FINANCIAL MANAGEMENT PRACTICES

The Department of Regulation and Licensing is responsible for credentialing and regulating various professions and occupations in Wisconsin. It provides centralized administrative services and policy coordination for 23 state occupational licensing boards. Currently, the Department and licensing boards are responsible for regulating 72 professions and 23 types of business establishments. The Department operations are funded with program revenue generated by license and examination fees. In fiscal year (FY) 1997-98, the Department collected $11.4 million in revenues and spent $8.4 million to carry out its activities.

We have completed a fiscal audit of the Department as part of our responsibilities under s. 13.94, Wis. Stats. The primary focus of our audit was to review the Department's fiscal operations and administrative activities to ensure these activities are well controlled and in compliance with statutory requirements. Overall, we found the Department has appropriate fiscal policies and procedures in place, and is taking steps to prepare itself for Year 2000. However, we did identify several areas in which the Department could improve its fiscal operations.

Program Change Controls

Controls over changes or creation of new programs, and documentation of the changes, are necessary to ensure the integrity of the computer programs run by the Department to track examination scores, application status, renewal deadlines, and the status of claims brought against licensed individuals. Without controls over program changes, an increased risk exists that erroneous or unauthorized computer program changes could occur. We identified three areas of concern in the Department's program change controls.

First, user requests and subsequent approvals are not formally made or documented. Formal written requests and approvals are important to document management's approval of the requested changes.

Second, there are no written guidelines for ensuring that program changes are made consistently among different programmers, and no formal documentation is required to be prepared by the programmers when changes are made. Adequate documentation helps to ensure that changes can be easily identified, tracked, and understood by future programmers.

Third, programmers making program changes move programs back into production without formal supervisory review. To ensure that all program changes are legitimate and to prevent unauthorized changes, someone who has not made changes to a particular program should be responsible for placing a tested program back into production after testing is completed. No log is maintained of program changes to provide for formal supervisory oversight of system changes.

Although the Department does not support an accounting system independent of the central accounting system, unauthorized changes to its systems could result in inappropriate licensure decisions or the disruption of operations if portions of its data are intentionally deleted by the changes. To adequately control program changes to ensure that only legitimate changes are

made, *we recommend the Department of Regulation and Licensing improve its controls over program changes by*:

- *developing standard written program change procedures;*

- *retaining written documentation of all user-requested program changes and subsequent user acceptance of changes;*

- *requiring independent review of changes and movement of programs and applications back into production; and*

- *retaining a log of all program changes and documenting specific changes that were made.*

> Agency Response: The Department will develop a policy and procedure to use to implement program changes in its production system computer programs. The process will include approval of the changes, including initial approval of the change by a division administrator who will complete a request form to initiate the change. Once the requesting division is satisfied with testing of the program changes, the program will be moved to the production system and changes will be documented. The Department also will develop a procedure to be used for emergency changes so that the normal process can be bypassed. The Department will also retain a log of all program changes and documentation of specific changes that are made.

Disaster Recovery and Business Resumption

A disaster recovery plan is a comprehensive framework formulated to give direction in the event of an emergency affecting computerized systems. Business resumption planning involves the coordination of efforts to establish a working office to continue its designated function for the State. Both disaster recovery and business resumption are critical for the continuance of any operation. Although the Department completes regular backups of its local area network to protect against the loss of data, there is little emphasis on protecting other facets of the Department's business functions or on what is necessary to accomplish business resumption if a disaster should occur. Therefore, in an event of an emergency, the programs administered by this agency may be unavailable for an extended period of time.

A formal plan is needed to ensure that the necessary steps involved in the resumption of business are considered, assigned, and communicated. Therefore, *we recommend the Department of Regulation and Licensing assign a disaster recovery and business resumption coordinator to lead the development of a formal plan for disaster recovery and business resumption, which, at a minimum, assesses equipment, software, and forms necessary to complete the Department's functions as well as developing a way to inform its employes and the public of alternative locations of operations. Further, we recommend the Department develop specific recovery tasks and assign them to responsible staff for each need identified from this assessment*.

Agency Response: The Department will establish a Committee on Disaster Recovery and Business Resumption. The Secretary will appoint members from each unit within the agency and request that they report their recommendations to her in six months. The Department will have a plan in effect within eight to nine months.

Segregation of Duties

In any fiscal area, the segregation of authorization, recording, and custody functions is an important internal control to detect or prevent misappropriation of agency assets. Without such separation, an individual could adjust the records to conceal stolen cash and checks and prevent timely detection. In the case of the Department, we are concerned with the segregation of duties in three fiscal areas.

First, a staff member in the Office of Renewal is able to accept cash and checks for renewals, issue receipts, and update information in the credential holder system. With access to the credential holder system, this person could retain cash or checks received and generate licenses to be sent to the credential holders, who would not raise questions if they received their licenses.

Second, six staff members in the professional bureaus have the ability to initiate payments and also control the mailing of checks. With access to the checks, these staff members could initiate and misappropriate fictitious refund checks.

Third, the Department has one payroll specialist to add, modify, and delete employe information without an independent review of payroll checks generated. Without appropriate segregation of duties, misappropriation and subsequent concealment of payroll checks could occur. We recognize that having only one individual responsible for payroll processing limits the Department's ability to provide for optimal segregation of duties. However, more independent review of the payroll function could provide necessary control.

To ensure controls are in place to prevent or detect theft, *we recommend the Department of Regulation and Licensing take steps to*:

- *segregate the responsibility for receiving cash and checks from the responsibility or ability to record renewal revenues in the credential holder system;*

- *remove the ability for those who initiate refunds to control the mailing of checks; and*

- *provide additional review of the payroll function, which may include more formal review and authorization of the payroll register and periodic review of the payroll checks to ensure that only authorized payroll checks are generated and distributed*.

Agency Response: The Department agrees to implement procedures that require:

- staff who accept cash or checks in the Office of Renewal to secure the cash and checks until a different designated staff person can key in the receipt and update the credential holder system;

- the Fiscal Office to mail out all refund checks initiated from the professional bureaus;

- a staff person who serves as a backup to payroll to perform a biweekly review of the payroll checks to ensure that no unauthorized checks have been generated and to prepare the checks for distribution. If the staff person is not available, her supervisor or the Deputy Secretary will perform a random audit of checks to ensure their authorization.

Refund Processing

The Department processes refunds on a regular basis; over one-half of the approximately 4,000 payments made by the Department are refunds. Refunds are granted for overpayments of renewal fees; the withdrawal, nonacceptance, or incorrect payment of an application for licensure; and other miscellaneous payments received in error. The large volume of refund transactions largely result because application fees are immediately receipted and deposited by the Office of Renewals, while processing of the applications and supporting documentation by the various professional bureaus may take several days.

Refunds may represent an area of increased risk for fictitious or improper payments unless control procedures are in place to ensure proper documentation is prepared and independently reviewed before refund payments are authorized. Although approvals are applied by an independent fiscal office, the effectiveness of the review is likely to be limited because the Department does not require standard documentation to support the refunds and, as a result, supporting documentation varies significantly by bureau or office. In some cases, we found that no documentation was forwarded to the fiscal office for refund approval. In other cases, explanations for refunds were provided, but no underlying documentation to support their legitimacy was forwarded to the fiscal office.

Further, the lack of a centralized system to process or track a large volume of refunds the Department issues increases the risk that duplicate refunds may be paid. While testing refunds,

we identified two instances where duplicate refunds were made. Fortunately, the duplicate payments we found were for relatively small amounts; however, the potential exists for the payment of larger duplicate refunds. To better control the refund process and ensure that only appropriate refunds are paid, *we recommend the Department of Regulation and Licensing establish standard documentation requirements for refunds and consider tracking procedures to ensure duplicate refund payments are not made.*

> Agency Response: The Department has already initiated procedures to track refunds so that duplicate payments are not made. It will establish standard documentation requirements for refunds.

Fixed Assets Inventory

Agencies need to maintain accurate and current fixed asset inventory records in order to adequately safeguard the State's assets and to accurately report fixed assets for financial reporting and risk management purposes. During our audit, we identified several concerns involving the recording and control over the Department's fixed assets. Specifically, we found that the Department:

- does not maintain complete or current inventory records. Department staff could not locate four of six items we tested from the Department's inventory records. Further, surplus items are not consistently documented or removed from the inventory records and financial information for data processing equipment is not maintained;

- has limited documentation supporting the amount of fixed assets reported for the State's Comprehensive Annual Financial Report (CAFR), which was reported as $1 million for FY 1996-97. Further, the Department does not account for the disposal of assets in its estimate. Consequently, we question the accuracy of the fixed asset balance the Department reports for CAFR purposes; and

- is not conducting annual physical inventories of its assets; the last physical inventory conducted by the Department was in 1996. Further, the Department never reconciled the 1996 inventory to its inventory records to ensure that all items were located and properly accounted for.

The Department believes that a new system will help it address many of the current fixed asset concerns. However, many of the noted concerns also appeared to be a result of the low priority given to maintaining an up-to-date inventory system and completing timely physical inventories. Therefore, as part of its efforts to improve its inventory system, *we recommend the Department of Regulation and Licensing:*

- *conduct and reconcile a physical inventory of all items in the facility to its inventory records, including that of data processing equipment;*

- *retain appropriate documentation to substantiate surplused items and promptly remove the surplused items from the inventory records; and*

- *adjust the fixed asset balances reported for financial reporting purposes to an amount that is supportable by the physical inventory and updated inventory records and reconciles with related WiSMART transactions.*

    Agency Response: The Department plans to update its inventory policy as well as the form used to track new inventory items. It is in the process of conferring with other state agencies as to the software used for tracking inventories. Once the information has been gathered, the Department will obtain or develop a program to track inventory on its local area network system. The Department's goal is to have a new system in place by the end of FY 1998-99.

Security Over Blank Licenses

Agencies need to ensure that critical documents that could be incorrectly used are properly secured. In the case of the Department, blank licenses could be inappropriately used by individuals to represent themselves as licensed practitioners and, therefore, should be properly secured and controlled. We are concerned that the Department does not adequately secure and control blank licenses. It does not pre-number its blank licenses; consequently, stolen licenses likely would not be noticed or traceable.   Further, blank licenses are stored near the door of an office in the data processing area, which is near an entrance to the facility. Although the area is typically monitored by Department staff, we believe it would be possible to walk away with blank licenses without being noticed. While the Department does use a special font to print licenses, the general public likely would be unaware of this security feature and could rely on an unauthorized license of an unlicensed person, who could mislead or even harm them.

To maintain the integrity of its regulatory authority, *we recommend the Department of Regulation and Licensing pre-number and account for all blank licenses, and consider options for storing blank licenses in a more secure location during the day and in secured storage at night.*

    Agency Response: The Department will pre-number all blank licenses and centralize printing in its Central Services Unit. Blank licenses will be kept in a storage room during office hours and locked in a safe overnight. The Department will electronically keep track of the licenses printed and will keep a written log of all licenses destroyed because of errors or printer malfunction.

Endorsement and Logging of Checks

Important controls over the security of checks is to require immediate endorsement and logging of checks received through the mail. Immediate endorsement helps to prevent the deposit of checks by someone other than the Department, while maintaining a log of checks received by the mailroom provides a mechanism to verify that all checks are subsequently deposited as they are processed. However, similar to concerns noted in a past audit, the Department does not restrictively endorse or log checks received through the mail. Further increasing the risk of stolen checks, the mailroom is kept open during the day and, at times, may be left unattended. Opened mail, including checks, are visible to individuals walking by the mailroom.

The Department also needs to ensure that postdated checks it receives through the mail or lockbox and then stores in a safe are endorsed, logged, and subsequently accounted for when deposited. Such checks can present an increased risk for undetected theft if not properly tracked. To improve security over checks, *we recommend the Department of Regulation and Licensing immediately restrictively endorse and log checks received in the mailroom, as well as postdated checks it stores in its safe. Further, we recommend the Department take steps to secure checks in the mailroom and ensure that the checks are not visible to individuals walking by the mailroom*.

> Agency Response: The Department will restrictively endorse checks as they are opened in the mailroom. Checks will be removed from passersby and mailroom staff will be instructed not to leave checks unattended. Postdated checks will be tracked through a log until the date they are forwarded to the bank.

****