

An Audit Report of

# Small Agency Management Control Audits



Office of the State Auditor  
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# Key Points Of Report

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### Key Facts and Findings

- Weaknesses were noted in three key control areas.
  - 1) Weak administrative controls impede agency effectiveness. We found that:
    - The Pension Review Board does not have an effective process for identifying all public retirement systems in Texas.
    - Comprehensive reviews of public retirement systems are behind schedule.
    - Required inspections on manufactured housing and boilers are not being performed in a timely manner by the Texas Department of Licensing and Regulation.
  - 2) Policies and procedures are not being evaluated periodically:
    - At the Office of the Fire Fighters' Pension Commissioner, the buy-in period for 411 Pension Plan members is interest free for three years.
    - At the Council on Sex Offender Treatment, policies and procedures for key agency functions have not been developed.
  - 3) Because of their small size, these agencies find it difficult to keep abreast of all of the many federal and state rules and regulations related to human resources. We found instances where:
    - Agencies awarded achievement bonuses and merit raises without adequate support.
    - Merit raises were paid retroactively.
    - Evaluations of agency staff were often not performed in a timely manner.
- Thirteen small agencies were examined during this audit. A small agency is an agency with less than 300 employees and less than \$10 million in appropriations.

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# Table of Contents

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<b>Executive Summary</b> .....	1
Section 1: <b>Texas Ethics Commission</b> .....	3
Section 2: <b>Pension Review Board</b> .....	15
Section 3: <b>Office Of The Fire Fighters' Pension Commissioner</b> .....	17
Section 4: <b>Advisory Commission On State Emergency Communications</b> .....	21
Section 5: <b>Aircraft Pooling Board</b> .....	27
Section 6: <b>Council On Sex Offender Treatment</b> .....	31
Section 7: <b>Credit Union Department</b> .....	35
Section 8: <b>Texas Department Of Banking</b> .....	36
Section 9: <b>Texas Department Of Licensing And Regulation</b> ....	38
Section 10: <b>Agencies With No Significant Findings</b> .....	42

## Executive Summary

### Weaknesses Were Noted In Three Key Control Areas

Weaknesses were noted in administrative and accounting control systems, policies and procedures, and human resource management during our management control audits of 13 small state agencies. Management control weaknesses restrict the agencies' abilities to ensure that goals and objectives are being achieved, resources are being safeguarded, and laws and regulations are being complied with.

#### AGENCIES AUDITED

- Texas Ethics Commission
- Pension Review Board
- Office of the Fire Fighters' Pension Commissioner
- Advisory Commission on State Emergency Communications
- Aircraft Pooling Board
- Council on Sex Offender Treatment
- Credit Union Department
- Texas Department on Banking
- Department of Licensing and Regulation
- Texas Savings and Loan Department
- Low-Level Radioactive Waste Disposal Authority
- Office of Administrative Hearings
- Texas Incentive and Productivity Commission

The 13 agencies examined during this audit each have less than 300 employees and less than \$10 million in appropriations. Although small, the agencies play an important role in administering state laws and regulations, monitoring and regulating business and industry, and protecting the health and welfare of the citizens of Texas. Effective management of these small agencies equates to effective and efficient delivery of services to the citizens of the State.

### Weak Administrative Controls Impede Agency Effectiveness

Weak administrative controls impede the effectiveness of the agencies in meeting management goals and objectives. An effective system of administrative controls focuses upon management planning and control through a formal system of accumulating and reporting data to achieve administrative or management objectives. At the Pension Review Board, we found that an effective process to provide oversight for all public retirement systems in Texas was not in place, and the reviews of public retirement systems are behind schedule. At the Texas Department of Licensing and Regulation, required inspections on manufactured housing and boilers are behind schedule and not being done in a timely manner. At the Texas Ethics Commission, weaknesses exist in the automation efforts related to the development of the Texas Ethics Disclosure Data Base and in the accounting function.

### Policies and Procedures Are Not Being Periodically Evaluated

We also found that agencies are not periodically evaluating policies and procedures. As a result, policies that are not in the best interest of the agency or the State are not modified. At the Office of the Fire Fighters' Pension Commissioner, 411 Pension Plan members can delay the buy-in period for up to three years, interest free. As a result, a fully funded system can take advantage of the Plan's benefits while investing its money elsewhere for three years. In some cases, we found that policies and procedures had not been developed. At the Council on Sex Offender Treatment, policies and procedures for key agency functions such as recording and matching of revenues and expenditures,

## Executive Summary

security controls, and strategic planning have not been developed.

### Small Agencies Find It Difficult To Stay Abreast Of Federal And State Regulations

Agency administrators of small agencies find it difficult to keep abreast of the many federal and state rules and regulations related to human resource management. Key functions such as human resource management and accounting are often performed by the same administrator. Compensating controls can help ensure that the agencies' resources are safeguarded. However, small agencies are faced with the same demands as the larger agencies with separate accounting and human resource functions. As a result, managers may not always be aware of laws and regulations governing human resource management. We found instances where: (1) agencies awarded achievement bonuses and merit raises without adequate support; (2) merit raises were paid retroactively; and (3) evaluations of agency staff were often not performed in a timely manner.

### Detailed Findings and Recommendations

The detailed findings and recommendations, along with agency responses, follow this summary. Where deemed necessary, agency responses are followed by Auditor Follow-Up Comments. The results of the performance measures work can be found in a separate report, *An Audit Report of Performance Measures at 25 State Agencies*, SAO Report No. 94-136.

### Objective, Scope, and Methodology

Our objective was to determine if the 13 small agencies selected for review were effectively managing their human resources, had adequate policies and procedures, and had adequate administrative and accounting controls. We also assessed the impact on the operational effectiveness of the agency. We evaluated the accuracy of performance measures.

We examined each agency's management of human resources, administrative and accounting controls, and policies and procedures related to management information systems, performance measures, and strategic planning.

Specifically we looked at:

- Outcomes
  - Alignment of the agency's mission with its enabling legislation
  - Alignment of the agency's objectives and strategies with each other and with the agency's mission
  - Measures used to judge the outcomes of the agencies' strategies
  - Agency's attainment of expected performance levels
  
- Data
  - Data collected by the agency to evaluate its performance
  - Sufficiency of management information systems
  - The usefulness, reliability, and validity of the management information systems

Section 1:

## Texas Ethics Commission: Control Environment Weaknesses May Impede The Effectiveness Of Three Key Functions

The lack of adequate controls over information systems, accounting, and human resource management contribute to weaknesses, which if not corrected, may affect the operational effectiveness of the Commission. The following conditions were noted during our examination of the Commission.

Section 1-A:

### Information Systems: Development and Implementation of the Automated System Needs Additional Safeguards

Weaknesses exist in the planning, testing, and documentation of the automation efforts related to the development of the Texas Ethics Disclosure Data Base. Also, safeguards were not adequate to prevent the inadvertent loss of equipment or data.

The problems identified below could pose problems to current and future automation efforts:

- **Planning**

The Commission does not have a formal, written document detailing a systems development life cycle methodology. Such a methodology provides a phased approach for planning, designing, developing, and implementing new systems and enhancing existing systems.

A systems development life cycle methodology facilitates developing systems in an organized manner and ensures that no necessary phase is omitted. Following a methodology ensures that a system meets the system requirements and that the system is properly implemented to obtain user satisfaction. It also assists the data processing department in installing computer systems on schedule and managing costs relating to systems development. A well-developed systems development life cycle methodology consists of the following phases:

- needs analysis
- systems analysis and design
- development
- testing
- implementation
- documentation (developed during previous phases)
- post-implementation review

Recommendation:

We recommend that the Commission develop a systems development life cycle methodology and use it in all future systems development.

• ***Input Controls***

The system's input controls do not consistently prevent inaccurate or incomplete data from being entered into the disclosure data base. These controls consist of a minimal amount of automated edit checks and a manual verification and correction process. In our testing of 14 filers on the data base, we noted the following two instances where the Commission's input controls were not functioning properly:

- Two different account numbers were assigned to the same filer.
- The first initial and middle name were reversed during data entry. While this error was caught during proofing, it was not subsequently corrected.

Input controls ensure that data entered into the system are accurate and complete. Insufficient input controls allow the input of erroneous information which will not be detected during normal processing. To "cleanse" the data base of these errors, custom-coded routines are required which can be costly to develop and run.

• ***Physical Access***

Access to the network file servers is not adequately restricted. The servers contain the disclosure files data base, programs, and each user's word processing and electronic mail. Although not easily accessible to the general public, the servers are located in a room without a door which is accessible through the forms room by all of the Commission's employees.

Physical access controls are designed to reduce the risk of unauthorized access and/or damage to valuable computer equipment, programs, and data. Insufficient physical access controls increase the risk of damage to and/or destruction of these assets.

• ***Backup and Recovery Process and Procedures***

The Commission's current backup process is insufficient. The backup and recovery policies and procedures manual has not been completely updated. The Commission cannot fully ensure the safety, completeness, and reliability of the backup data based on the following:

- Daily backups of all data on its computer network are stored in a locker in the Local Area Network manager's office and are not adequately protected from fire or other damage.
- The Commission's backup process consists of a two-week rotation of daily backup tapes. In addition, an archival tape is created every six months for long-term storage. While this is good, there is still an increased risk that critical files last updated between the oldest daily backup and the archival backups could not be successfully recovered. This process also does not conform to its backup software vendor's recommended backup and tape rotation procedures for performing daily, weekly, monthly, and yearly backups and the proper storage of these backups.
- Backups are not tested on a periodic basis.
- The backup policies and procedures plan has not been completely updated to reflect the current backup processes.

Proper backup controls ensure that in the event of a disaster, which can range from the accidental deletion of a file to the total destruction of the data processing site, an agency can continue to operate with a minimal amount of disruption.

Recommendation:

We recommend that the Commission review its control structure over input controls and design and implement controls to correct weaknesses. Also, physical access to the network file servers should be limited to only those individuals whose job duties require such access. Additionally, we recommend that the Commission follow its vendors' recommended approach for backup and tape rotation and that these new procedures be documented in an updated backup and recovery plan.

- **Testing**

Testing of the Texas Ethics Disclosure Data Base has not been comprehensive. Successful systems development depends on the existence of a comprehensive and effective test plan that rigorously tests all facets of the system. An effective test plan establishes acceptance criteria and provides reasonable assurance that the system functions in production according to its specifications. Poor testing increases the possibility that system errors could occur and not be detected in a timely manner. It also results in a system that requires an inordinate amount of maintenance effort after implementation.

During our review of the system, we noted the following:

- There is no consistent test plan. The programmer and the Assistant Director of Disclosure Filing tested the system, but used no set procedures.
- Internal users are not involved in the testing process until the system has been implemented, and they are working in a production mode.

Recommendation:

We recommend that the Commission improve testing of the system by developing a comprehensive test plan. The plan should include provisions for developing acceptance criteria, identifying the type of tests to be performed, preparing test data, conducting the test, and evaluating the test results. The plan should be implemented in a combined effort by both the primary users and the programmers.

• ***Documentation and Standards***

Documentation of the Disclosure Data Base is incomplete. User documentation was available in a variety of forms, some of which were insufficient while others were quite comprehensive. Documentation ranged from limited instructions on how to log documents into the Disclosure Data Base to detailed procedures for processing lobbyist information.

The program documentation consists of comments within the program listings. These comments do not sufficiently describe the complex routines within the program code. In our testing of the Disclosure Data Base, we noted instances of erroneous input and processing of data which could have been prevented or minimized with the availability and proper utilization of user documentation. Lack of adequate program documentation can lead to major delays in making programming changes. Without adequate documentation, the programmer has to review the program code to gain an understanding of what the program does. It can impede program maintenance and enhancements especially when using programming languages which are not user-friendly.

Published documentation and programming standards do not exist. Without documentation standards the Commission cannot ensure that complete and consistent documentation is developed. With the hiring of three additional programmers, the lack of documentation standards could result in the development of duplicate or conflicting automated procedures.

Recommendation:

We recommend that the Commission develop adequate documentation standards for user, program, and system documentation and use these

standards to improve their existing user and program documentation and in the development of any new documentation. We also recommend that programming standards be developed and used in all future development.

Management's Responses:

The Commission does not have a formal, written, document detailing a systems development life cycle methodology.

*The Ethics Commission takes its automated systems through the stages set forth in the recommendation. However, we agree that a formal document is salutary and we will develop one.*

One filer got two account numbers.

*Automated input controls exist to prompt staff before an account number is assigned to a filer with the same or similar name as another filer already listed in the data base. However, we do have multiple filers with the same name, and we do have filers who do not consistently use the same name (for example, Jim and James, or married name and maiden name, or a filer may sometimes use Jr. and sometimes not). The ultimate decision that identical or similar names are either the same individual or two filers who happen to share the same name requires a reasoned judgment by a human being. We have always had established policies and procedures for staff to follow when this situation arises and a decision must be made. However, with any manual control process, human errors will and do occur. There is a report process in place to double check for this type of error. We are continuing to create different reports from the data base to check for and correct this type of error.*

First initial and middle name were reversed in data entry.

*In reviewing the key entry process, the auditors were looking at a system that was being tried, and was rejected, as an interim solution to our long-term data entry needs. It became obvious early in the data base project that key entry would not be an acceptable solution to the Ethics Commission's data entry needs. This was verified both by our consultant's report of October 26, 1993, and by our experience in testing the system. However, it was felt that some key entry with manual verification might prove serviceable, if admittedly imperfect, as an interim solution pending development and implementation of electronic filing. In testing the viability of key entry and manual verification as an interim solution, the use of manual verification as an input control proved to have acceptable accuracy, but was too slow and cumbersome. As a result entry of detailed contribution and expenditure data using manual verification as an input control has been discontinued pending implementation of electronic filing.*

No door on closet containing network file server.

*The server is in an interior closet, within a larger closet, in a non-public area of the commission's offices. The door to the interior closet is 20 feet from the door to the larger closet. The door was left open for ventilation of the electronic equipment which tends to overheat when closed up in a small space. We're installing a door with a grate for ventilation.*

Daily backup not protected from fire.

*The Commission has obtained a fire-resistant storage cabinet for the daily backup tapes that are stored on-site. The proceeding week's back-up tapes have always been stored off-site at the State Library. We are satisfied that this procedure provides adequate protection for the back-up tapes of data stored on our servers*

Backup and archival procedures increase the risk that critical files last updated between the oldest daily backup and the archival backups could not be successfully recovered.

*Our current backup procedures have provided a full daily backup of all data stored on the Ethics Commission's two servers for the most recent two week period, as well as semiannual backups. Pursuant to that policy, we have archived a full backup of information on the servers as of July and December 1993 and February 1994. We believe, and our experience has been, that our existing procedures have provided adequate backup of the most critical data stored on our servers.*

*To provide an additional two weeks' worth of daily backups and more archival tapes, we will revise our procedures to provide daily backups for a four week period. We will archive a monthly backup tape for each month of the proceeding year and will also archive an annual backup tape.*

Backups not tested periodically.

*We are satisfied that our backup process functions because we have always been successful when it was necessary to retrieve a particular file from a backup tape. We will investigate the resources that may be available from the Department of Information Resources or another source to provide a full test recovery of our backup tapes, particularly of the archival tapes. We will also research the efficacy of testing on an outside party's hardware, and research whether such testing could be accomplished while protecting the security of statutorily confidential files.*

Backup policies and procedures plan not updated.

*We will update the existing backup policies and procedures plan to reflect our actual backup and archival policies and procedures.*

There is no consistent test plan.

*All enhancements to the data base are tested, in a parallel data base, by technical staff and at least one representative of the user group to ensure the data base meets all specifications. Though staff uses the data base on a daily basis, the system is still in development, and no element can be considered complete at this time. Staff is using the data base in daily work so they may evaluate its usefulness and assist in development of the final production version. Any data from the data base that is used in communication outside the agency, or made available outside the agency, is thoroughly cross-checked with original hard-copy documents before release.*

Internal users not involved in testing until working in production mode.

*This is incorrect. At least one member of our internal end user group tests any data base enhancements in a parallel data base before the enhancements are made available to the full staff. The staff resources needed to conduct daily commission business limits the number of staff members available for preliminary testing of enhancements. Staff is using the data base in daily work so they may evaluate its usefulness and assist in development of the final production version. Any data from the data base that is used in communication outside the agency, or made available outside the agency, is thoroughly cross-checked with original hard-copy documents before release.*

Documentation and Standards

*The documentation currently reflects the status of the programming. The documentation of phase one of the data base was the responsibility of our contractor, the Department of Information Resources, and was delivered as part of their work product under our contract with them. At the time of the audit, the commission's programming staff consisted of one programmer. Our programmer used programming standards suggested by the data base application vendor as well as standards that were used by the Department of Information Resources. Because of the time demands on a one-person programming staff, formal documentation of these standards was not a priority at that time. Now that the Commission has hired additional programmers, staff is writing formal documentation of the programming standards.*

Auditor Follow-Up Comments:

One filer got two account numbers.

Input controls can be either automated or manual. In our review of the Disclosure Data Base, we examined both types of controls. The error which was noted would not have been caught by any of the subsequent controls which were in existence at the time. When we followed up on this error with

the data analysts. we were told that no written procedures existed for this process.

First initial and middle name were reversed in the data entry.

In auditing the Disclosure Data Base, we were auditing the system that was in existence at the time of the audit. Even though the Commission is moving toward an electronic filing system, there will always be some form of key entry system which will require a verification/correction process.

There is no consistent test plan.

Even though the system is still under development, a portion of the system is used daily to provide information to the public. The use of input controls to verify the data before it provided to the public does not preclude adequate testing of the system. In conducting our audit, we found no formal test plan. All testing was performed by the programmer and the Assistant Director of Disclosure Filing. There was no documentation of this testing process. None of the other users interviewed stated that they were involved in the testing process until they were working with the actual data.

Section 1-B:

### **Accounting and Administrative Controls: Weak Accounting And Administrative Controls Increase The Risk Of Errors And Irregularities**

A system of strong accounting and administrative controls provides reasonable assurance that resources are safeguarded against waste, loss, unauthorized use, and that errors and/or irregularities are detected by employees in a timely manner during the course of performing their assigned duties. We noted the following areas in which control structures could be improved:

- Segregation Of Duties - Currently, the accounting director performs many human resource functions and has access to both the accounting and the personnel/payroll systems. In addition, the accounting director prepares, reviews, and enters journal vouchers into the accounting system. Journal vouchers are used to adjust account balances for activities which are not a direct result of the initial receipt and disbursement of cash.

A primary aspect of internal control is the segregation of responsibility so that no one person has the ability to initiate and execute a transaction from beginning to end. In addition, duties should be evaluated to ensure that incompatible tasks are properly separated. Inadequate segregation of duties without appropriate compensating controls increases the risk that errors or irregularities may occur and go undetected.

- Written Policies And Procedures Manuals - The Commission does not have any written accounting policies and procedures. Establishing written policies

and procedures and monitoring compliance with such policies and procedures should decrease the risk that significant errors or irregularities will occur and remain undetected. Without written policies and procedures, the Commission is at risk that critical tasks may not be performed in a timely manner should a key employee leave the Commission.

- Accounting for Fixed Assets - The Commission did not obtain written hand receipts from its employees for approximately \$175,000 in agency property assigned to them as required under Section 8.03, Article 601b V.T.C.S. and the State Property Accounting System (SPAS) requirements. In addition, this property was not included in the SPAS records as of April 20, 1994. All property costing \$500 or more was required to be entered into SPAS by September 20, 1993, and subsequently at the time of acquisition.

#### Recommendations:

We recommend that the Commission strengthen its accounting and administrative controls. Incompatible functions should be segregated to the extent possible to ensure that no one person has access to both accounting and payroll/personnel systems without proper checks and/or approval. In addition, the preparation, review, and recording of journal vouchers should be performed by more than one person. Finally, the Commission should develop written accounting policies and procedures and monitor them to ensure compliance.

We also recommend that the Commission obtain written receipts for all property assigned to employees. In addition, the Commission should ensure that purchases of all personal property that meet the criteria defined in the SPAS Policy and Procedures Manual and that all capital assets are recorded in SPAS in a timely manner.

#### Management's Response:

##### Segregation of duties

*Segregation of duties can be problematic in a small organization. The accounting/personnel staff consists of two and one-half positions. With the implementation of USAS (Uniform Statewide Accounting System), USPS (Uniform Statewide Payroll/Personnel System) and SPAS (Statewide Property Accounting System), there are only a limited number of ways the staff can be split up to deal independently with these three systems. A certain amount of overlap is inevitable.*

*The Director of Accounting and Assistant Accountant have extensive working knowledge of USAS and are the only two individuals who have access to this system. The Director of Accounting and Staff Services Officer have access to the USPS system. The Staff Services Officer has extensive knowledge of this system and the Director of Accounting has only a limited knowledge and serves as backup only. The Director of Accounting also serves as the agency security coordinator for access to any of the above systems.*

*All payroll/personnel action items must have three signatures before the action is complete. Those signatures include the Executive Director, Director of Accounting and Staff Services Officer. All payrolls are prepared by the Staff Services Officer and signed by the Director of Accounting and the Executive Director.*

*With the implementation of USAS and USPS, access to both systems is limited. The Director of Accounting has access to both systems due to being the agency security coordinator for these systems and serves as backup only to the payroll system. Any personnel actions entered by the agency must have three signatures on the personnel action form. One is the payroll accountant, one is the Director of Accounting, and one is the Executive Director. Additional control procedures include the Executive Director signing off on the payroll voucher so that any new changes/personnel are identified by someone other than staff authorized to access USPS.*

*Journal vouchers are now prepared by either the Director of Accounting or the Assistant Accountant and approved by the other. As an internal user of USAS, any journal vouchers affecting agencies other than the Ethics Commission are reviewed by the Comptroller's Office. Documentation for any journal vouchers has always been attached to the journal voucher enabling review of what entries were being made and why.*

#### Written procedure manual

*We are currently developing written accounting policies and procedures.*

#### Accounting for fixed assets

*Written receipts for assignment of property to employees is a procedure being developed. As a newly created agency, property that was received during startup was from various agencies. This property was not always followed with paperwork identifying its origin. Therefore, some of the transferred property is still going through some identification processes and once a determination is made of its origin, proper assignment will be made and SPAS policies and procedures will be followed.*

#### Section 1-C:

### **Human Resource Management: Controls Over Personnel Actions are Not Adequate and Employees Are Not Evaluated in a Timely Manner**

The Commission does not have adequate controls to ensure that personnel actions are adequately supported and employees have not been evaluated on a timely basis. The following were noted during our examination of human resource management:

- The Commission's board has not performed a formal written evaluation of the executive director since the inception of the Commission.

- Eleven out of all 31 employees in the Commission, most of whom are in management, have not been evaluated in two years.

Adequate support, such as written evaluations, are essential to ensure compliance with Article V requirements related to merit raises. Timely evaluations provide employees and management with feedback on employee performance. They provide information needed to correct or adjust performance when change is needed.

In addition, two of the ten performance categories (adaptability and observance of policies and procedures) on the employee performance evaluation form do not evaluate employee job performance. On two performance categories (initiative and judgment), the employee is rated on the employee's capacity rather than on actual performance. Also, there are no guidelines for using the information in the evaluation system for making personnel decisions such as merit raises and promotions.

Recommendation:

We recommend that the Commission perform timely, written evaluations of all its employees. It should also review the employee evaluation system and ensure that employees are evaluated against performance categories that measure actual job performance.

Management's Response:

Evaluations

*Most agency managers and their employees began their employment relationships in the spring of 1992. Most employees have received more than one written evaluation since that time. An agency-wide round of evaluations was scheduled to begin this past February and continue through early summer. So far, all non-management staff, including professional staff, and some management personnel have received written evaluations in 1994.*

*Evaluation forms are adapted from those in use at other state agencies. Categories such as "adaptability" and "observance of policies and procedures" do evaluate job performance. Following policies and procedures for handling of documents is the most important job duty for most personnel in the Ethics Commission. At the same time, the adaptability to recognize a unique situation requiring a management decision (which will always arise in filing documents submitted by several thousand filers) is vital so that policies will not be followed blindly where this is not appropriate.*

*"Initiative" and "judgment" are vital job performance criteria, very possibly the most important ones in any organization. (Initiative and judgment are the first two categories on the evaluation form used by the Governor's Office.) Of course, one could label the categories on the form "demonstrates initiative" or "demonstrates judgment," but this is merely playing with words. We are confident that both employees being evaluated and the person making*

*the evaluation understand these categories measure an employee's performance on the job and are not an attempt to divine the employee's unseen or intrinsic nature.*

*If we understand you, you are suggesting the adoption of formal guidelines for the use of evaluations in personnel decisions. The value of guidelines for evaluating evaluations is ultimately a subjective matter of management philosophy. However, in a government workplace, it risks subjecting the state to liability.*

*Formal guidelines for evaluating evaluations may be useful in very large organizations where many people perform identical jobs, and especially where performance can be measured by production. But in a small organization with largely professional staff, where no more than two or three people do the same job, such general guidelines may not be useful enough to offset the added complications and rigidity in administration.*

*Of course, the purpose of employee evaluation is to provide accurate feedback to the employee. Evaluators should have every incentive to give accurate feedback, without being distracted by extrinsic considerations. Formal guidelines may give an evaluator an incentive to draft an evaluation that gets a particular result under the guidelines rather than accurately evaluating the employee's performance. In practice, it is not difficult to tell an outstanding evaluation from a mediocre one without guidelines.*

*Finally, though importantly, evaluation is not directly related to salary administration. (The evaluation form in use by the Senate expressly states this.) Evaluation may be one of many factors in compensation decisions, but it is a mistake to assume that every personnel action is related to an evaluation, or that an evaluation vests any rights in an employee or subjects the state to any obligation. Formal guidelines may give rise to an employment contract negating the state's "at-will employment" doctrine.*

#### Auditor Follow-Up Comments:

We do not agree that establishing formal guidelines for using the employee evaluation system for making personnel decisions will necessarily give rise to employment contracts and place the State at risk and subject to liability. On the contrary, a lack of adequate guidelines and inadequate documentation of performance makes it difficult to defend unlawful termination or other lawsuits filed by employees against government employers. When properly drafted, guidelines delineate the agency's expectations of its employees for personnel actions such as merit raises and promotions. We agree that salary administration is not intrinsically tied to evaluation, and we are not suggesting that a personnel action should follow every evaluation. However, we do suggest that an effective evaluation system, with formal guidelines, will ensure that all personnel actions are properly supported.

Section 2:

## **Pension Review Board: Identify and Reexamine Review Process for Public Retirement Systems**

Section 2-A:

### **Identify All Public Retirement Systems**

The Pension Review Board (Board) does not have an effective process for identifying all public retirement systems which are required to register with it. The Board could improve the completeness and accuracy of information it provides by ensuring that all retirement systems are registered and reporting as required by law.

The Board currently tracks 292 active systems, but it is probable that there are additional public retirement systems in Texas that are not registered. For example, in 1993, as a result of an inquiry from a plan administrator, the Board discovered and registered 62 appraisal district retirement systems. All but six of these systems were created before 1990 (29 were created in 1981).

It is important to note that retirement systems are primarily responsible for registering with the Board. Nevertheless, given the Board's statutory responsibility for reviewing and compiling retirement system information, its reliance on retirement systems to voluntarily comply does not appear to be an effective way to ensure that all systems are registered and reporting.

The Board should explore ways to identify public retirement systems in Texas to ensure that all systems are registered. The Board could consider surveying political subdivisions not currently registered to determine whether they have retirement systems which should be registered. Additionally, the Board should consider requesting that the Legislature add penalty provisions to the law as an incentive to comply with registration and reporting requirements.

#### Management's Response:

*Statutes require all public retirement systems to register with the Pension Review Board. All the large retirement systems and several smaller systems are registered with the PRB. The problem lies with the sub-county political subdivisions, such as authorities and districts not part of the Texas County and District Retirement System. A systematic survey of identifying such systems was done prior to the creation of the PRB but has not been done on a large scale since then. The reason for this lies with the lack of personnel and financial resources. However, we will begin on a systematic basis to survey particular types of entities, such as municipal utility districts, to see if there are more systems out there which need to be registered with the PRB.*

## **Reexamine Review Process for Public Retirement Systems**

The Board is four years behind in performing comprehensive reviews of public retirement systems. As of the beginning of the year, out of 166 advance-funded retirement systems, 134 have not received comprehensive reviews since 1989. Reviews are necessary to determine whether systems are adequately funded to pay retirement benefits in the future.

According to the Board's procedures, a comprehensive review of each system is conducted in even-numbered years and a limited review in odd-numbered (legislative) years. A comprehensive review is a formal evaluation of a retirement system's plan design, financial reports, and actuarial valuation. This information is entered into computer records, and key financial ratios are calculated for further analysis. A limited review consists of an informal review of financial reports, actuarial valuations, and related documents with little or no data entry.

Although the Board has a statutory duty to conduct continuing reviews of public retirement systems and compile retirement system information, an annual review of every system is not necessarily required. Given that reviews have fallen behind and other Board functions, such as providing technical assistance, have a higher priority, the Board needs to reconsider its approach to performing these reviews.

### Recommendation:

The Board should reexamine the review process to determine whether current procedures are the best way to accomplish the desired results. For example, the Board should reconsider whether every system should receive the same level of review. Consideration should be given to developing a risk ranking or early warning system which would allow the Board to focus resources on reviewing higher risk public retirement systems. In developing criteria for a risk ranking system, the Board should consider various factors such as total assets, number of members, financial ratios, previous problems, and investment policies.

### Management's Response:

*The Board is always willing to reexamine its processes to see if they are working with ultimate efficiency and are leading to our major goal, and the Board will certainly do that now in this specific matter. However, most of the factors that led to us becoming behind in our data entry which constitutes comprehensive reviews have been resolved, and either will not be recurring or will occur in the far future. During the 1991 legislative session, the agency underwent Sunset review, which called for much preliminary work during 1990. Also around this time it became clear that the Burroughs minicomputer (the agency's first computer, purchased through the bid process in 1984) which held all our data base information on the retirement systems had become antiquated and needed to be replaced by microcomputers (personal computers). Due to our limited budget, the agency began purchasing personal computers one at a time*

*The PRB undertook several projects during 1992 to improve its ability to manage data. Recognizing the need to share data and computer resources, the PRB designed and implemented a computer network to fit its needs and budget. The PRB also conducted a systems analysis, designed and developed a relational data base, and imported the data previously stored in the Burroughs mini-computer. Data security and backup procedures were also implemented. These projects were completed without the services of outside contractors.*

*At the beginning of 1992, we learned that our office would be moving in the spring; the decision to implement the computer network was delayed until the office move had been completed, which turned out to be late June. After the office move was completed, the network was installed with the new data base that had been built. Since the data base was expanded to track additional data, the design and construction required several trials and revisions before it became operational. All this occurred just in time for the 1993 legislative session to begin. We had requested an additional employee to help complete data entry but funds were not made available. The office has been diligently working on entering the retirement system data this calendar year, and now appears to be on schedule for getting the majority of the data entered before the start of the 1995 legislative session.*

*I would also like to point out that all data from the retirement systems has been reviewed as it comes in. It is the entering of the data which constitutes a comprehensive review.*

Section 3:

## **Office of the Fire Fighters' Pension Commissioner: Reduce the Interest Free Buy-in Period for 411 Pension Plan Members, Cost Savings Could be Achieved, and Improve Controls to Ensure Compliance With Personnel Guidelines**

Section 3-A.

### **Reduce the Interest Free Buy-in Period for 411 Pension Plan Members**

The Commission should seek a reduction in the interest free buy-in period for 411 Pension Plan members. Under the current statute, volunteer fire fighter departments buying into the 411 Pension Plan have a three-year interest-free period in which to pay the buy-in amount. A fire department entering the Plan pays the same amount regardless of whether the money is paid on initial entry into the Plan or paid out over three years. There is no consideration for the time value of money. As a result, fully funded systems enrolling in the Plan can enjoy the full benefits of the Plan while, at the same time, investing its funds in other investments. Also, the Plan is denied the use of the funds for up to three years without compensation.

#### Recommendation:

The Commission should seek a reduction from three years to one year interest free buy-in period. Reducing the interest free period to one year would bring the

Commission more into line with the buy-in provisions offered by the Teacher Retirement System and the Employees Retirement System. It would also prevent fully funded fire departments from realizing a windfall based on the deferral of interest at the expense of the Plan.

Management's Response:

*The issue of decreasing the number of years from three to one for interest free buy-in is scheduled for discussion and recommendation at the September, 1994 State Board of Trustees meeting.*

Section 3-B:

**Cost Savings Could be Achieved**

The Commission provides two services to its members which could be eliminated or curtailed without affecting the overall objectives of the Commission.

- Duplicate records of Texas Local Fire Fighters' Retirement Act members are maintained by the Commission. Since similar information is maintained by the local fire departments, the maintenance of the duplicate records is not cost effective. Also, pension funds are held locally, and neither the Commission nor the State have any financial liability under the Texas Local Fire Fighters' Retirement Act plan. The Commission employs one full-time employee to maintain these files, at an annual cost of \$27,000.
- The Commission prepares cost studies to prospective 411 Pension Plan members free of charge. However, there is no limit on the number of cost studies a prospective member may request. Some departments have requested as many as 12 cost studies. The preparation of extraneous cost studies is a strain on the agency's human resources. On the average, a cost study costs the Commission \$34.00 to prepare.

Recommendation:

We recommend that the Commission institute cost-saving measures to reduce costs and improve efficiency. The Commission should eliminate the maintenance of duplicate records of Texas Local Fire Fighters' Retirement Act members. As an alternative, the Commission should consider imposing a reasonable fee to recover the costs of providing administrative support. An annual fee of \$5 per member would fully fund the employee who provides the administrative support on benefit distributions, training, and education. Also, a limit should be imposed on the number of free cost studies prepared for prospective 411 Plan members. A nominal fee charged for more than one cost study would help recover the costs of providing this service.

Management's Response:

The Commission maintains records on all members of the Texas Local Fire Fighters' Retirement Act participating departments. We hold the original documents relating to beneficiaries, service dates and termination dates.

In order for this agency to approve benefits, we obviously must have records. Each department's Local Plan, as authorized in Article 6243.e, Section 7, is maintained in the office in conjunction with the individual records in order for us to provide information, opinions, and assistance to our members.

The fact that the "pension funds are held locally," has no significance in the operation of our services to the Funds. We approve all benefit requests, including service retirements and disabilities. We must have records in order to do that.

Also, especially for the volunteer departments, our records are vital. Volunteer departments historically do not maintain accurate records due to the frequent changes in their ranks. It is not unusual for us to research archive records back to 1945 to determine retirement benefits for these members.

The Local Boards are required to file an Annual Report with the Commissioner each year by February 28th (Section 18 (g)). This information is used for our information sent to the Governor by June 1st of each year (Section 21A (f)). It would be impossible for us to validate the information in these Annual Reports if we did not have the records in this office. Thus, we could not validate the information required by the Governor.

The Commission cannot fulfill its statutory requirements without the maintenance of records of its members. As for establishing a fee to cover the costs of administration, this item is on the agenda for the TLFFRA Workshop in Beaumont in September, 1994.

The assessment for the administrative costs poses the following issues:

1. TLFFRA paid departments would probably agree to the assessment.
2. TLFFRA volunteer department probably would not, due to the very limited amounts of money in their funds.
3. Problems would then be created in the never-ending problems between paid and volunteer departments. The paid departments would not want to assume the administrative costs for the volunteers.

The matter will be discussed in the September and possible legislation may occur.

Establishing a fee for 411 cost studies has been discussed on numerous occasions. The matter will be placed on the September, 1994 Board agenda and a policy will be written according to the Board's decision on the number of free cost studies provided and/or a fee for any in excess of that number.

Section 3-C:

### **Improve Controls to Ensure Compliance With Personnel Guidelines**

The Commission has a responsibility to ensure that personnel actions are in accordance with applicable guidelines to ensure fairness and accurate reporting. During our examination, we found the following discrepancies related to the awarding of achievement bonuses and carrying forward of vacation leave:

- An employee was awarded an achievement bonus without receiving a formal evaluation under the agency's formal evaluation process. Article V, Section 5 of the General Appropriations Act specifies that the awarding agency follow the instructions issued by the Governor's Office and the Legislative Budget Board for the awarding of achievement bonuses. A criteria for an achievement bonus is that the employee receive an evaluation under the agency's formal evaluation process. The employee must demonstrate a consistent and high level of performance during the period covered. An evaluation prior to awarding a bonus documents the employee's performance and the Commission's compliance with the General Appropriations Act and the Governor's Office and Legislative Budget Board's instructions.
- The Commission incorrectly carried forward unused vacation leave time from fiscal year 1992 to fiscal year 1993. A similar comment was noted in a prior year management letter. Article V, Section 8 of the General Appropriations Act specifies the maximum number of hours that may be carried forward from one fiscal year to the next. We noted that one employee's vacation leave hours carried forward was 12 hours over the maximum allowed by the General Appropriations Act. As a result, the Commission overstated its liability for compensable leave by 12 hours in the Fiscal Year 1993 Annual Financial Report.

#### Recommendation:

We recommend that the Commission improve controls to ensure compliance with personnel guidelines related to achievement bonuses and vacation leave time. The Commission should review recommendations for achievement bonuses and ensure that all criteria established by the Governor's Office and the Legislative Budget Board have been met. Further, leave records should be reviewed for accuracy to ensure that only the maximum number of vacation leave time is carried forward from one fiscal year to the next.

#### Management's Response:

*The Board established a policy at its March 3, 1994 Board meeting for its review and salary recommendations in the future.*

*The Commission continues to monitor and upgrade its controls in the accounting area. The discrepancy (12 hours) has been corrected in the FY '94 records.*

*The vacation/sick leave/compensatory time records are maintained by the staff account clerk and will be reviewed by the Commissioner and by the outside certified public accountant prior to the finalization of the Annual Financial Report. When the agency goes on line with the USPS system, errors of this nature will not occur.*

Section 4:

### **Advisory Commission on State Emergency Communications: Recover Compensation Paid Retroactively, Accounting Controls are Not in Place Over Key Functions, Top Management is Not Being Formally Evaluated, and Controls to Monitor the Accuracy of Surcharges Collected Are Not in Place**

Section 4-A.

#### **Recover Compensation Paid Retroactively**

The Advisory Commission on State Emergency Communications should recover compensation granted retroactively. The Commission granted merit raises to four employees retroactively, in a lump sum, for a total amount of \$2,224. The retroactive merit increases ranged from 2 to 12 months.

Retroactive compensation is unconstitutional except in certain cases. Article III, Section 44 of the Texas Constitution prohibits the granting of extra or additional compensation for services already rendered or contracted. The Commission approved lump sum payments to four of its employees for exceptional service which had gone unrewarded. At the time, management was not aware of the limited instances in which retroactive compensation may be awarded.

#### Recommendation:

We recommend that the Commission initiate proceedings to recover the compensation paid retroactively. Further, the Commission should initiate a review of all applicable laws and regulations to ensure that all future personnel actions are in compliance with applicable laws. It should also review its policies and procedures to ensure future personnel actions are approved in a timely manner.

#### Management's Response:

*This is in response to your finding related to the merit raise compensation granted retroactively for four employees totaling \$2,224. Based on our conversation several weeks ago ACSEC has been seeking guidance from our Assistant Attorney General. General Counsel is currently researching an appropriate and reasonable course of action that should be considered in the near future.*

*Please be assured that the Advisory Commission on State Emergency Communications takes full responsibility for unknowingly violating the prohibitions on retroactive pay increases, and has taken steps to keep this from happening again.*

*However, I must point out that this was done out of ignorance of the prohibitions and in no way was this done intentionally.*

Section 4-B:

### **Accounting Controls are Not in Place Over Key Functions**

Accounting controls are designed to give assurance that transactions are properly authorized and recorded to allow for financial statement preparation in accordance with Generally Accepted Accounting Principles. Opportunities exist for improvement to the Commission's internal controls over the following functions:

- **Purchase Order Authorization** - Purchase orders are prepared only if the vendor requires one; therefore, source documents do not exist to support all purchases. This system does not provide for management approval of all purchases before they are initiated. Management approves payment vouchers only after a purchase has been made. The possibility of duplicate payments also exists as there may be no cancelled source documentation to support payment.
- **Access to the Automation System** - Access to the agency's MIP accounting system is not controlled by the use of passwords. Without adequate security over accounting records, the agency risks the loss of valuable accounting data through unauthorized access.
- **Segregation of Duties** - Duties are not segregated for recording, accounts payable, purchasing, and receiving. Segregation of duties is a feature of internal control over accounting records which prevents one person from having full control over a function.

Implementation of controls over the functions mentioned above will reduce the possibility of fraud, minimize errors, and verify the correctness and reliability of the accounting data.

#### Recommendation:

We recommend that the Commission take appropriate action to strengthen its internal controls. Procedures should be revised so that purchase orders are supported by a requisition approved by management. The use of passwords to gain access to the Commission's automated system should be established. In addition, passwords should be changed periodically. Also, incompatible functions should be segregated whenever possible. When not possible, compensating controls should be established to ensure that no one person has full control over any function.

#### Management's Response:

*Purchase Order Authorization and Segregation of Duties - The accounting staff of two is responsible for all the accounting functions including recording, purchasing,*

receiving, and accounts payable. After the previous SAO review, the Chief Accountant determined that it was most important to separate the cash disbursement and cash receipt functions between the two people. ACSEC will review the State Auditor's recommendations and implement those recommendations that would not compromise segregation of duties given our limited resources.

Access to Automation Systems - Password security is an available option on the agency's MIP accounting system. Until an accountant was added to the staff recently, the Chief Accountant was the only person with knowledge of the MIP system, and the only person with it installed on their computer. On September 1, 1994 ACSEC will convert to the USAS system and quit using the MIP system, until then the MIP system will be used with passwords.

Section 4-C

### **Top Management is Not Being Formally Evaluated**

The Commission does not have a system in place to formally evaluate the Commission's top management. To date, the executive director has not received an evaluation of her performance by the governing board, and the deputy director has not been evaluated by the executive director. As a result, the commissioners do not have documented feedback of management's performance.

The Commission is responsible for providing broad policy directives that reflect the mission and legislative mandates of the agency, while the executive director is responsible for implementing policy through day-to-day operations. Pursuant to their oversight role, the commissioners should ensure that management's performance protects the system's resources and ensures their best use. Performance evaluations against established criteria better inform management of the commissioner's expectations and provide greater assurance that agency goals are accomplished.

#### Recommendation:

We recommend that the Board implement a formal system of written performance evaluations for the executive director and the deputy director. The roles of each should be defined and criteria established to gauge the performance of the Commission's management.

#### Management's Response:

*The 16-member ACSEC Commission meets on a routine basis (approximately every 8 weeks) and is in constant communications with the Executive level staff as to Board direction and policy development. While there does not exist a formal review process, please be assured that the Commission does have oversight of its Executive staff. SAO recommendations to implement a formal system of written performance evaluations was presented to the Administration Committee and Full Commission on July 5 and 6, 1994.*

## **Controls To Monitor The Accuracy Of Surcharges Collected Are Not In Place**

The Commission does not have formal policies and procedures for the review and analysis of Surcharge Remittance Reports submitted by the phone companies. In 1991, the Commission performed limited audits of seven telephone companies. However, complete audits of all telephone companies have not been performed although the Commission is authorized to perform such audits by state law. The Commission does not receive money from General Revenue. Rather, it depends on the 911 Equalization and Poison Control surcharges collected by the phone companies to fund its operations. Approximately 14 of 155 phone companies provide 90 percent of the Commission's revenue. One company provides approximately 40 percent of its annual revenue.

In reviewing the Commission's policies and procedures for monitoring the accuracy of the surcharges collected, we found the following:

- Although the remittance reports are reviewed for mathematical accuracy, no formal analysis is performed when reported intrastate long distance charges fluctuate. In our review of monthly reports from five phone companies, we found one company reported intrastate long distance charges of \$36 million for the month of February 1994, \$92 million for the month of March, and \$55 million for the month of April. Because the surcharges collected by the phone companies are based on the amount of intrastate long distance charges, potential inaccuracies in the long distance charges directly impact surcharges collected.
- There is no established criteria to identify and rank phone companies who might underreport surcharges. Also, there is no process to systematically audit the phone companies. Audits were performed by two audit firms on seven telephone companies in 1991. The audits were preliminary and, although they identified problems with fee assessments, exemptions granted, and rounding of fractional fees, the Commission decided not to continue with the second phase of the audits to identify the amount of monies owed the Commission. While the Commission made the decision in a formal open meeting not to continue with the audits based on the belief that the benefits did not outweigh the costs, the thought process and the analysis to support the decision was not documented. However, the Commission subsequently addressed the issues with the individual companies. With the Commission dependent on the telephone companies for its revenue, it is essential that the Commission establish policies and procedures for systematic monitoring of the telephone companies.

### Recommendation:

We recommend that the Commission establish formal policies and procedures to ensure the telephone companies comply with state law governing the assessment and collection of the 911 Equalization and Poison Control surcharges. The Commission

should establish a system for collecting and analyzing data on intrastate long distance charges to establish a pattern of charges and to identify variances. The Commission should also investigate significant variances to determine the causes of the variances. Further, the Commission should establish criteria for auditing telephone companies based on a risk ranking of companies likely to underreport surcharges collected.

Management's Response:

*In response to your Small Agency Management Control Audit, Controls to Monitor the Accuracy of Surcharges Collected Are Not in Place, please find the following:*

*Although formal policies and procedures for review and analysis of Surcharge Remittance Reports submitted by the phone companies are not in place, an informal process does exist. Procedures include:*

- a) Upon receipt from the Treasury, their reports are matched with reports remitted by the phone companies and balanced for the dollar amount. Poison revenues and 9-1-1 revenues are also identified at this time, and calls are placed to the telephone companies questioning any significant differences found between the two surcharge amounts.*
- b) Balancing tapes for dollar amounts are run to identify total 9-1-1 and poison revenue amounts for the month, along with a total figure for treasury reports.*
- c) Individual telephone company reports are entered by month identified on the report into the computer on a 1-2-3 spreadsheet separated by telco and by month. Amounts are visually examined at this time to determine that they are within a reasonable dollar amount of one another (e.g., in the tens, hundreds, or thousands range). Any extreme variances would be researched at this time.*
- d) Total monthly changes, as well as cumulative balances, are calculated on the spreadsheet and balanced with tapes previously run for individual, 9-1-1, poison, and treasury reports.*
- e) Treasury reports and individual reports are then separated with treasury reports then entered onto another spreadsheet and reconciled with a monthly-issued report from the Treasury.*
- f) Telephone company reports are then put in files categorized by individual companies. They are visually inspected at this time for any reports which might have been filed late, and interest notices are submitted if necessary. It is important to note that missing reports are noted at this time, as well as any other problems with remittances as may have been noticed during the entering process. We do not hold up balancing due to troubleshooting procedures which will require telephone or written correspondence.*

**Although the remittance reports are reviewed for mathematical accuracy, no formalized analysis is performed when reported intrastate long distance charges fluctuate.**

*As mentioned in item c) above, amounts are visually examined at the time they are entered onto the spreadsheet to determine that they are within a reasonable dollar amount of one another (e.g., in the tens, hundreds, or thousands range).*

**In our review of monthly reports from five phone companies, we found one company reported intrastate long distance charges of \$36 million for the month of February 1994, \$92 million for the month of March, and \$55 million for the month of April.**

*Due to the fact that our collections represent funds remitted 60 days past the last day of the month in which the funds were actually collected, please keep in mind that a report dated March most likely represents funds which were incurred and billed in December, collected in January, and remitted on March 31, 1994, possibly being reported on our April books.*

*Additionally, surcharge amounts are based not on local service which would be a constant, but on long-distance intrastate calls. This dollar amount could vary due to a number of circumstances, to name a few:*

- a) Peak months of the year; (It would be expected that reports representing December's calls would typically be more than others due to Holiday traffic.)*
- b) Internal billing cycle changes;*
- c) External billing adjustments; (This would include the implementation of poison control surcharge funds. These funds would be incurred/billed in January, probably received in February, and remitted in March or April. Thus, April's dollar amount should be significantly more than February's dollar amount which probably represents calls prior to the poison control surcharge billing date.)*
- d) Periodic rate changes; or*
- e) Written-off accounts or payments thereon.*

*It should be important to note if comparing month-to-month reporting that telephone companies do not always remit the same day of each month, and often two reports could end up in one month for this reporting agency due to when it was received and forwarded to us from the treasury.*

**There is no established criteria to identify and rank phone companies who might underreport surcharges. Also, there is no process to systematically audit the phone companies.**

*This is true. The only audits performed were at the request of the Commission in 1991.*

*We agree with your recommendation that the Commission establish formalized policies and procedures to ensure the telephone companies comply with state law governing the assessment and collection of the 911 Equalization and Poison Control surcharges. The Commission should establish a system for collecting and analyzing data on intrastate long distance charges to establish a pattern of charges and to identify variances. The Commission should also investigate significant variances to determine the causes of the variances.*

*These requests will be forwarded to our Commission for consideration and approval; however, we request your assistance in the form of your recommendation that the Commission should establish criteria for auditing telephone companies based on a risk ranking of companies likely to underreport surcharges collected. We are not quite sure how to identify this criteria.*

Section 5:

**Aircraft Pooling Board: Improve Timeliness of the Collections Process, the Governing Board Should Approve Rates for Interagency Aircraft Services, Request a Comprehensive Evaluation of Flight Operations, Develop Strategies to Ensure Continued Self-Sufficiency, and Develop and Implement an Accident Notification Action Plan**

Section 5-A:

**Improve Timeliness of the Collections Process**

The agency should improve the timeliness of the collections process for interagency aircraft services. Article V, Section 20, Subsection 1g of the General Appropriations Act states that user agencies have 30 days from the date of billing to reimburse the agency for services rendered.

A sample of nine billings revealed that four were not collected within the required 30-day time frame. Collections made by the agency ranged from 35 to 147 days. Currently, the agency does not send reminder notices to agencies or make any attempts to collect until 90 days after the billing date. Because the agency does not receive any appropriations, it is dependent on the reimbursements from user agencies to fund its operations.

Recommendation:

We recommend that the agency improve the timeliness of the collection process. Measures that the governing board might take are telephonic notification followed by a written notice 5 to 10 days after the due date.

Management's Response:

*Since the board has not had a problem in the eventual collection of its billings, we have probably been somewhat lax with regard to the timeliness of payments. We have not been eager to "dun" our user agencies. However, we will initiate procedures.*

*incorporating both written and phone reminders, to agencies that do not make timely payments.*

Section 5-B:

### **The Governing Board Should Approve Rates For Interagency Aircraft Services**

The governing board of the Aircraft Pooling Board should approve rates for interagency services as required by Title I, Part IX, Section 181.8 of the Texas Administrative Code (Code). According to the Code, the governing board is charged with the responsibility of assessing reasonable fees to be charged to the agencies using the services provided by them.

The rates which went into effect April, 1, 1993, were approved by the executive director, but not by the governing board. Although the executive director has the responsibility of conducting the day-to-day operations of the agency, rate approval is the responsibility of the governing board according to the Code.

#### Recommendation:

We recommend that the governing board approve future rate changes for interagency aircraft services before the rates are implemented as required by the Administrative Code.

#### Management's Response:

*At its meeting on May 25, 1994, the governing board of the Aircraft Pooling Board decided to amend the above referenced agency rule. The amended rule will provide for the board to approve the hourly rates charged for each type of aircraft net of amounts associated with fuel costs. Fuel charges and other ground service rates will be set by staff.*

Section 5-C

### **Request A Comprehensive Evaluation Of Flight Operations**

The Aircraft Pooling Board should request a comprehensive evaluation of its Flight Operations. Such an evaluation would assist the agency in providing continued safe transportation to state officials and employees.

Federal Aviation Administration (FAA) inspectors periodically inspect selected operations of the agency. Maintenance records and aircraft are inspected to ensure compliance with applicable FAA requirements. However, the inspections are not performed on a scheduled basis. Although a comprehensive evaluation is not required under the federal regulations governing the operations of the agency, such an evaluation covering all aspects of the agency's operations would ensure that all its operations are evaluated on a periodic basis. The FAA offers these evaluations free of

charge, through the Flight Standards District Office in San Antonio, based on availability of manpower.

Recommendation:

We recommend the agency request an evaluation of its flight operations from the Flight Standards District Office in San Antonio. The evaluation should include flight operations, training, maintenance, and fuel handling. As an alternative, the agency could develop and perform a self-examination of all its operations. The results of the evaluations would be a valuable tool in detecting trends and developing action plans.

Management's Response:

*Subsequent to our receipt of the initial draft of this proposed comment, we contacted the Unit Supervisor of the Flight Standards District Office in San Antonio. He indicated to us that they would rather not conduct an evaluation of our operations unless there were some specific area(s) of concern. However, we have requested a copy of the instrument used by them in performing their evaluation. Upon receipt, we will try to incorporate appropriate sections into our internal review procedures.*

Section 5-D:

**Develop Strategies To Ensure Continued Self-Sufficiency**

The Aircraft Pooling Board should develop strategies to ensure continued self-sufficiency. Over the past three years, operating expenditures have exceeded operating revenues. Excluding the sale and purchase of airplanes, expenditures exceeded revenues by \$284,000 in fiscal year 1991, \$144,000 in fiscal year 1992, and \$140,000 in fiscal year 1993.

The agency has been successful in reducing the size of its operating deficit over the past three years. It has reduced the number of aircraft in its inventory and reduced the number of pilots in its employment. Part of the proceeds from the sale of airplanes was used to reduce operating expenditures in 1992. For the first six months of fiscal year 1994, operating revenues exceeded operating expenditures by \$100,000. Barring unexpected expenditures or a downturn in revenues, the agency can expect to generate \$200,000 in revenues over expenditures. However, as the agency noted in its Request for Legislative Appropriations for Fiscal Years 1994 and 1995, the next two to three years will be critical in determining whether it will remain a financially viable option for the State to continue to maintain an aircraft operation.

Recommendation:

We recommend that the agency develop strategies to ensure continued self-sufficiency. The strategies should also be continually reviewed and adjusted as needed. In addition to developing strategies, the Board should establish short- and long-range goals to monitor its financial performance. Finally, the agency should continue to do the following:

- Compare budget to actual revenues and expenditures and take action when appropriate.
- Review its marketing strategies with the goal of improving agency usage.
- Maximize aircraft usage.
- Periodically review its rate structure.

Management's Response:

*Aircraft Pooling Board members and staff are painfully aware of the differences between expenditures and revenues for fiscal years 1991, 1992, and 1993. We have developed strategies to ensure self-sufficiency. We are pleased that operating revenues exceed operating expenditures by approximately \$100,000 for the first six months of fiscal year 1994. We will continue to:*

- *compare budget to actual revenues and expenditures and take action when appropriate.*
- *review marketing strategies to increase usage of our services.*
- *maximize aircraft usage*
- *periodically review the rate structure*

Section 5-E:

**Develop And Implement An Accident Notification Action Plan**

The Aircraft Pooling Board should develop and implement an accident notification action plan. The plan would ensure prompt notification of federal and state agencies in the event of an aircraft accident. It would also ensure that, in a stressful environment, the required notifications are made quickly and efficiently.

The agency has an enviable safety record. Not one accident involving the loss of an aircraft or the loss of life has been recorded since the agency began operations. However, in the event of an accident, National Transportation Safety Board (NTSB) regulations require that certain information be reported to the NTSB. In addition, maintenance records and pilot flight records must be secured to assist the NTSB in the investigation. Should the accident involve government officials, notifications should be pre-arranged to avoid confusion and smooth the transition. An accident notification action plan would assist the agency in ensuring that the appropriate notifications are made to federal and state agencies and that pertinent records are secured.

Recommendation:

We recommend the agency develop and implement an accident notification action plan. The plan should designate a primary and alternate responsible person to initiate the necessary notifications. At a minimum, the plan should include the notification of the following:

- the National Transportation Safety Board and the Federal Aviation Agency
- appropriate state officials (Governor's Office, Secretary of State)
- local law enforcement officials
- next-of-kin

The plan should also identify a responsible party to gather and safeguard the appropriate records to be used by the NTSB in the investigation of an aircraft accident.

Management's Responses:

*We appreciate the auditor's comments regarding our safety record. We are proud of our safety program and freely admit that almost all of our emphasis is on preventative practices and measures. However, as with insurance, we do see value in some measures we hope we never have to use. We will develop written procedures detailing steps to be taken in the event of an accident, including proper notifications.*

Section 6:

**Council On Sex Offender Treatment: The Council Has Not Developed Policies and Procedures for Key Agency Processes, and the Council is not Aware of Pertinent Human Resource Management Rules and Regulations**

Section 6-A.

**The Council Has Not Developed Policies And Procedures for Key Agency Processes**

Policies and procedures for accounting and administrative controls, automated information systems, and strategic planing were found lacking. These are key functions necessary for the effective operations of the Council. If not corrected, the deficiencies noted below could pose substantive problems to current and future agency operations. Policies and procedures were found lacking in the following areas:

- Recording and Matching of Fee Revenue and Expenditures - Fee revenue cannot be matched with the expenditures used to generate the revenues. According to Article V, Section 58 of the General Appropriations Act, receipts from the sale of publications are to be credited to the like appropriation item from which the original costs were paid. Section 78 of the General Appropriations Act states that funds collected for the reimbursement of costs associated with conducting seminars, conferences, or clinics are appropriated for the necessary expenses incurred in conducting seminars, conferences, or clinics. Without adequate records the Council cannot comply with the provisions of Article V.
- Publications Inventory System - The Council does not inventory its publications. Generally Accepted Accounting Principles require proper accounting for assets

held for sale. Inventory data is needed to properly cost publications and ensure maximum revenue potential.

- Security Controls and Backups of Automated Files - Automated data bases serve a vital role in the Council's operations and performance reporting. Absence of security controls subject the automated data bases to unauthorized manipulation. Backups of automated data bases are essential to safeguard data files and provide support for performance measures.
- Criminal Background Check System - The planned criminal background check system for applicants to the REGISTRY does not address requirements of the Council's enabling legislation regarding disclosure and destruction of adjudication information. Agency personnel are at risk of committing a Class A misdemeanor without proper guidance concerning disclosure of adjudication information.
- Strategic Planning Process - A lack of a strategic planning process has resulted in the Council missing the March 31, 1994, deadline for submitting changes to strategic plans. Strategic plans serve as the basis for agency appropriations. Strategic plans for the 1995-1999 period are due on June 1, 1994. The strategic plan the Council submits may not be sufficient to obtain funding needed to accomplish its legislative mandates.

Recommendation:

We recommend the that Council develop and implement policies and procedures for agency processes to ensure the efficient and effective use of agency resources and safeguarding of agency assets. Policies and procedures should be developed to ensure that revenues and expenditures are properly recorded in accordance with Generally Accepted Accounting Principles. Policies and procedures should be developed to ensure inventory of publications is accurately accounted for and automated information is safeguarded. The Council should ensure its criminal background check system complies with enabling legislation requirements. Additionally, the Council should develop a strategic planning process to ensure compliance with the Governor's Office of Budget and Planning and Legislative Budget Board requirements.

Management's Response:

*The Council will take the following actions with respect to the auditor's recommendations:*

- *The CSOT will be working with the State Comptroller's office and the State Auditor's Office to set up a system for the recording and matching of fee revenue and expenditures. In addition, through the help of the Governor's Office of Budget and Planning and the Legislative Budget Board, the CSOT will identify a similar small agency which collects like types of revenue. The CSOT will consult with the identified agency on the policies and procedures for accounting and administrative controls in use by them. Accordingly, the CSOT will integrate and*

*adopt similar standards and procedures for accounting and administrative controls. The implementation of such procedures will be integrated into the daily routine of the agency's fiscal office. The development of such procedures will become a priority for the Council and it is anticipated that the Council will adopt such procedures at the October 1994 meeting of the Council.*

- *The Council will consult with the state library system and the State Auditor's Office to arrive at an inventory system in accordance with generally accepted accounting principles necessary to properly account for the assets held for sale. It is the intent of the Council to adopt a publications inventory system by August 1994, before the annual publication of the REGISTRY.*
- *The CSOT, with the advice of the agency's fiscal officer and in consultation with the Department of Information Resources, will develop a draft of policies and procedures outlining security controls and procedures for automated files backup.*
- *The CSOT is aware of the requirements for confidentiality, disclosure, and destruction of adjudication information obtained from REGISTRY applicants. The Council will adopt procedures, developed in consultation with the Texas Department of Public Safety, during the July 27 Council meeting. The new procedures will go into effect during the renewal process which begins in September 1994.*
- *To ensure that the strategic planning process enhances the CSOT's goals and objectives in the future, the CSOT will develop policies and procedures to guide the Council during the strategic planning process during the July 27, 1994 meeting.*

Section 6-B:

### **The Council Is Not Aware Of Pertinent Human Resource Management Rules And Regulations**

The Council is not in compliance with provisions of the Fair Labor Standards Act (FLSA) minimum wage and overtime provisions and Article V, Section 5 of the General Appropriations Act, and Governor's Office and Legislative Budget Board guidance related to achievement bonuses. The Council's non-compliance is attributable to the its lack of familiarity with the rules and regulations related to FLSA and the awarding of achievement bonuses. We found that:

- Council employees are not classified in accordance with the Fair Labor Standards Act. Proper classification of the agency's employees is essential to determine which employees are subject to the overtime provisions and which employees are exempt. FLSA determination is based on actual job duties as defined in 29 C.F.R. Part 541. Failure to properly classify employees increases the risk of litigation for back payment of overtime wages.

- The Council awarded an employee an achievement bonus two months after awarding the employee a salary increase. Article V, Section 5 of the General Appropriations Act and instructions from the Governor's Office and the Legislative Budget Board specify that before an employee can be given a bonus, he or she must not have received a salary increase for a minimum of six months prior to the achievement bonus award.

Recommendation:

We recommend that the Council ensure compliance with the FLSA provisions and achievement bonus program criteria. The Council should evaluate the duties of each of its employees for proper FLSA classification as defined in 29 C.F.R. Part 541. Further, the status of each employee should be documented. The Council should consult with the Classification Division of the State Auditor's Office if additional guidance in this matter is needed. The Council should also perform a review of its human resource function and ensure that applicable rules and regulations related to personnel actions are complied with in the future.

Management's Response:

*In response to the finding related to the classification of employees in accordance with the Fair Labor Standards Act, the following policy was adopted by the Council during the May 1994 meeting:*

*All employees of the Council on Sex Offender Treatment are classified as exempt under the determination of the Fair Labor Standards Act as defined in 29 C.F.R. Part 541. The Council will award overtime compensation by providing an employee compensatory time off for each additional hour worked in a daily work shift of 8 hours. Employees are required to take accrued compensatory time within three months from the time it was accrued.*

*The Council was unaware of Article V, Sec. 5 of the General Appropriations Act, which states that an employee is subject to a minimum six month requirement prior to consideration of an additional award. The CSOT notes the need for policies and procedures in the area of human resources to prevent a similar incident from occurring again. The Council has already taken action to adopt procedures consistent with other state agency practices. The CSOT has contacted another small agency and requested assistance in establishing human resource management policies and procedures. The Council will adopt appropriate policies and procedures to comply with human resource management rules and regulations during the July 1994 meeting of the Council.*

## Credit Union Department: Improve The Monitoring Of Credit Unions With Deficiencies

### Section 7-A-

#### Improve The Monitoring Of Credit Unions With Deficiencies

The Texas Credit Union Department should improve the monitoring of credit unions with deficiencies. Although the Department performed timely remedial examinations of credit unions with the most serious problems, it did not perform remedial examinations on some credit unions with less serious problems. In addition, the Department does not have an adequate system for tracking remedial examinations and documenting the reasons reviews were not performed.

The Department did not perform remedial examinations on some credit unions. Two of eight credit unions tested that should have received a remedial examination during the first six months of fiscal year 1994 had not been reviewed. Department guidelines specify semiannual or quarterly remedial examinations, depending on the severity of the problems identified. Exceptions to this policy have not been adequately documented.

Failure to perform remedial examinations increases the risk that a credit union's problems will not be detected in a timely manner. Timely monitoring of a credit union's condition is essential if corrective action is to be taken before more serious problems develop.

#### Recommendation:

The Department should improve the monitoring of credit unions with deficiencies. For example, the Department could restructure its workload to allow examiners more time for remedial examinations. Additionally, the Department should improve its system for tracking and reporting the status of remedial examinations.

#### Management's Response:

*The Credit Union Department has reviewed the audit finding and recommendations for improvements in the monitoring of credit unions with deficiencies. There were some remedial examinations on credit unions with less serious problems where the scheduled contacts were not made and the reasons for not performing the remedial examinations were not adequately documented.*

*We have for sometime recognized that our system for tracking and documenting remedial examinations activity was inadequate. Numerous manual subsystems have been eliminated and the integration of the processes comprising the management reporting system is being achieved. Full automation of the remedial examination tracking and reporting system occurred on April 7, 1994. Further refinement of remedial tracking, processing, and reporting procedures is ongoing.*

*To ensure that all remedial examinations required by policy are performed or that deferral is properly approved and documented, operating procedures have been refined to require approval by the Deputy Commissioner when a contact will not be made as scheduled. The board of directors of each credit union is routinely provided feedback regarding the progress of the institution.*

*We have begun a risk-based allocation of manpower which allows the examination staff to focus on remedial efforts. Further refinement of the risk assessment procedures is anticipated before the end of this fiscal year.*

*The Department believes that these changes in the allocation of resources, and the scheduling and monitoring process for remedial examinations will improve the supervision of those credit unions experiencing operational or financial difficulties.*

Section 8:

## **Texas Department Of Banking: Strengthen Accounting Controls**

Section 8-A:

### **Strengthen Accounting Controls**

The Department of Banking should strengthen its accounting controls over the collection of fees, access controls over the Uniform Statewide Accounting System (USAS), and fixed assets. Improvements in the following areas would enhance the Department's ability to safeguard its assets:

- **Fee Collection** - Bank examiners collect the \$50 examination fee from the banks they examine. Although the procedure speeds the collection process, the duties of examiner and collector are not compatible. For fiscal year 1994, the Department expects to collect a total of \$18,250 for the 365 bank examinations which are planned for the year. The lack of segregation of duties in the examination and revenue collection functions increases the risk that errors or irregularities could occur and remain undetected.
- **Access Controls** - The Department has granted a level of access to USAS to several employees which is not necessary for the performance of their duties. This access allows them to change the Department's chart of accounts, increasing the risk of unauthorized changes to the accounting system. The level of access granted an employee should match the employee's duties and responsibilities.
- **Fixed Assets** - The Department does not require its employees to sign a statement acknowledging responsibility for the fixed assets in their custody. A prior audit issue noted weaknesses in controls over fixed assets and is considered partially resolved. Employees should be held accountable for assets in their custody and they should be informed of such responsibility in writing.

#### Recommendation:

We recommend that the Department strengthen accounting controls to ensure its assets are properly safeguarded. The collection process for bank examination fees

should be modified so that examiners no longer collect fees. Also, reconciliation procedures should be established to ensure that all examination fees are being collected and properly accounted for. Access to the Uniform Statewide Accounting System should be evaluated to ensure that access to the system is compatible with the job duties and the level of responsibility of the employees. Finally, employees should be required to sign a statement acknowledging responsibility for all fixed assets in their custody.

Management's Response:

*The Department appreciates the good working relationship established by the audit team during the engagement. In addition, we acknowledge the team's professionalism and willingness to work with the Department staff members to develop meaningful solutions rather than simply identifying weakness. We concur with all the auditor's findings and believe that once implemented the recommendations will indeed serve to strengthen the Department's accounting controls. With respect to the three areas of improvement recommended by the auditors, the Department will take the immediate steps to implement all of them.*

- Fee Collection - *The Department will take immediate steps to ensure that examiners are no longer responsible for physically collecting bank examination fees. We will investigate whether it is economically feasible for the Department to bill banks centrally for the \$50 examination fee, send invoices from the Headquarters Office once examination reports have been received, and request banks to remit the \$50 directly to the Department lock-box. If, however, central billing does not prove a viable option in terms of administrative burden, cost, or timing of collections, the Department will revise its policy so that examiners will present banks with an invoice and remittance slip at the time of the examination so that a bank may send its check directly to the Department's lock-box. In addition, fees collected will be periodically reconciled with billing invoices or remittance notices to ensure that all revenue is being collected in a timely manner. The policies related to collection of examination fees should be implemented no later than September 1, 1994.*
- Access Controls - *The Department, like other state agencies, has only recently implemented the Uniform Statewide Accounting System (USAS), and as part of the process, we are still learning the finer points of setting up security codes and access security levels which are appropriate given the responsibilities of the employees in the Budget & Planning and Accounting Divisions. We appreciate the auditors' help in reviewing our security access levels in light of job responsibilities, and we will take immediate steps to implement the auditors' recommendation. The access levels will immediately be modified to provide only the Chief Accountant and the Director of Budget & Planning access to the chart of accounts. We feel that as the auditors pointed out, this will reduce the risk of unauthorized changes to the Department's accounting system.*
- Fixed Assets - *The Department is in the process of improving the inventory controls and documentation related to fixed assets. As part of this process, we*

will require each of our employees to complete and sign a form similar to the one used by the Auditors Office to record individual custody of fixed assets for their employees. These forms will then be reconciled to a physical inventory of fixed assets. The forms will be forwarded to our employees no later than July 1, 1994. Again we appreciate the auditors' recommendation, which we feel will further strengthen our controls in this area.

Section 9:

## **Texas Department Of Licensing And Regulation: Improve The Timeliness Of Inspections and Comply With Applicant Screening Process To Meet Job Posting Minimum Requirements**

Section 9-A:

### **Improve The Timeliness Of Inspections**

The Department of Licensing and Regulation should improve the timeliness of manufactured housing and boiler inspections. These inspections are required by Article 5221f, Sections 14 and 15, V.T.C.S, and Chapter 755, Section 755.025 of the Health and Safety Code, respectively.

4,027 manufactured homes, or 34 percent of the 11,952 homes placed in use between September 1993 and February 1994, have not been inspected by the Department. Manufactured homes not properly secured have a much higher risk of sustaining wind damage. To protect the health, safety, and welfare of the occupants, the Department is charged with ensuring that these homes are able to withstand winds of up to 105 miles per hour in coastal counties and gale-force winds in other parts of the State.

As of February 1994, there were 7,079 boilers requiring immediate inspections. These units had an expiration certificate over 90 days past due. Approximately 3,500 of these boilers are uninsured, for which the Department has the responsibility to conduct the inspections. Insurance companies are responsible for the inspection of the insured boilers and report to the Department upon inspection compliance. Timely inspection of boilers is necessary to minimize the likelihood of accidental release of poisonous gases or accidental explosion.

#### Recommendation:

We recommend that the Department improve the timeliness of inspections of manufactured housing and boilers. The Department should institute procedures to ensure that the required inspections are done on a timely basis. In addition, the Department should establish a time frame for completing the back log of inspections.

#### Management's Response:

While we might quibble over the numbers and the definition of "backlog" the bottom line is that we are behind in some required inspections. The audit recommendation seems to imply that we are ignoring or are unaware of the problem when in fact,

*we've been wrestling with it for almost a year. It is not for a lack of procedures and timeliness that the problem has yet to be resolved.*

*At present our priorities are being driven by resource problems (lack of funds and personnel to meet growth) in directions we do not necessarily prefer. The explosive growth in manufactured housing plants over the past year has forced us to move already scarce resources to these inspections, for which we have a contractual obligation at the expense of everything else. The audit report is quick to point out inspections on which we've fallen behind. But it fails to acknowledge that we have maintained a 100% inspection coverage rate for manufactured housing plants in spite of an unexpected 200% annual growth rate.*

*Senior management has been struggling with the question of how to place more emphasis on our desired priorities with limited resources. We do not like reactive priorities and prefer to work more proactively in setting priorities to protect public safety and welfare.*

*In setting priorities, we look at several factors:*

- 1. Health and safety. Is there potential danger to the public? The areas we regulate where there is risk of someone being injured or killed include boiler, manufactured housing installations, and boxing events. To a lesser extent, manufactured housing construction (plants), air conditioning contractors, and elevators may be included in this category, although the law grants us little inspection authority in the case of elevators.*
- 2. Legal or contractual obligations. In some instances the law requires certain inspections. For instance, we are required to inspect buildings which fall under the architectural barriers laws. Some laws do not specifically require inspections and so inspections or investigations are primarily complaint-driven -- we investigate or inspect only when a complaint is filed. In the case of manufactured housing construction, we are legally bound by federal contract to perform inspections of manufactured housing plants and of homes constructed in those plants.*
- 3. General public harm. Most of our statutes fall into this category to one degree or another. The potential for persons falling victim to fraud or economic harm was the basis for laws regulating such areas as staff leasing services, auctioneering, personnel employment services, talent agencies, etc. The number of persons potentially affected by these laws generally are fewer than those covered by health and safety laws.*
- 4. Political considerations. Like any other state agency, we are buffeted by political winds. We would not be so naive as to say we don't pay attention to political influences which could affect our funding or just make life miserable for us. Thankfully, the political pressures are few at the moment and are not a primary element in setting priorities.*

*Given all these factors, our "desired state" for inspection priorities are as follows:*

*Boiler*

*Manufactured housing installations*

*Boxing events*

*Manufactured housing plants*

*Architectural barriers*

*Air conditioning contractors*

*Elevators*

*Staff leasing services*

*Industrialized housing and buildings*

*Auctioneers*

*All others*

*As noted above however, the sheer volume of manufactured housing plants coupled with a federal contract has forced us to make this area our top priority to the detriment of installations and other types of inspections. The question remains of what to do about it.*

*Since we know additional resources will not be forthcoming, we've tried to be more creative in our approach to inspections. This past year, we improved our inspection coverage by focusing on improvements in inspection processes, travel and scheduling. However, still more inventive methods will be necessary to match the phenomenal growth in workload we have experienced. These methods apply to inspections of all types, because only by relieving workload in other areas can we give installation and other inspections the attention they require. Some of the methods under discussion include:*

- Third-party inspection - Two months ago we authorized third party inspections in the area of industrialized housing. This enabled us to move approximately 1.5 FTEs over to other inspection areas. Relinquishing our federal contract and authorizing third party inspections in manufactured housing plants also is possible. But there are extraordinarily difficult financial, legal and political implications in doing so.*
- Contracting with cities where allowed by law - We can contract with cities to perform architectural barrier inspections and manufactured home installation inspections. In the latter case, the cities have not expressed much interest because it is not economically appealing to them. We presently are exploring ways to solve that problem.*
- Spot-check inspections where feasible (instead of total coverage) - The law does not actually require the Department to inspect every manufactured home installation. We are exploring the possibility of inspecting a certain percentage and following up more closely on bad installers.*
- Re-allocating inspectors to cover larger territories - There's nothing magic about regional boundaries and we've had inspectors "cross lines" before. While this is an option we generally use it sparingly because it drives up travel costs.*

*All of these options have repercussions and may take considerable time and effort to implement. However, "do nothing" is not an option for us.*

*In the area of boiler inspections, all the creativity in the world probably will not help much more -- we've streamlined this area to death because we have been chronically behind in boiler inspections for years. Most inspections must be performed by qualified inspectors who have passed state exams, so we are limited in our ability to use cross-functional inspectors as we can in other areas. In the last two legislative sessions, we made a strong effort for funding for five more boiler inspectors, but to no avail. We don't like to ask for more funding because the automatic assumption is that we could work more efficiently, and we constantly review our processes to do so. But in this case, we are convinced that more efficiency will not gain us enough to meet the need. We haven't given up, but we need **help**. Based on current resources and growth in the industry, we estimate it will take five years to eliminate the backlog.*

Section 9-B:

### **Comply With Applicant Screening Process To Meet Job Posting Minimum Requirements**

The Department is not complying with established internal procedures of screening applicants for minimum qualifications. Also, the Department does not document whether the applicant's stated experience or qualifications were confirmed. These procedures are that the Human Resources Division will screen all applications to ensure that only those meeting the minimum requirements are forwarded to the hiring authority. In some cases, the hiring authorities are overriding the screening process and considering all applicants for the posted positions.

Applications for 7 of the 100 job postings for fiscal years 1993 and 1994 were reviewed. Of these, four individuals hired did not appear to meet the minimum experience required by the job posting. Of the applicant review forms used to document the process:

- One clearly indicated to not forward for further review.
- One indicated a lack of qualifications while being silent on whether to either not consider further or forward.
- One was silent on whether to either not consider further or forward.
- One posting had no form, although there was only one applicant.

In addition, the applicant files did not document whether experience and qualifications were verified.

The Department is at risk from potential lawsuits from individuals who did not apply because of the posted experience and qualification requirements. Overriding the screening process creates inefficiency in the hiring process. The time spent on the screening process is wasted, and time is spent interviewing unqualified applicants. Not verifying the experience and qualifications of applicants could result in the hiring of inexperienced and unqualified employees requiring additional training time.

**Recommendation:**

We recommend that the Department follow their internal procedure of having the Human Resources Division screen qualified applicants for posted positions. Only those meeting the minimum criteria should be eligible for further consideration. Deviations from this procedure should be justified and documented. The applicant review form should be used to document the decision process. In addition, applicant experience and qualification verifications should be done on a consistent basis and documented.

**Management's Response:**

*This finding states that "Department policies require the Human Resources Division to screen all applicants to ensure that only those meeting the minimum requirements are forwarded to the hiring authority." However, that is not the policy of the department.*

*Department procedures do require Human Resources to initially review all applications regarding applicant qualifications. Their findings are to be indicated in the "HRMO review" section of the Applicant Review Form.*

*After that, all applications, whether or not they meet minimum qualifications are available for the hiring authority to review. According to our pre-employment process: "Upon completion of initial review, applications to be considered will be forwarded to appropriate hiring authority. The cover memo should indicate the total number of applications received for the position, the number being forwarded for review by the hiring authority and that the remaining applications are available for review by the hiring authority, if desired." (emphasis added)*

*This process was set up so that Human Resources could act as a service to hiring authorities in assisting them with the initial screening. The process also ensured that Human Resources could offer their best professional opinion in the initial screening. Many hiring authorities rely on this opinion and do not wish to review all applications. However, in those instances where they do, the process allows them that flexibility.*

*While review of all applications by the hiring authority is allowed, we apparently may have gaps in how applicant qualifications actually are documented. We will be reviewing our procedures and the sample applications used by the auditors to see if there are any improvements we need to make or training we need to provide, especially in regard to verifying and documenting applicant qualifications. We will review our processes and implement any needed improvements by August 1.*

Section 10:

## **Agencies With No Significant Findings**

The agencies listed below were found to be operating effectively. Nothing came to our attention during our limited examination of policies and procedures.

administrative and accounting controls, and management of human resources to indicate the existence of significant issues.

- Texas Savings and Loan Department
- Low-Level Radioactive Waste Disposal Authority
- State Office of Administrative Hearings
- Texas Incentive and Productivity Commission

Copies of this report have been distributed to the following:

### **Legislative Audit Committee**

Honorable James E. "Pete" Laney, Speaker of the House, Chair  
Honorable Bob Bullock, Lieutenant Governor, Vice Chair  
Senator John Montford, Chair, Senate Finance Committee  
Senator Kenneth Armbrister, Chair, Senate State Affairs Committee  
Representative Robert Junell, Chair, House Appropriations Committee  
Representative Tom Craddick, Chair, House Ways and Means Committee

### **Governor of Texas**

Honorable Ann W. Richards

### **Legislative Budget Board**

### **Sunset Advisory Commission**

Chief Executive Officers and Board Members/Commissioners of the following entities:

**Texas Ethics Commission**

**Pension Review Board**

**Office of the Fire Fighters' Pension Commissioner**

**Advisory Commission on State Emergency  
Communications**

**Aircraft Pooling Board**

**Council on Sex Offender Treatment**

**Credit Union Department**

**Department of Banking**

**Texas Department of Licensing and Regulation**

**Texas Savings and Loan Department**

**Texas Low-Level Radioactive Waste Disposal Authority**

**State Office of Administrative Hearings**

**Texas Incentive and Productivity Commission**