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An Audit Report on

Financial Processes at the Commission on Environmental Quality

May 2022
Report No. 22-030



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Overall Conclusion

The Commission on Environmental Quality (Commission) had financial processes to ensure that its Office of Air, Office of Waste, and Office of Water (Offices) accurately billed, collected, and recorded fees for permits, registrations, and regulatory assessments in accordance with applicable agency and statutory requirements. The Commission also performed reconciliations between its accounts receivable system and the Uniform Statewide Accounting System to verify that it accurately recorded fee transactions.

In addition, the Commission had processes to help ensure that (1) access to selected financial systems was limited to current employees and (2) programming changes to certain systems were appropriate. However, the Commission should strengthen security controls over certain information systems. To minimize security risks, auditors communicated details and recommendations about those audit findings separately to the Commission in writing. The Commission agreed with the findings and asserted that it would implement corrective actions.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating ^a
1	The Commission Accurately Billed, Collected, and Recorded Regulatory Fees	Low
2-A	Program Changes and Certain User Access Controls for Selected Financial Systems Were Appropriate	Low
2-B	The Commission Should Strengthen Certain Security Controls	High
<p>^a A chapter/subchapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.</p> <p>A chapter/subchapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.</p> <p>A chapter/subchapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.</p> <p>A chapter/subchapter is rated Low if the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.</p>		

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

For more information regarding this report, please contact Willie Hicks, Audit Manager, or Lisa Collier, State Auditor, at (512) 936-9500.

Pursuant to Standard 9.61 of the U.S. Government Accountability Office's *Government Auditing Standards*, certain information was omitted from this report because that information was deemed to present potential risks related to public safety, security, or the disclosure of private or confidential data. Under the provisions of Texas Government Code, Section 552.139, the omitted information is also exempt from the requirements of the Texas Public Information Act.

Audit Objective and Scope

The objective of this audit was to determine whether the Commission has processes and related controls to help ensure that it administers financial transactions in accordance with applicable requirements.

The scope of this audit covered the fees that the Commission collected from issuing licensing, permits, and regulatory assessments by its Offices from September 1, 2019, through August 31, 2021. The scope also included a review of significant internal control components related to the Commission's revenue activities.

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Detailed Results

Chapter 1

The Commission Accurately Billed, Collected, and Recorded Regulatory Fees

**Chapter 1
Rating:**

Low ¹

The Commission on Environmental Quality's (Commission) financial processes ensured that its Office of Air, Office of Waste, and Office of Water (Offices) accurately billed, collected, and recorded fees for permits, registrations, and regulatory assessments in accordance with applicable agency and statutory requirements. From September 1, 2019, through August 31, 2021, the Offices collected \$605.8 million in fees (see text box for more information on the fees collected).

Fees were accurately billed and collected.

Auditors tested a sample of 86 fee transactions totaling \$5.2 million² that the Commission collected from September 1, 2019, through August 31, 2021, and determined that the Commission had adequate controls over its billing and collection processes for the Offices. Specifically, the billing and collection processes tested supported that the Offices:

- Accurately assessed billed fees in accordance with applicable program requirements.
- Recorded fees collected in the Commission's accounts receivable system.
- Accurately assessed and collected fees for late payment when required.

Fees Collected

Regulatory fees that the Commission collects for its Offices are categorized as follows:

- **Bill/Pay Fees** — A regulated entity is billed based on the Commission's fee schedule. The entity does not pay until a bill has been received.
- **Self-Report/Self-Pay Fees** — A regulated entity submits a report, application, or form and sends a payment for the estimated amount owed.
- **Self-Report/Bill Pay Fees** — A regulated entity submits a report, application, or form without payment. The Commission bills the entity based on reported data. The entity does not pay until a bill has been received.

Source: The Commission.

¹ The risk related to the issues discussed in Chapter 1 is rated as **Low** because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

² The sample included (1) 30 billed fees by the Office of Air totaling \$743,090; (2) 30 billed fees by Office of Waste totaling \$71,765; and (3) 26 billed fees by the Office of Water totaling \$4,350,954. Of these 86 billed fees, 75 were randomly selected and 11 were selected based on risk.

The Commission reconciled its accounts receivable system to the Uniform Statewide Accounting System (USAS).

Auditors verified that the Commission reconciled its accounts receivable system to USAS each quarter as required by Commission policy. Specifically, for the eight quarterly reconciliations the Commission performed from September 1, 2019, to August 31, 2021, it reviewed the accuracy and completeness of the fee transactions recorded in USAS.

The Financial Systems Tested Had Appropriate Internal Controls; However, the Commission Should Strengthen Certain Security Controls

Chapter 2-A

Program Changes and Certain User Access Controls for Selected Financial Systems Were Appropriate

**Chapter 2-A
Rating:**
Low ³

The Commission had adequate controls over programming changes and over user access to certain systems. Specifically:

- **Programming changes tested complied with the Department of Information Resources' requirements.** All 10 programming changes to the Commission's billing systems tested and all 8 programming changes to the accounts receivable system tested were authorized, approved, documented, and implemented by employees different from the employees who developed the program change. The programming changes were implemented from September 1, 2019, to August 31, 2021.
- **User accounts and their access rights were appropriate.** The Commission's user accounts to its accounts receivable system and USAS were assigned to current employees. Additionally, the access rights assigned to those user accounts were reasonable based on their job duties.

Chapter 2-B

The Commission Should Strengthen Certain Security Controls

**Chapter 2-B
Rating:**
High ⁴

The Commission should strengthen certain controls to help protect its data from unauthorized changes. To minimize security risks, auditors communicated details about the audit findings separately to the Commission in writing.

The Commission agreed with the findings and asserted that it would implement corrective actions.

Pursuant to Standard 9.61 of the U.S. Government Accountability Office's *Government Auditing Standards*, certain information was omitted from this report because that information was deemed to present potential risks related to public safety, security, or the disclosure of private or confidential data.

³ The risk related to the issues discussed in Chapter 1 is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

⁴ The risk related to the issues discussed in Chapter 2-B is rated as High because they present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

Under the provisions of Texas Government Code, Section 552.139, the omitted information is also exempt from the requirements of the Texas Public Information Act.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the Commission on Environmental Quality (Commission) has processes and related controls to help ensure that it administers financial transactions in accordance with applicable requirements.

Scope

The scope of this audit covered the fees that the Commission collected from issuing licenses, permits, and regulatory assessments by its Office of Air, Office of Waste, and Office of Water (Offices) from September 1, 2019, through August 31, 2021. The scope also included a review of significant internal control components related to the Commission's revenue activities (see Appendix 3 for more information about internal control components).

Methodology

The audit methodology included reviewing relevant criteria, interviewing Commission staff, and testing and analyzing fees. Auditors also performed a review of selected general and application controls over the Commission's accounts receivable and billing systems. In addition, during the audit, matters not required to be reported in accordance with *Government Auditing Standards* were communicated to Commission management for consideration.

Data Reliability and Completeness

To assess the reliability of the data set extracted from the Commission's accounts receivable system as it related to assessed fees, auditors (1) reviewed the query used to produce the data set, (2) analyzed the data set for reasonableness and completeness, and (3) reconciled the data set with the Uniform Statewide Accounting System (USAS).

Auditors determined that the data set was sufficiently reliable for the purposes of this audit.

Auditors also assessed the reliability of data on program changes to selected financial systems, which the Commission tracked using a spreadsheet. Auditors determined that the data was of undetermined reliability for purposes of this audit. However, auditors used the data because it was the

best available source of data on program changes on the selected financial systems.

Sampling Methodology

To test the Commission's billing and collection process for regulatory fees, auditors used random selection and stratification by Office to obtain nonstatistical samples of 86 fee transactions from a population of 208,933, for the Offices. Auditors also selected items for testing based on risk. The sample designs were chosen to address specific risk factors identified in the population, such as dollar amount and fee type. The sample items were not necessarily representative of the populations; therefore, it would not be appropriate to project the test results to the population.

To assess the Commission's user access and change management processes for selected applications in its billing system, auditors selected random samples of (1) 25 users from a population of 362 and (2) 9 programming changes from a population of 60. The sample items were not necessarily representative of the populations; therefore, it would not be appropriate to project the test results to the populations.

Information collected and reviewed included the following:

- The Commission's population of assessed and collected fees.
- Fee documentation, including invoices, customer information, basis forms, and inspection reports.
- User access and change management data for the Commission's accounts receivable and billing systems.
- Statutes, rules, guidelines, and operating procedures relevant to the Commission's fee assessment and collection processes.

Procedures and tests conducted included the following:

- Interviewing the Commission's management and staff.
- Analyzing data related to the Commission's assessment and collection of fees.
- Testing fees for compliance with Commission policies, rules, and applicable statutes.
- Testing certain general controls for the Commission's accounts receivable system and billing systems.

- Testing user access to the Commission's accounts receivable system, billing systems, and USAS.

Criteria used included the following:

- Title 30, Texas Administrative Code, Chapters 30, 101, 106, 116, and 290.
- Texas Health and Safety Code, Chapters 361, 370, and 374.
- Texas Water Code, Chapters 7 and 26.
- Commission policies and procedures.
- The Department of Information Resources' *Security Control Standards Catalog*, Version 1.3.

Project Information

Audit fieldwork was conducted from August 2021 through April 2022. 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. Those standards also require independence in both fact and appearance. During the audit, legislative funding was vetoed. This condition could be seen as potentially affecting our independence in reporting results related to this agency. However, we proceeded with this audit as set forth by the annual state audit plan, operated under the Legislative Audit Committee.

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

- Link Wilson (Project Manager)
- Jennifer Fries, MS Accounting (Assistant Project Manager)
- Michael Bennett
- Alex Lerma, MAcc
- Kevin Mack
- Jeremy Wong
- Brenda Zamarripa, CIA, CGAP
- Mary Ann Wise, CPA, CFE (Quality Control Reviewer)
- Willie Hicks, CIA, MBA, CGAP (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgment and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Internal Control Components

Internal control is a process used by management to help an entity achieve its objectives. The U.S. Government Accountability Office's *Government Auditing Standards* require auditors to assess internal control when internal control is significant to the audit objectives. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) established a framework for five integrated components of internal control, which are listed in Table 3.

Table 3

Internal Control Components	
Component	Component Description
Control Environment	The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
Risk Assessment	Risk assessment is the entity's identification and analysis of risks relevant to achievement of its objectives, forming a basis for determining how the risks should be managed.
Control Activities	Control activities are the policies and procedures that help ensure that management's directives are carried out.
Information and Communication	Information and communication are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
Monitoring Activities	Monitoring is a process that assesses the quality of internal control performance over time.

Source: Internal Control - Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, May 2013.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
The Honorable Dade Phelan, Speaker of the House, Joint Chair
The Honorable Joan Huffman, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable Greg Bonnen, House Appropriations Committee
The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Commission on Environmental Quality

Members of the Commission on Environmental Quality
 Mr. Jon Niermann, Chairman
 Mr. Bobby Janecka
 Ms. Emily Lindley
Mr. Toby Baker, Executive Director



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