0	\$1,394,259.59
Part III 360 Report				
Case-related ALJ Hours Not Billed to Agencies ^a	0	3,002.35	0	3,002.35
Non-case-related ALJ Time	513.70	8,114.25	9,442.60	18,070.55
^a ALJ is Administrative Law Judge.				

Allocation Methodologies

The State Office of Administrative Hearings (SOAH) uses different methodologies to allocate direct, indirect, and administrative costs among funds in its accounting, budgeting, and reporting processes. None of the methodologies accurately allocates actual costs among the methods of financing. To determine the actual costs of each category, auditors recalculated each category in the *Hearings Activity Report* for September 1, 2010, through August 31, 2011, using data from SOAH's timekeeping system and Uniform Statewide Payroll/Personnel System (USPS).

Table 7 lists the total costs for fiscal year 2011 that SOAH reported in its internal accounting system, *Hearings Activity Report* for September 1, 2010, through August 31, 2011, and its budget for the 2010-2011 biennium. It also lists cost totals calculated by auditors.

Table 7

Amounts Reported in SOAH's Various Systems and Reports and Auditors' Calculation of Costs For Fiscal Year 2011				
Method of Finance	Internal Accounting System	<i>Hearings Activity Report</i>	Budget	Auditors' Calculation
Fund 0001				
General Revenue	Not Available ^a	\$ 3,046,073	\$ 3,446,553	\$ 3,253,518
Interagency Contracts	Not Available ^a	3,332,585	3,396,215	3,552,037
Appropriated Receipts	127,435	Not Available ^b	150,000	127,435
Totals for Fund 0001	\$ 7,142,301	\$ 6,378,658	\$ 6,992,768	\$ 6,932,990
Totals for Fund 0006	\$ 3,778,088	\$ 4,541,731	\$ 3,239,763	\$ 3,987,399
Grand Totals	\$10,920,389	\$10,920,389	\$10,232,531	\$10,920,389
^a SOAH does not capture this level of information in its internal accounting system.				
^b SOAH does not capture this level of information in its <i>Hearings Activity Report</i> .				

Sources: SOAH's internal accounting and timekeeping systems; SOAH's *Hearings Activity Report* for September 1, 2010, through August 31, 2011; SOAH's budget for the 2010-2011 biennium; and data from USPS.

SOAH's Management Response

State Office of Administrative Hearings



Cathleen Parsley
Chief Administrative Law Judge

**Management Responses of the
State Office of Administrative Hearings
to the Audit Report on
SOAH's Selected Financial Controls
June 6, 2012**

Overall Management Response

The State Office of Administrative Hearings (SOAH) appreciates the work and the courtesy of the auditors of the State Auditor's Office in conducting the audit of SOAH's selected financial controls.

In 2012, SOAH celebrates twenty years as the state's central hearings panel and neutral and independent administrative forum. We will accept most of the recommendations made by the auditors, contingent on any necessary funding, so that SOAH is in the best possible position to go forward into the next twenty years.

That said, it is important to state several fundamental and critical points in SOAH's behalf.

SOAH is, and has always been, mindful that it is a steward of the public funds appropriated to it by the Legislature, and for twenty years it has endeavored—successfully—to be a good and trustworthy steward of those funds. We know where every appropriated dollar is and where it goes, and we take profound issue with any contrary implication. SAO has recommended that we allocate and account for our resources differently, a recommendation we will accept. Ultimately, however, it is undisputed that our total expenses stated in the Hearings Activity Report (HARP), which was audited, are correct.

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Just as we know where every dollar of our funding is allocated or spent, we know the status of our resources at any time. It is simply not the case that our financial systems and methodologies put us at risk of not knowing if or when SOAH might run short of funds.

We also dispute any implication that in creating a budget, our process is insufficient. Our budgeting process has multiple steps, beginning with the gathering of information in the form of projections from the referring agencies and entities and expenditure data from our own databases. We then analyze all the information and craft a comprehensive cost-based budget based on three methods of finance. The auditors have acknowledged that the information-gathering component of the process is reasonable. They part company with us on what we do with the information, contending that the budget is not comprehensive or accurate, that we should have a more detailed and formal process for its construction, and that we should base it on four methods of finance. Again, we accede to the recommendation to have a more detailed and formal process, and we will allocate revenues and costs among four methods of finance. However, we want to be very clear that our current process creates a comprehensive, transparent, and thoroughly accurate budget.

On this point, we also note that SOAH operates within real-world limitations such as the Legislative Appropriations Request instructions, directions of the Legislature as codified in statute and the General Appropriations Act (GAA), and interagency contract negotiations with referring agencies. For example, the LAR instructions for at least the last two biennia directed agencies not to request appropriations from Fund 006 that exceeded amounts estimated for the preceding fiscal year and budgeted for the current fiscal year. SOAH has taken that instruction seriously and complied with it. Consequently, even if we had used the more detailed system recommended by the auditors, our budget request for Fund 006 would have been the same. Likewise, our hourly billing rate is \$100 per hour, as established in our Rider 7a in the GAA. While SOAH could propose and in all likelihood support a higher hourly rate, it has made strategic decisions not to do so in light of the budget constraints under which its referring agencies have been operating. Moreover, any change in the hourly rate would require legislative approval.

The accounting systems and methodologies recommended by the auditors will indubitably require additional budgeting and accounting processes, hundreds if not thousands more entries and inputs, and more personnel time on the administrative side of the agency. We absolutely recognize and understand that a vital part of good stewardship of the state's money is to account for it accurately and completely, and we will continue to do that in the systems we implement as a result of this audit. However, we would be remiss if we did not note that the changes will come with increased administrative costs that have the potential to detract from the mission work of the agency.

HARP became a requirement in 1997 when SOAH was a small and relatively new agency with one method of finance. Over time, SOAH was required to report more information in HARP. Meanwhile, SOAH's funding became more intricate. Thus, what began as a

relatively simple report for an agency with one method of finance has of necessity become more extensive and the programming for it more complicated. HARP is adequate to fulfill its purpose, and it effectively captures costs and allocates them in a reasonable and acceptable manner. We also note that, in addition to calculating total expenditures correctly, its calculation of a rate of \$140 per hour for Fiscal Year 2011 is not far afield from the auditors' calculation of \$125 per hour. Nevertheless, in order for HARP to meet SOAH's needs now and into at least the near future, and in order for it to allocate costs at the level of detail recommended by the auditors, it needs to be completely dismantled and rebuilt.

SOAH's detailed responses to each item are below.

Chapter 1-A Management's Response

SOAH strongly disagrees that it does not develop a budget based on the costs of services the agency provides. We undertake a multi-step process by which a comprehensive cost-based budget based on three methods of finance is developed, encompassing all agencies served by SOAH. This is achieved through an interactive process initiated by the Chief ALJ sending letters to every referring agency in all applicable methods of finance (interagency contract (IAC), GR, and Fund 006) requesting workload projections for the coming biennium. The letters include summaries of historical use and an annualization of the present year's workload. SOAH then incorporates agencies' responses in its overall workload projections, subtotalling each projection based on the applicable method of finance, thereby generating a SOAH-wide total. The results are then reflected in a workload projection spreadsheet and expenditure budget spreadsheet.

We believe our longstanding and consistent approach to this issue is a generally acceptable practice and is both transparent and appropriate. We respectfully note that the reasonableness of our historical approach is further supported by real-world challenges that SOAH must work with, including LAR instructions not to seek additional Fund 006; the ramifications of requesting an increase in our approved IAC billing rate, in light of significant budget limitations experienced by all of SOAH's referring agencies; and additional jurisdiction given to SOAH without allocation of corresponding funds.

SOAH acknowledges that it has not historically separated interagency contract and general revenue costs within Fund 001. We agree to implement a more detailed cost allocation based on all four of SOAH's present methods of finance. To determine the funding we need to provide the projected level of service for each agency, we will apply our actual historical costs to the projected workload falling within each method of finance.

In summary, while SOAH respects and will support the need to adopt a budget methodology that will identify projected revenues and expenditures by each method of finance,

we take strong issue with the assertions that our budget methodology has not been comprehensive and has not reasonably projected costs.

Timeline: Completed by August 31, 2012

Person responsible for implementing changes: Chief Fiscal Officer

Chapter 1-B Management's Response

SOAH accepts the recommendation to allocate costs in the more detailed manner prescribed in the audit report. However, we strongly disagree that our current allocation of expenditures is not materially accurate. While our allocation methods are less detailed, they have accurately tracked and reported all expenditures.

SOAH presently allocates budget costs based on a historic trend of the ALJs' workloads. However, because there is a large difference in the percentages of work performed by Austin ALJs and field office ALJs between the general docket (GR and interagency contract) and the ALR dockets (Fund 006), SOAH does not average the ALJs' workload on an agency-wide basis. SOAH contends that it is more equitable to separately allocate workload percentages of the Austin ALJs and the field office ALJs. This allows SOAH to determine costs related to three revenue sources (albeit without separating interagency contract and general revenue costs within Fund 001), thereby enabling SOAH to reasonably project future revenue needs and to monitor and evaluate the overall budgetary impact of changes within the different methods of finance.

In the second half of the fiscal year, SOAH's CFO performs an ongoing and real-time analysis and evaluation of the actual and projected allocation percentages for SOAH's workload. This allows her to determine whether fiscal allocation adjustments are necessary and to make recommendations to the Chief ALJ for review, discussion, and necessary approval of any expenditure transfers.

In summary, we believe SOAH's existing process is a generally accepted and reasonable approach, requiring fewer resources (fewer budgeting and accounting processes and transactions, and less personnel time) than that recommended in the draft audit report. Under either approach, however, the total expenditures reported are accurate. Nevertheless, SOAH agrees to implement the recommendations.

Timeline: Completed by December 31, 2012

Person responsible for implementing changes: Chief Fiscal Officer

Chapter 1-C Management's Response

SOAH agrees to formalize and document its policies and procedures for the budgeting process. However, it notes that the Chief ALJ and the CFO work closely to ensure that SOAH's budgeting processes produce accurate budgets that reflect the constraints under which SOAH operates.

SOAH acknowledges but respectfully disagrees with the finding that its interagency contract with TCEQ does not comply with the GAA. The current GAA specifies a funding level of \$1,000,000 per year. It further provides, "If SOAH determines, at the end of each fiscal year, that the amount paid under the contract exceeds the funding necessary for the Natural Resources Division, it shall refund the difference." Likewise, if SOAH determines this amount is insufficient, it may renegotiate the contract with TCEQ and seek additional funding.

For many years, the contract negotiated between TCEQ and SOAH has allowed for a 20% variance in workload in either direction before amounts billed under the contract must be refunded or additional funding may be sought. The contract provides that, if the 20% threshold is not reached, "[T]he funding provided by this contract shall be deemed appropriate and sufficient for services provided by SOAH. . . ."

This negotiated approach provides increased certainty to both parties while allowing for adjustments if actual workload is significantly different than that projected. We believe the agreement that funding is deemed adequate within the 20% threshold is consistent with the GAA requirement that a refund be made "if the amount paid under the contract exceeds the funds necessary for the Natural Resources Division." It is a common sense approach to identifying the "funds necessary" that increases stability and reduces bureaucracy. However, in accordance with the audit recommendation, SOAH will either seek clarification in its TCEQ funding rider or will endeavor to renegotiate the contractual language with TCEQ.

Timeline for documented policies: Completed by December 31, 2012

Person responsible for implementing changes: Chief Fiscal Officer

Timeline for contract language: September 31, 2012; June 1, 2013 if SOAH seeks rider clarification

Person responsible for implementing changes: General Counsel

Chapter 2-A Management's Response

SOAH will adopt the three recommendations in the audit report. Going forward and subject to approval of applicable measures source/collection of data, SOAH will rely exclusively on Lotus Notes-Hearings. Because of SOAH's past experience, it will use an SQL server to take a nightly snapshot of Lotus Notes-Hearings to capture ALR cases received and disposed. This will allow SOAH to run queries from SQL data, identify duplicate entries, and report them to DPS. SOAH believes that, if DPS uses this data to true up its data base, some of the historical inaccuracies will be eliminated.

SOAH will submit an amendment to the State Library modifying our record retention policy as recommended.

SOAH's intent has always been to report administrative fine cases in which a monetary fine was recommended, as required by our measures. Accordingly, SOAH will revise its HARP definition consistent with this intent.

SOAH acknowledges that ALJs did not bill on 1,172 ALR cases disposed in 2011. These cases were almost all simple dismissal orders which require little time to complete, typically less than six minutes per case. Nevertheless, the ALJs should bill for all time spent on them, and SOAH has implemented new procedures to ensure this occurs.

The vast majority of the 567 ALR cases with final order time billed more than once in Lotus Notes-Time are accurate. This routinely occurs because a second final order is issued when motions to set aside defaults are granted and the case is re-heard. It may also occur when a case is appealed and remanded to SOAH. Nevertheless, SOAH acknowledges occasional duplicate entries on its more than 35,000 ALR cases a year and has implemented new procedures effective May 1, 2012, to address this issue.

SOAH notes that the third column of Table 2 demonstrates a misleading compounding effect resulting from a single mathematical formula. The first two rows of the table indicate four inaccurate reports out of a possible six, when in fact there were only two. Thus, any finding in the third column repeats an adverse finding from the first two columns. Removing the unnecessary third column leaves eight "Accurate" findings and only two "Inaccurate" findings. And as noted above, the two "Inaccurate" findings are associated with a single mathematical calculation.

While we acknowledge the error identified by SAO in the pending cases total, we note that the number of pending ALR cases is not a measure or even a statutorily required element of HARP, and it does not impact any required elements of that report.

Timeline for maintaining a list of all ALR cases and reporting to DPS: Completed by July 31, 2012

Person responsible for implementing changes: Information Resources Manager

Timeline for retaining support: Completed by July 1, 2012

Person responsible for implementing changes: Docketing Manager

Timeline for ensuring all categories in HARP are consistent and in accordance with definitions, including new time entry software: Completed by December 31, 2012, contingent upon cost, funding, and resources.

Person responsible for implementing changes: Assistant to the Chief for Direct Hearing Support

Chapter 2-B Management's Response

SOAH believes that HARP is adequate to fulfill its purpose. HARP currently captures actual costs and allocates them in a generally accepted and appropriate manner, although not at the level of detail recommended in the audit. There are six categories in HARP reporting SOAH's total expenditures. SAO acknowledges that the total of these categories is accurate, but it disputes SOAH's allocations within the categories. Because the categories are interrelated, when one category is incorrect it follows that multiple categories will be affected. Therefore, when SAO disputes SOAH's cost allocation, it appears, as in Chapter 2-A, that there are multiple concerns over SOAH's methodology, when, in fact, these concerns all derive from our different approach to allocating costs. SOAH's approach indisputably adds up to a correct total. Nevertheless, management agrees to reprogram and rebuild HARP to produce a report that is more reflective of costs at the recommended level of detail.

Using SAO's methodology, SOAH concurs that it may be recovering slightly less than its expenses in conducting hearings referred from the Comptroller of Public Accounts. SOAH's contract amount is negotiated with the Comptroller, and we will address this issue in upcoming contract negotiations. GAA SOAH Rider 9; Texas Gov't Code Section 2003.105.

When HARP was created, paralegal time was not billed. Thus, their salaries were allocated to indirect costs. The amount of paralegal time presently billed is only 0.2 percent of SOAH's total billed hours. Therefore, SOAH believes it is reasonable and not inaccurate to simplify the calculation by allocating their salaries to indirect costs. However, we are amenable to allocating to direct costs the small portion of their salaries attributable to billed time.

Timeline: Completed by November 30, 2012

Person responsible for implementing changes: Chief Fiscal Officer

Chapter 2-D Management's Response

SOAH is providing consistent and accurate information about hearing-related costs to agency management, the Legislative Budget Board, Office of the Governor, and the Legislature so they can make informed planning and funding decisions. As explained in SOAH's response in Chapter 1-B, we believe SOAH's existing process is a generally accepted and reasonable approach, requiring fewer resources and producing accurate total expenditures. Nevertheless, SOAH is amenable to developing and implementing a single allocation methodology consistent with SAO's recommendation, subject to resources and funding.

Timeline: Process will begin September 1, 2012

Person responsible for implementing changes: Chief Fiscal Officer

Chapter 3-A Management's Response

SOAH recognizes the shortcomings and lack of integration of its two timekeeping systems and concurs that a more comprehensive, efficient, and integrated system is desirable, subject to funding. Software solutions that would address these issues have historically been cost prohibitive and unworkable for SOAH's needs. Several times in the last ten years, SOAH has explored both in-house programming and other off-the-shelf solutions without success. SOAH is again evaluating available solutions.

We began with TimeSlips, which is an off-the-shelf product that worked well when SOAH had a single funding source. SOAH's financing has become more complex over time, and SOAH's present four methods of finance are not compatible with the limitations of the system. SOAH has addressed these limitations as best it can with manual intervention and custom development.

With the implementation of the ALR program in 1995, SOAH was required to coordinate with DPS on the scheduling of cases in Lotus Notes-Hearing. Because the format of DPS docket numbers is incompatible with TimeSlips, SOAH was required to develop a separate timekeeping system for ALR that would accommodate the format (Lotus Notes-Time).

SOAH acknowledges that ALJs did not bill on 1,172 ALR cases disposed in FY 2011. These cases were almost all simple dismissal orders which require little time to complete, less than six minutes per case (totaling approximately 117 hours). Nevertheless, the ALJs should bill for all time spent on them, and SOAH has implemented new procedures to ensure this occurs.

The vast majority of the 567 ALR cases with final order time billed more than once in Lotus Notes-Time are accurate. Second final orders are routinely issued when motions to set aside defaults are granted and the cases are re-heard. It may also occur when cases are appealed and remanded to SOAH. Nevertheless, SOAH acknowledges occasional duplicate entries on its more than 35,000 ALR cases per year and has implemented new procedures effective May 1, 2012, to resolve this issue. Again, SOAH intends to change its records retention policy so that the supporting documentation remains available for the appropriate period.

In summary, SOAH has re-emphasized to ALJs and the team leaders the need for careful and thorough timekeeping and review of time recorded. It has already implemented new procedures, including a requirement of more frequent submission of billed time for entry into the time-keeping data bases. All time is reviewed by both the ALJ and the team leaders. As SOAH seeks new software to replace TimeSlips and Lotus Notes-Time entry programs, we are reviewing options to automate and improve the accuracy and efficiency of this process.

Timeline: Refresher training on timekeeping and a review of software options by August 31, 2012; implementation date for new software dependent upon costs and funding

Person responsible for implementing changes: General Counsel

Chapter 3-B Management's Response

SOAH agrees with all of the recommendations in Chapter 3-B regarding information technology controls, and the following recommendations have been resolved:

- Implementing security within systems to help ensure that appropriate access restrictions and adequate segregation of duties are in place.
- Ensuring that employees have the minimum rights necessary to perform their designated job duties.
- Modifying or removing access to SOAH applications as needed when a user's job duties or assignments change.
- Implementing access rights that support a proper segregation of duties.

Timeline: Subject to funding, SOAH expects to update its outdated software by September 1, 2013

Person responsible: Information Resources Manager

With respect to the final recommendation relating to security understanding and documentation, SOAH's IR Manager was designated IRM on October 17, 2011. He has quickly gained an understanding of the security roles and permissions for all applications in use.

Timeline: SOAH will document security roles and permissions by August 31, 2012

Person responsible: Information Resources Manager

Chapter 4 Management's Response

While SOAH has policies and procedures in place relating to the issues addressed in this recommendation, we agree that they should be reviewed and revised.

Timeline: Ongoing

Person responsible: Chief Fiscal Officer, Information Resources Manager, Assistant to the Chief for Direct Hearings Support

Related State Auditor's Office Work

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Number	Product Name	Release Date
06-063	An Audit Report on the State Office of Administrative Hearings	August 2006

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