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## A Review of Management Controls at the Texas Education Agency

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December 1996

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# Key Points of Report

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### Overall Conclusion

The Texas Education Agency (Agency) has not fully attended to management controls over its operations. Some of the issues raised in this report have been identified as far back as 1990. Weaknesses in the Agency's overall management systems have created significant risks and challenges for the Agency.

### Key Facts and Findings

- Instances of noncompliance with state and Agency policies and procedures highlight breakdowns in the Agency's overall control environment. Some instances raise concerns of an ethical nature. The Agency has documented operating procedures and a process for establishing and updating those procedures. However, a pattern of noncompliance suggests that control procedures are not properly understood or performed by staff, thereby increasing the risk of undetected errors or irregularities.
- Control weaknesses were identified in the areas of human resource management, grants, contracts, revenues, expenditures, property inventory, and financial reporting. Additionally, the internal audit function has been ineffective, which has compounded these control weaknesses. The control weaknesses, along with instances of noncompliance with Agency operating procedures, increase the risk of ineffective and inefficient operations.
- The Agency does not adequately monitor the effectiveness and efficiency of its internal operations. Performance measures have been defined to evaluate the public education system, as a whole, which is appropriate. However, performance measures for the public education system do not provide specific guidance or feedback about the Agency's operations and administration.
- The Agency has lacked a unified approach to internal information system management. Fragmented information systems increase the risk that management will make decisions based upon incomplete or inaccurate data. The Agency has recently instituted some commendable efforts at an Agencywide level to improve information flow and communication.

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## Office of the State Auditor

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*This audit was conducted in accordance with Government Code, Section 321.0133.*

## Executive Summary

The Texas Education Agency (Agency) has not fully attended to management controls over its operations. Some of the issues raised in this report have been identified as far back as 1990. Weaknesses in the Agency's overall management systems have created significant risks and challenges for the Agency. The Agency must ensure that its operating budget of \$69.1 million for fiscal year 1997 is adequately controlled.

The Agency was required by legislation to reduce its workforce during fiscal year 1996. The Agency prepared a reallocation plan for a reduction in workforce; from 1,144 full-time equivalent positions to 889 full-time equivalent positions by September 1, 1996. This has caused a major shift in employees' workloads. Many employees refer to budget cuts and staff reductions for the inability to fulfill job duties and responsibilities. However, it is difficult to determine if existing resources are being used most effectively and efficiently. The control systems discussed in this report should assist in making that determination.

### **A Lack of Enforcement of Daily Operational Procedures Has Created a Weakness in the Agency's Control Structure**

Instances of noncompliance with state regulations and Agency policies and procedures highlight breakdowns in the Agency's overall control environment. The Agency has documented operating procedures and a process for establishing and updating those procedures. However, a pattern of noncompliance suggests that control procedures are not properly understood and performed by staff, thereby increasing the risk of undetected errors or irregularities.

Instances of noncompliance were detected which raise concerns of an ethical nature. For example, instances of inaccurate and incomplete reporting of personnel leave were detected. Also, instances of noncompliance were identified in areas related to conflict of interest, dual employment, use of the travel advance fund, and contract management.

### **Controls Can Be Improved to Ensure Effective and Efficient Operations**

Control weaknesses were identified in the management of human resources, grants, contracts, revenues, expenditures, property inventory, and financial reporting. Additionally, the internal audit function has been ineffective, which has compounded these control weaknesses.

The Agency has taken recent actions to address prior weaknesses with human resource management, particularly with the update of documented policies and procedures. Yet, some major human resource control systems are still in need of improvement. The Agency has budgeted 888 full-time equivalent positions and approximately \$33.1 million for salaries in fiscal year 1997. The ability of the Agency to realize its goals and objectives and to address control weaknesses depends on how well it can secure, manage, and evaluate its human resources.

In the area of fiscal management, the following weaknesses increase the risk of ineffective and inefficient operations:

- The Contracts and Grants Division does not conduct a formal risk assessment to make decisions for on-site monitoring visits.

## Executive Summary

- The Agency does not have a formal written policy for the renewal or extension of standard contracts for professional services.
- The Agency's policy for the planning and management of professional conferences sponsored by the Agency is not comprehensive.
- The accounting system does not have controls to prevent or detect duplicate payments.
- The purchase and installation of personal computer resources are not completed in a timely manner.
- Accounting for property inventory is inaccurate.
- The process used to prepare the Annual Financial Report is inefficient and subject to errors.

### **The Agency Lacks a Comprehensive Performance Measurement System for Operations and Administration**

The Agency has not defined comprehensive measures to evaluate the effectiveness and efficiency of its internal operations. Performance measures have been defined to evaluate the public education system as a whole, which is appropriate. However, performance measures for the public education system do not provide specific guidance or feedback about the Agency's operations and administration. The Agency is only one component of the public education system.

Agency operational plans should be more specific to identify:

- Performance measures
- Deadlines, timetables, and schedules
- Progress checkpoints along the way
- Individuals who will perform the tasks

A survey of directors and managers showed that there is a lack of consistency among management in its evaluation of effectiveness and efficiency. Management does not adequately evaluate its operational effectiveness with a focus on services to direct customers. Mechanisms are in place to obtain informal feedback from regional education centers and school districts, but there is a lack of formalized, quantified measures. Additionally, management does not adequately evaluate key business processes.

One effort is underway to address the need for improved measures in the areas of accounting, budgeting, contracts and grants, and other administrative services. This initiative should lay the groundwork for improvements throughout the Agency.

### **Communication and Information Management Are Not Integrated Throughout the Agency**

The need for improvement in intra-Agency communication and coordination has been a recurring issue at the Agency for several years. The Agency has reorganized during the past year in an effort to improve information sharing and communication with regional and local educators. However, management and staff still refer to a need for improved communication internally between divisions and between management and staff.

The Agency has lacked a unified approach to internal information system management.

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The Agency estimated expenditures for information resources in fiscal year 1997 of approximately \$23.5 million. The lack of an integrated approach to information systems management has increased the likelihood of control weaknesses in all divisions. In response to *An Assessment of the Texas Education Agency's Monitoring System for Public Education* (SAO Report No. 96-072, August 1996), the Agency communicated its plans to charter an Information Systems Advisory Committee in September 1996, which will become the Agency policy-making body governing information technology across the Agency.

### Summary of Management's Response

*The Texas Education Agency, like all large organizations, can enhance its management controls. The agency has significant controls to protect its operations and funding. It recognizes the control weaknesses identified in the management audit report and has taken steps to correct these exceptions.*

*The Texas Education Agency is operating more efficiently, having reduced the number of FTE's 22% as well as district reporting requirements and administrative rules governing school district operations. The commissioner has reorganized the agency to improve its functions, operations, and communications, both internally and with its customers.*

*Several major initiatives have been undertaken to improve agency management and operations, including acting as a lead partner in the development and implementation of the new Integrated Statewide Administrative System (ISAS), developing the Commissioner's Plan for Information Access, initiating a new employee*

*performance appraisal system, and authorizing a major agency-wide staff development initiative.*

*The agency, along with the Comptroller for Public Accounts and the Department of Protective and Regulatory Services, is providing state leadership in the development and implementation of ISAS. This system is a distributed client-server software system that supports all statewide interfaces and will improve agency administrative and financial management. Planning is ongoing, with initial implementation scheduled for June 1997.*

*The Commissioner's Plan for Information Access is a \$25.5 million initiative proposed for the 1998-99 biennium. The plan supports improved information service and education data access for the education community, state policy leaders, and the public. Implementation of the plan will improve access to school district and campus accountability and financial data, enhance local control and decision-making, and provide new tools for identifying best education practices and analyzing campus and district performance.*

*The agency's new performance appraisal system covers all employees, including exempt positions and senior management. It provides management and staff with a standardized tool for updating job descriptions, evaluating annual performance, and setting employee performance goals. It can be tailored to show progress in meeting both agency and division initiatives and priorities.*

*Commissioner Moses and senior management have implemented a major staff development initiative to improve agency management and enhance the technological skills and capabilities of every employee. Executive managers are being trained in Stephen*

## Executive Summary

*Covey's Seven Habits of Highly Effective People and Principle-Centered Leadership. The agency is also developing new training for all employees in its office software package. This training will establish an infrastructure that enhances day-to-day office operations and helps create an environment that facilitates the Commissioner's Plan for Information Access.*

*The agency is involved in an ongoing effort to improve enterprise information planning and communications. Commissioner Moses has chartered an Information Systems Advisory Committee at the deputy commissioner level to coordinate policy and strategic information systems planning and priority setting. The committee, with strong cross-agency support, will address the agency's future information needs, resolve critical data definition issues, and continue the Enterprise Data Model project.*

*The agency recognizes that the internal audit division can be improved and has already begun corrective action. Staff from the agency's school district financial audit function, which effectively recovers millions of dollars each year for the state, have been assigned to some internal audit responsibilities. Further, a peer review of the division is being scheduled.*

*The agency has appropriate procedures in place for its operations. Accompanying such procedures is an emphasis on customer service and high standards of professionalism and ethics. Commissioner of Education*

*Mike Moses has communicated this emphasis directly to each employee. The emphasis on high quality service and professionalism is also reflected in the agency's strategic plan for the 1997-2001 period. Agency senior management continue to refine these standards as the agency rises to the challenge of attaining the highest standards of conduct, accountability, and open communication.*

### Summary of Objective and Scope

The objective of the audit was to make an assessment of management processes and control systems at the Texas Education Agency. The scope of this audit included the operations and administration of the Agency. Operational strategies and appropriations for fiscal years 1996-1997 are defined by Goals B and C in the General Appropriations Act. The operating budgets for fiscal years 1996 and 1997 were \$63.5 million and \$69.1 million, respectively. The scope of this audit included a review of the processes by which the Agency scans the environment and establishes plans; organizes itself to meet those plans; identifies and controls the use of human, financial, and other resources; and reports and evaluates the results of its performance. The methodology used on this audit consisted of collecting information, performing audit tests and procedures, analyzing the information, and evaluating the information against pre-established criteria.

## Overall Conclusion

The Texas Education Agency (Agency) has not fully attended to management controls over its operations. Some of the issues raised in this report have been identified as far back as 1990. Weaknesses in the Agency's overall management systems have created significant risks and challenges for the Agency. The Agency must ensure that its operating budget of \$69.1 million for fiscal year 1997 is adequately controlled.

The Agency was required by legislation to reduce its workforce during fiscal year 1996. The Agency prepared a reallocation plan for a reduction in workforce; from 1,144 full-time equivalent positions to 889 full-time equivalent positions by September 1, 1996. This has caused a major shift in employees' workloads. Employees have referred to budget cuts and staff reductions for the inability to fulfill job duties and responsibilities. However, it is difficult to determine if existing resources are being used most effectively and efficiently. The control systems discussed in this report should assist in making that determination.

### Section 1:

## **A Lack of Enforcement of Daily Operational Procedures Has Created a Weakness in the Agency's Control Structure**

Instances of noncompliance with state regulations and Agency policies and procedures highlight breakdowns in the Agency's overall control environment. The Agency has documented operating procedures and a process for establishing and updating those procedures. However, a pattern of noncompliance suggests that control procedures are not properly understood or performed by staff, thereby increasing the risk of undetected errors and irregularities. The first four situations raise concerns of an ethical nature:

- Instances of inaccurate and incomplete reporting of personnel leave were detected which are underscored by weak access controls over the leave accounting system. In one case, the Agency timekeeper did not report any leave since September 1993 until the State Auditor's Office brought it to the attention of management. The employee then reported approximately 350 hours of leave for the period from September 1993 to July 1996. Instances of inaccurate and incomplete reporting of personnel leave were identified in two other divisions.
- A division director misused his authority in the conduct of state business related to activities of a national committee. For example, the director received travel reimbursements directly from a higher education institution with funds over which the Agency has regulatory responsibilities. Additionally, the director improperly signed a contract for services of \$227,861 on behalf of an independent school district. Control weaknesses were identified at the Agency which included a lack of review and oversight of the director's activities.

- An employee did not properly notify the Agency about supplementary employment at a university.
- Employees did not comply with Agency operating procedures in the use of the travel advance fund. During the period from September 1995 to May 1996, 18 employees were over 30 days delinquent in submitting travel vouchers for reimbursement of travel advance funds. Six of those employees were over 60 days delinquent. Agency policy requires processing in 5 days. Approximately \$350,000 in travel advances were issued in fiscal year 1996. In three cases, employees were granted a second advance with the first still outstanding.
- A few instances of noncompliance with contract management policies and procedures were identified. Generally, the Agency has adequate policies and procedures for contract administration, but the instances of noncompliance reflect a lack of consistent enforcement. For example, a review of nine contracts showed that work began on two projects prior to a contract being signed. A \$2.69 million project was started in 1993, prior to the signing of the contract, based upon the approval of an employee who did not have management's approval to do so. In addition, two contract provisions were omitted, making the contract noncompliant with federal regulations. In 1995 another project (for \$316,505) was started prior to the contract being signed.

Recommendation:

Management should emphasize to all employees the importance of adhering to established policies and procedures. Review and oversight of daily operational procedures should be emphasized in the form of performance requirements for every employee. Management should underscore the Agency's *Code of Ethics For Public Service* through training and supervisory review. Specifically, management should:

- Routinely monitor employees' leave transactions and trends.
- Ensure that employees are fully aware of policies regarding conflict of interest and dual employment.
- Aggressively enforce the Agency's operating procedures for the use of the travel advance fund.
- Ensure that proper approvals are obtained for contracts prior to work beginning.
- Ensure that all required provisions are included with each contract.

Management's Response:

*The Texas Education Agency has appropriate procedures in place governing its operations; however, as with all large organizations, efforts to enhance management controls must be continuous. Commissioner of Education Mike Moses has communicated his emphasis on customer service and high standards of*

*professionalism and ethics directly to each employee. The cases of noncompliance with procedures that have been verified from the audit report are exceptions. All issues raised in this report have been addressed and, in most cases, corrected. In those instances where the results of an investigation indicate an area in need of improvement, appropriate action will be taken.*

*The agency is taking steps to improve controls over its leave accounting system by taking corrective actions as appropriate and implementing the USPS leave accounting system. The agency is working with the state comptroller's office to implement the system in January 1997. The agency already uses the USPS payroll system. The new system should directly address the security concerns raised in this audit.*

*Agency management will enhance its steps to make all employees fully aware of procedures regarding conflict of interest and dual employment. The agency will continue to investigate and take appropriate corrective steps when employees are found to violate agency procedures.*

*The agency maintains a travel advance fund in an effort to provide efficient and superior customer service to its traveling employees. Only three travelers delinquent in turning in their travel vouchers received a second travel advance out of 833 travel advances processed during the period covered by the audit. Each of them turned in appropriate vouchers past the deadline. The monitoring of the travel advance fund is aggressive and improving. A re-engineering study of internal operations business functions addressed further enhancements in managing agency travel.*

*A revised operating procedure governing contracts was presented to division managers and approved in October 1996. The update will focus on approval prior to work beginning and further ensuring that all provisions are included in each contract.*

**Auditor's Follow-Up Comment:**

The instances of noncompliance with state regulations and Agency policies and procedures cannot, with certainty, be called exceptions. The Agency does not have adequate monitoring and enforcement procedures to ensure that other potential instances are prevented or detected.

Section 2:

## **Controls Can Be Improved to Ensure Effective and Efficient Operations**

Control weaknesses were identified in the areas of human resource management, grants, contracts, revenues, expenditures, property inventory, and financial reporting. Additionally, the internal audit function has been ineffective, which has compounded these control weaknesses.<sup>1</sup> The ineffectiveness of the internal audit function has been

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<sup>1</sup>A separate report will be issued by the State Auditor's Office on the effectiveness of internal audit.

reported since 1993 by the State Comptroller of Public Accounts and the State Auditor's Office. The control weaknesses, along with instances of noncompliance with Agency operating procedures, increase the risk of ineffective and inefficient operations.

Section 2-A:

### **Human Resource Management Controls Can Be Improved**

The Agency has taken recent actions to address prior weaknesses with human resource management, particularly with the update of documented policies and procedures. Yet, some major human resource control systems are still in need of improvement. The Agency has budgeted 888 full-time equivalent positions and approximately \$33.1 million for salaries in fiscal year 1997. The ability of the Agency to realize its goals and objectives and to address control weaknesses depends on how well it can secure, manage, and evaluate its human resources.

- The Agency's system to evaluate employee performance has been ineffective. The system has been in place since March 1982, without any substantial revision until August 1996. The new system will address many prior weaknesses. The revised system was ready for implementation in 1995, but was delayed due to legal concerns related to the reduction in force.
- Agency policy has always required annual performance evaluations, but 9 out of a test of 29 personnel files did not have a current evaluation on file. Three of the exceptions were in the Human Resources Division, and merit increases were granted for those same employees without current evaluations.
- Functional job descriptions do not exist for every position, nor are they communicated to employees in a timely fashion. While a brief summary of the essential functions are listed in the job posting, specific job descriptions and requirements are not always communicated to employees in advance of their performance appraisal.
- The Agency did not fully comply with state law requiring that all positions open to external candidates be listed with the Texas Employment Commission (now the Texas Workforce Commission). Five intern positions were filled since 1994 without proper job postings. All non-intern positions tested were properly posted.
- The Agency has not made a comprehensive assessment of the training needs of its employees or prepared a formal training plan. Training needs identified as part of the performance evaluation system are not used to help identify Agencywide training needs. The need to improve training and staff development was identified in 1990 by Price Waterhouse and again by the State Comptroller in 1993. The exclusion of the staff development function

from the organization chart may indicate a lack of support for internal training from management.

- Controls over the leave accounting system are weak. The Agency has 65 timekeepers who have access to all employees' time records. Although an audit trail of updates exists, no one routinely reviews it. As noted earlier, instances of inaccurate and incomplete reporting of personnel leave were detected. The leave system has limited reporting capabilities, and management does not monitor leave transactions or trends of its employees.
- The Agency analyzes turnover trends related to salaries and specific careers. However, the Agency does not fully utilize information obtained from exit interviews to analyze employee turnover. Without this analysis, management loses an opportunity to identify trends and correct problems or situations that cause employees to leave the Agency.

Recommendation:

Management should improve controls in the design and implementation of human resource management systems. Specifically:

- As the new performance appraisal system is implemented, management should ensure its complete and proper implementation. Management should:
  - Apply the performance appraisal system to all employees, including exempt employees.
  - Ensure timely evaluations.
  - Provide training to all staff.
  - Monitor completed evaluations for rating errors and consistency.
  - Use assessment information to develop training needs and prepare the Agency's training plan.
- Compensation decisions should be supported with current employee performance evaluations.
- Functional job descriptions should be prepared for every position and should be communicated to employees in a timely fashion.
- Management should ensure that all intern positions open to external candidates are listed with the Texas Workforce Commission.
- The Agency should conduct a comprehensive assessment of the training needs of Agency employees and prepare a formal training plan on a regular basis. Training needs identified as part of the performance evaluation system should be used to help prepare the plan. Management should include the staff development function in the Agency organization chart.

- Management should incorporate proper controls over access to the leave accounting system or convert to a new system, such as the Uniform State Personnel System (USPS). Divisional timekeepers should only have access to employees' records in their division of responsibility. Management reports should be developed and reviewed to monitor employee leave transactions. Unusual transactions and trends should be investigated by management.
- Management should fully utilize information obtained from exit interviews to analyze employee turnover and correct situations that cause employees to leave the Agency.

Management's Response:

- *The agency's new system of performance appraisal was implemented on September 1, 1996, after being on hold, due to legal concerns, while the agency's reduction in force was implemented. The appraisal system is applied to all employees with the exception of the commissioner of education. Training for supervisors will be completed by the end of the first quarter of FY 97. The agency will provide ongoing training for new supervisors and managers on a quarterly basis thereafter. Several required sessions for non-supervisory staff to learn about the new system have also been offered.*
- *The human resources division currently notifies each division when an employee's annual evaluation is due. To improve this oversight, human resources will provide a follow up notice if the evaluation is not completed on the month after the anniversary date. Additionally, the human resources division will provide not only division managers with a list of staff whose evaluations are overdue, but will send a copy of these lists to the next higher level of management for appropriate action.*

*Additional steps are being taken to ensure that division directors certify on the form for recommending merit salary increases that annual performance evaluations for the recommended employees have been completed and that each merit recommendation has proper justification. Most importantly, the new performance appraisal system specifically requires that managers be assessed on the timeliness of the completion of performance evaluations for their subordinates.*

*Appropriate corrective actions have been taken over awarding merit without current evaluations within the human resources division. The outstanding evaluations noted in the management audit report are now completed.*

- *Effective September 1, 1996 the new performance appraisal system requires that managers meet individually with their respective employee and provide them with a summary of their new duties and responsibilities within 60 days of an employee's assignment to that position. The new operating procedure*

*prescribes specific guidelines that must be followed in developing the functional job description.*

- *The agency makes more than a good faith effort to fulfill the requirements of the job posting law. Indeed, the agency posts all internal vacancy notices to ensure fair competition for all permanent jobs: a policy that goes beyond the basic requirement of posting all external positions. As recommended, we plan to officially post these intern positions in the future.*
- *Management has implemented a new training initiative. The staff development function has been charged with developing a major leadership training initiative focusing on Covey's Seven Habits of Highly Effective People. To underscore the priority that has been placed on the professional development of agency staff, executive level management will participate in piloting the Covey program. In support of that initiative, the agency's internal operations functions have developed a core set of management competencies which complement Covey training and support agency re-engineering efforts.*

*In addition, the commissioner has given priority status to efforts to improve the computer training function providing training in the agency's standard office software package. In support of this initiative, a survey of computer software use, expertise, and training needs was conducted in August 1996 as part of business process re-engineering initiative managed by the department of internal operations.*

- *The agency has had concerns with its leave accounting system and decided to convert to the USPS leavekeeping system in the spring and summer of 1994. After several months of working with the USPS system, however, it was determined that the leave accounting module was incomplete and that there were sufficient problems to warrant the agency's return to its existing leave accounting system.*

*In October 1995 the agency engaged the comptroller's office in a study of agency human resource business processes. The comptroller's study recommended returning to the USPS system when the leave accounting module became stable. Since most of the technical problems appear to have been resolved, the agency has contacted the USPS staff about returning to the USPS leavekeeping system. USPS staff have agreed to implement the system agencywide. Discussions concerning the technical logistics have ensued with a January 1, 1997 target date of conversion. This new system will address the security concerns identified in this audit.*

- *Each employee affected by the reduction in force was tracked as to his or her new position outside the agency. In addition, the coordinator of internal operations routinely analyzes employee turnover data. Analysis of this information has been used to assist agency management and support inter-agency research for a revised state salary schedule that was recommended by an interim committee of the House Appropriations Committee.*

## **Management of Discretionary Grants and Contracts Can Be Improved**

Policies and procedures for the management of discretionary grants and contracts are generally effective. However, there are some opportunities for improvement. The Contracts and Grants Division administers approximately \$180 million in discretionary funds. Other divisions administer approximately \$98 million. Discretionary grants permit the Commissioner or his designee to use judgment in selecting applications or proposals for funding and in determining the amount to be funded.<sup>2</sup>

**The Contracts and Grants Division should implement a formal risk assessment process to facilitate decision-making for the use of its resources.** The Contracts and Grants Division does not conduct a formal risk assessment to make decisions for on-site monitoring visits. On-site monitoring visits provide assurance that grant funds are expended in accordance with grant requirements.

The Contracts and Grants Division performed on-site monitoring visits at only 0.6 percent of its discretionary grant recipients during fiscal year 1996. Some monitoring visits were performed by program personnel, but the Contracts and Grants Division does not track these visits. The Contracts and Grants Division's monitoring visits covered about \$1.4 million of grant dollars for the year, and one grant made up 76 percent of those grant dollars reviewed. Management cited lack of resources as the reason for the limited on-site monitoring visits.

During 17 on-site monitoring visits, findings were identified at 9 grantees and unallowable expenditures of approximately \$7,600 were identified at 5 grantees. Yet, the number and type of exceptions are not analyzed to make decisions for other on-site monitoring visits. For example, a projection of unallowable expenditures could be applied to the population and compared to the cost of on-site monitoring visits.

On-site monitoring procedures are not comprehensive to adequately determine compliance with grant requirements. Standard sampling procedures do not exist, and documentation of the items tested during grant monitoring visits is not consistently maintained to support the results. The absence of these control systems raises the risk of ineffective and inefficient use of resources.

The Agency relies primarily upon desk reviews of expenditure reports for fiscal monitoring of discretionary grant recipients. These desk reviews are intended to ensure that expenditures are in accordance with grant requirements. However, supporting documents for the expenditure reports are not required to be submitted to the Agency. Therefore, the desk reviews may not detect errors or unauthorized use of funds.

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<sup>2</sup>The Agency administers over \$9 billion in formula-based allotments versus discretionary grants. The administration of formula-based allotments is primarily handled by the program divisions. *An Assessment of the Texas Education Agency's Monitoring System for Public Education*, SAO Report No. 96-072, provides a review of controls in those areas.

The Agency also relies upon reports prepared by independent auditors, which is a good control. Federal regulations currently require educational institutions and other non-profit entities receiving over \$25,000 in funds to have an annual audit by an independent auditor. However, the threshold will be raised to \$300,000 in 1997. Whereas 710 grantees (out of a population of 2,800) received audit coverage under the current regulations, only 114 grantees will receive audit coverage under the new regulations.

**The Legal Services Division should improve its monitoring of Hearing Officer Agreements.** The Legal Services Division does not fully monitor compliance with all requirements of Hearing Officer Agreements. For example, one Authorization to Contract form had no evidence of fiscal or compliance review by the Agency. Also, while most contract stipulations are properly monitored, there was no evidence of review for two provisions. Contracts require hearing officers to spend no more than one-third of the time spent in hearing on a review of the written transcript, but there was no evidence of monitoring by the Legal Services Division. Additionally, hearing officers are required to transmit written and electronic copies of a decision to the Agency within three days of rendering the decision. However, three out of eight decisions reviewed were not submitted within three days. Legal Services Division staff indicated that monitoring activities have been hindered during a transition from paper status reports to electronic reports. As of July 1996, case reports were not up-to-date. The lack of fiscal and compliance monitoring can result in inappropriate expenditures and inefficient services.

**The discretionary grant application review and approval process can be improved.** The Contracts and Grants Division has not had a mechanism for systematically tracking the timeliness of the process for review and approval of discretionary grant applications. Thus, the Agency has been unable to determine the status of individual grant applications. The estimated time for approval should be approximately 90 days, according to an Agency model.

- The average length of time between receipt of the application by the Agency and the Notice of Grant Award for a sample of 67 applications reviewed was 129 days. The maximum number of days to process an application was 380 days.
- Approximately 71 percent of the applications reviewed took 90 days or longer for approval.
- A recent re-engineering study by Andersen Consulting showed that the approval process requires up to 7 approvals, with the documents changing hands approximately 13 times.

Management has contracted with an outside firm for the development of a tracking system for the Contracts and Grants Division. Timely review and approval of grant applications is an efficient use of Agency resources and it ensures that grantees receive their monies in an expedient manner.

The Agency should establish a policy for the renewal or extension of standard contracts for professional services. Generally, the Agency has adequate written policies and procedures for the administration of over \$19 million in contracts. However, the Agency does not have a formal written policy for the renewal or extension of standard contracts for professional services. (The Agency has a formal written policy for the renewal or extension of personal services contracts.) The decision to continue an existing contract or to re-bid for the service is left to the discretion of management. Informal operating procedures for two major contracts have been to re-bid the service at the expiration of the contracts. A formal policy will ensure contract competition and provide assurance that the Agency is using state funds in the most economic and efficient manner.

Recommendation:

The Contracts and Grants Division should implement a formal risk assessment process to facilitate decision-making for the use of its resources. Monitoring efforts should be coordinated among all divisions. The Contracts and Grants Division should establish a tracking system for all on-site visits of grantees conducted by the Agency. Frequency of monitoring visits and the scope of work performed should be tracked and used as a part of the risk assessment. The Division should consider options for allocating additional resources for on-site monitoring of grantees, including realigning staff responsibilities or contracting for services. Guidelines for sample selection and required documentation should be established.

The Legal Services Division should ensure that all contract provisions of Hearing Officer Agreements are properly monitored. All Authorization to Contract forms should have evidence of fiscal and compliance review.

The Contracts and Grants Division should proceed with the development of a tracking system to monitor its process for review and approval of discretionary grant applications. Management should consider eliminating unnecessary steps in the approval process, such as reducing the number of approvals or reducing the number of times the documents change hands.

Management should establish a written policy for analyzing and justifying contract renewals for professional services. A formal analysis of the cost/benefit for renewing the contract versus rebidding the contract should be documented and communicated to management. If a contract is renewed or extended, a written justification should be prepared which addresses the contractor's ability to provide quality services at the most economic price.

Management's Response:

- *The agency has a number of strong control processes in place and is working to develop additional criteria for fiscal monitoring of discretionary grants. The contracts and grants division continues to enhance the present*

*programmatic monitoring strategy by developing criteria for more detailed fiscal monitoring of discretionary grants. Approved criteria may include: the newness of the program; recent audits or monitoring findings by local auditors or agency personnel; the type of recipient; the nature of the program; the complexity of the project; and existence of complaints about the project. The auditor's recommendations will be utilized as appropriate in the development of new criteria.*

*Presently, the agency uses local auditors as well as a review and search technique to monitor discretionary grant expenditures. The listing of expenditures is reviewed on-site and expenditures viewed as possibly suspect or questionable are further investigated. A sample is selected if there are a large number of expenditure to be reviewed. Less than 1% of the grant funds monitored were found to be inappropriately expended or expended without budgetary authority.*

- *Agency requirements limiting billing for transcript review and for submission of decisions are not required by state or federal law but have been implemented to improve hearings administration and conserve special education funds. Each billing is reviewed as submitted and no decisions have been provided late to the parties to a hearing. The agency has checked and will continue to check a sample of the bills in a detailed manner to provide an enhanced review.*
- *As a result of the re-engineering study managed by the agency's internal operations department, the contracts and grants division has recently instituted a tracking system to provide information on the number of days and steps the application review and approval process takes for each RFA or RFP. This information will be used to refine the process in order to shorten the time-frame for processing applications and proposals selected in accordance with RFAs/RFPs.*
- *The agency has a strong control process and places a notice in the Texas Register for renewal of standard contracts. To improve its process, management will review the recommendations of this audit while continuing to evaluate additional criteria for extending contracts in the future.*

Section 2-C:

## **The Agency Should Clarify Its Policy for the Management of Professional Conferences**

The Agency's policy for the planning and management of professional conferences sponsored by the Agency is not comprehensive. The Agency participates in the planning and management of numerous professional conferences, some of which have been in place for many years.

Currently, the Agency is not following applicable state rules and regulations, and control weaknesses have been noted. For example, a Professional Improvement Conference is held annually by the Business Education Division. For the 12 months ending April 30, 1996, income of \$72,569 and expenditures of \$68,651 were recorded. The funds were placed in a local bank account, which the Agency does not have authority to do. Bookkeeping services were contracted for costs over \$5,000 but there is no evidence of competitive bidding for the bookkeeping services. Additionally, there is a lack of separation of duties in the collection and disbursement of funds.

The Agency has a procedure in its *Contracts Procedures Manual* to obtain assistance in the planning and management of conferences, meetings, workshops, conventions, seminars, and other similar events sponsored by the Agency. However, the policy does not adequately address the provision of administrative services, such as collecting registration fees and disbursing payments for conference expenses. The policy states that the General Services Commission does not provide administrative services, so the services must be performed by Agency staff or must be competitively bid. However, the policy does not clearly define criteria for determining when and how these services should be provided.

### Recommendation:

The Agency should enhance its policy on the management of professional conferences to clearly define criteria for determining when and how administrative services will be provided. Applicable state rules and regulations should be universally followed. General Appropriations Act, Article IX, Section 99 provides guidance for the appropriation of collections for seminars and conferences.

### Management's Response:

*The agency contracts with vendors for the management of conference fees and revenues according to its contracting procedures. Management is in the process of reviewing agency procedures for planning and management of professional conferences to ensure they are comprehensive and provide clearly defined criteria for providing administrative services. The revised procedures will include measures to assure that applicable state rules and regulations are followed. Article IX, Section 99, of the 1995 General Appropriations Act will be used for guidance.*

## **Controls Over Expenditures Need Strengthening**

Control weaknesses were identified in the management of operating expenditures. The Agency expended approximately \$18 million in fiscal year 1996 for operations, excluding salaries.

**Internal controls should be enhanced to prevent duplicate payments.** Controls are in place for proper authorization, adequate documentation, and proper accounting of operating expenditures. However, controls over the Agency's accounting system do not adequately prevent or detect duplicate payments. An examination of a sample of

transactions processed between September 1, 1995, and March 31, 1996, revealed seven duplicate payments for professional services and travel. Reimbursement was made to the Agency for the duplicate travel expenditures. Additionally, four employees incorrectly included airline fares on travel vouchers for airline tickets purchased directly by the Agency. Three vouchers were corrected by the Accounting Division prior to processing. One voucher was processed and later reimbursed by the employee.

If the duplicate payments are not detected during the review process, the overpayment of claims could result in the loss of state funds. An effective expenditure system should have edit controls to detect duplicate vouchers and prevent payment. Management has stated that a new automated administrative system will have internal controls to prevent duplicate payments. The expected date for implementation is September 1997.

**Contractors should be paid on a timely basis.** Controls are not adequate to ensure that contractors are paid on a timely basis. Approximately 44 percent of the payments for three major contracts were made over 30 days after the date the invoice was received or after the date the services were completed. The average date of the late payments were 70 days after the date the invoice was received or after the date the services were provided. Payments for six other contracts were made in a timely manner. State regulations require payment no later than the 30th day after the Agency either receives an invoice or the services are completed.

**Bids should be properly stamped.** The Agency properly obtained bids for routine operating expenditures according to state guidelines. However, bid applications are not stamped with the date and time of receipt. Bids must be stamped to document appropriate consideration for award.

**The purchase and installation of personal computer resources can be improved.** Procedures are defined for the procurement of personal computer hardware and software. However, a system is not used to monitor the effectiveness and efficiency of the purchase and installation process. Agency users are not satisfied with the timeliness of installation of personal computer resources. The timeliness of purchase and installation is not tracked so it is difficult to determine the average turnaround time. The State Comptroller reported on this problem in 1993.

As of July 1996, the Agency did not have a virus detection product for its Macintosh computers. Each Macintosh user was required to independently purchase and upgrade such a product on his/her own initiative. Furthermore, the Agency does not fully use the existing virus protection product on IBM compatible diskettes that are used and distributed throughout the State. Instances were noted where departments pass viruses to other departments, agencies, and school districts. Viruses can damage automated systems and cause the loss of data.

Recommendation:

Management should improve controls over operating expenditures. Specifically:

- Management should closely review system controls during the planning and development stages of the new automated administrative system to ensure that duplicate payments will not be processed. In the meantime, management should evaluate the cost/benefit of additional controls to prevent or detect duplicate payments.
- Procedures should ensure that payments are made within 30 days of either the receipt of an invoice or the day services are completed.
- Management should ensure that bids are stamped with the date and time of receipt.
- Management should establish a system to track the timeliness and user satisfaction of the purchase and installation of personal computer resources. An efficient process to install personal computer hardware and software should be established. Management should also address the purchase and use of virus detection products for all computer resources used throughout the Agency.

Management's Response:

- *Agency management is taking steps to ensure that the planning, development, and implementation of the new Integrated State Administrative System will identify and prevent the processing of duplicate payments.*

*The agency has a number of control processes in place to prevent duplicate payments and is working to improve and enhance current accounting systems to strengthen these controls. During the course of the audit it was discovered that several potential duplicate payments were stopped as a result of the systems presently in place.*

- *The agency is aware of this problem and continues to work to enhance routing of contractor invoices to ensure compliance with the Prompt Payments Act. Management anticipates that implementation of the Integrated Statewide*

*Administrative System in September 1997 will lead to improvements in the timeliness of payments.*

- The agency purchased a RapidPrint time and date stamp machine in July 1996 for the purpose of time stamping all documents received in purchasing. The agency currently stamps the envelopes containing bids with the date and time of receipt. Following the stamping procedures, bids are properly secured and suspended for the bid opening date. All stamped envelopes are filed in bid opening date sequence and retained for 60 days. At the end of the 60 days, a cursory review will be conducted on the envelopes with the age range and unless there is a pending action, they will be destroyed. These procedures mirror the guidelines used by the General Service Commission.*
- The agency is working to improve the process for ordering, receiving, installing and tracking personal computers ordered and in use at the agency. The agency currently has a tracking system that records, at the aggregate level, the receipt and installation of new personal computers and printers. The information systems department is presently adding information that will enable us to more readily determine the average turnaround time from point of receipt through installation.*

*All agency divisions involved in the process of ordering and installing personal computer resources will participate in a redesign of the process that will facilitate reductions in the amount of time from order to installation. The agency will examine the feasibility and impact of scheduling smaller batches of deliveries to make most effective use of personnel time and available storage space.*

*The agency has also addressed the use of virus protection on all agency computers and requires the use of virus protection scanning software in all contracts for creation and copying of diskettes for shipment to the field. On July 30, 1996, McAfee released VirusScan detection software for Macintosh computers. On August 8, 1996 the agency acquired 250 licensed copies. The information systems department has installed this software on all Macintosh computers in the agency.*

Section 2-E:

### **Accounting for Property Inventory Is Inaccurate**

Written operating procedures exist for property inventory. The Agency exercises proper segregation of duties in the procurement, accounting, and record keeping functions. However, record keeping for property records is inaccurate.

The Agency's information on the State Property Accounting system has errors. For example, a Xerox copier was recorded twice at different acquisition costs. Also, two computers were recorded at costs exceeding the actual amounts by \$60,000 each. Temporary employees enter transactions, but there is little or no supervision or review

of their work. The temporary employees have not received proper training on the process for correcting mistakes. Additionally, property transactions are not entered into the State Property Accounting system in a timely manner.

Reconciliations have not been performed between the property records and the accounting records in at least five years. The General Ledger Trial Balance as of July 11, 1996, showed a balance of \$17.1 million, while the State Property Accounting listing showed a balance of \$13.4 million. Without a reconciliation, the Agency's financial statements could be misstated.

Recommendation:

Management should improve the record keeping and accounting for property inventory. Specifically:

- Management should take steps to improve the accuracy of the State Property Accounting records. Employees should be trained in the proper use of the system. Supervision and review of employees' work should be conducted.
- Reconciliations between the property records and the accounting records should be performed on a monthly basis.

Management's Response:

*The agency will work to improve record keeping and accounting for property inventory.*

Section 2-F:

**The Annual Financial Reporting Process Is Inefficient and Subject to Errors**

The existing process for preparing the Annual Financial Report has many manual components which can lead to errors and omissions. The fiscal year 1995 Annual Financial Report contained numerous errors which were identified by the State Comptroller's Office and required adjustments or reclassifications of approximately \$260 million.

The process of gathering and compiling data by the Accounting Division involves many data transfers, manual adjustments, and manual entry of data to personal computer spreadsheets. In many cases, data is entered and re-entered to personal computer systems. The time required to prepare the fiscal year 1995 Annual Financial Report was approximately 2,300 hours. Agency staff estimated that a fully automated system would save at least 1,200 hours.

The Agency has contracted for the development of a new automated system to replace the current accounting system. The system is estimated to be implemented by September 1997.

Recommendation:

Management should evaluate the process to prepare the Annual Financial Report in conjunction with the development and implementation of the new automated administrative system. The new process should reduce and/or automate manual adjusting entries. Data should be electronically transferred, when possible. The number of separate personal computer spreadsheets should be reduced or eliminated. Management should also implement a quality control process to minimize errors and omissions.

Management's Response:

*Implementation of the Integrated State Administrative System will improve the process used to prepare the annual financial report. Implementation of the system will be accompanied by an evaluation of current procedures and detailed supervisory review by the accounting manager to minimize risk and errors in the coding and data transfer associated with producing the annual financial report.*

Section 3:

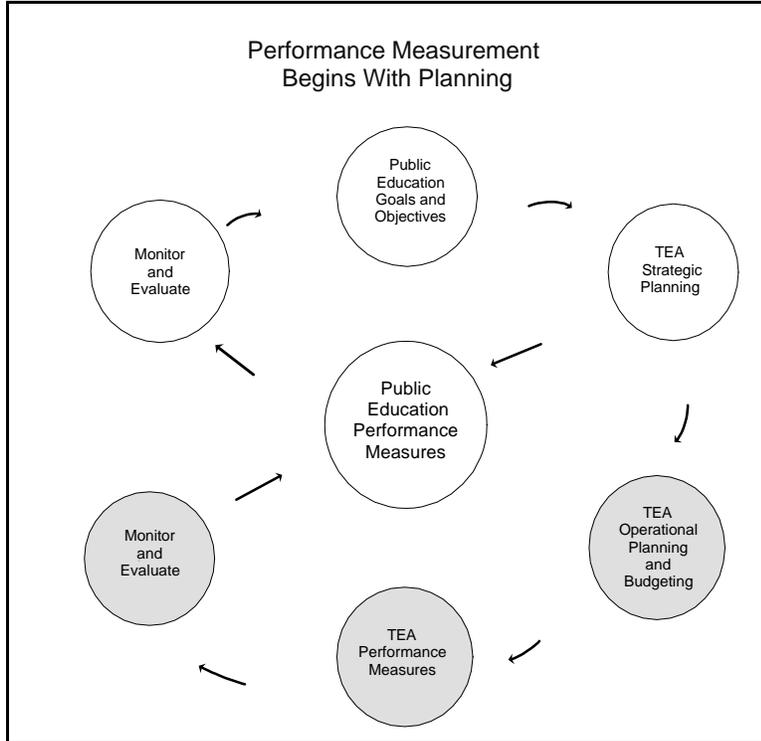
## The Agency Lacks a Comprehensive Performance Measurement System for Operations and Administration

The Agency has not defined comprehensive measures to evaluate the effectiveness and efficiency of its internal operations. Performance measures have been defined to evaluate the public education system as a whole, which is appropriate. However, performance measures for the public education system do not provide specific guidance or feedback about the Agency's operations and administration. The Agency is only one component of the public education system. (See Figure 1.)

**Strategic planning and budgeting are adequate.** The Agency has demonstrated compliance with elements of the state strategic planning mandate. To prepare the Agency Strategic Plan for the 1997-2001 period, the Agency obtained feedback from regional service centers, school districts, and other non-Agency personnel. On an ongoing basis, division management informally conducts environmental scanning related to its divisional objectives and initiatives. However, the data is not systematically reviewed at an Agencywide level to assess overall risks as they would affect the operations and administration of the Agency.

Figure 1

The Agency's planning and performance measurement process is necessarily linked to planning and evaluation for the public education system. The shaded areas denote processes that need improvement.



Various forms of operational planning documents exist within the Agency. A significant portion of the Agency's operational planning process is conducted through the budgeting process. The Agency has a detailed budgeting process which effectively links the operating budget to the Agency's strategic plan. The Agency monitors factors impacting funding sources. The Budget Division receives input from each program area to prepare and track revenues and expenditures. In some program areas, the preparation of revenue and expenditure projections is primarily based on prior years' figures, which is not adequate. For example, a significant deficit in the Driver Training Division in fiscal year 1996 can be partially traced to poor revenue estimation.

**Operational planning can be improved.** Generally, the Agency adequately identifies resources to be used, methods and procedures to be

performed, and the division/cost center where the plan's activities will occur. However, planning documents do not consistently define specific performance measures and other indicators to evaluate departmental operations. The need to improve budget forecasting and operational planning was identified in 1990 by Price Waterhouse, and again in 1993 by the State Comptroller and the State Auditor's Office.

**Performance measures should be established to evaluate effectiveness and efficiency.** A survey of directors and managers showed that there is a lack of consistency among management in its evaluation of effectiveness and efficiency of operations. Out of 38 responses, 4 managers appear to have adequate methods for monitoring and evaluating the effectiveness, efficiency, and quality of operations; 11 do not have any method, and the others have some of the right tools, but not all of them. Figure 2 summarizes the survey results.

Figure 2  
Results of Management Survey

Performance Measures	Number of managers who provided some indication of measurement	
	Yes	No
Effectiveness	14 (37%)	24
Efficiency	16 (42%)	22
Quality	17 (45%)	21

Management does not adequately evaluate its operational effectiveness with a focus on services to direct customers. The Agency primarily tracks performance measures that address student learning. While students should be the focus when evaluating the public education system, the Agency's direct customers are not necessarily students. For example, the Agency provides service and assistance to regional education centers, school districts, and campuses. One indicator of effectiveness would be their satisfaction with the Agency's services.

Mechanisms are in place to obtain informal feedback from regional education centers and school districts, but there is a lack of formalized, quantified measures. For example, the Agency does not systematically determine whether schools are watching or benefitting from daily programming shown through the T-STAR telecommunications network. During the school year, programming is transmitted every afternoon, Monday through Thursday, for an hour and a half. The cost is \$1,275 per day.

Direct customers can be Agency divisions and employees, as in the case for the divisions of Internal Operations, Information Systems, and Legal Services. The Agency's inability to judge how successfully it is serving its internal customers was affirmed in a recent study by Andersen Consulting. However, an effort is underway to address the need for improved measures in the areas of accounting, budgeting, contracts and grants, and other administrative services. This initiative should establish a framework for improvements throughout the Agency.

Management does not adequately evaluate key business processes. A well-designed performance measurement system should measure key business processes, not just results. This includes an evaluation of efficiency and quality. Many of the performance indicators used by management are workload or activity indicators. Although the latest strategic plan includes some new output and efficiency measures for operations, they do not comprehensively measure organizational or individual productivity. An efficiency indicator measures productivity and is calculated by dividing outputs by inputs. Another indicator of efficiency is unit cost, which is derived by dividing inputs by outputs. Quality indicators measure the accuracy and completeness of processes.

In those cases where adequate performance measures have been established in the Agency, performance targets or benchmarks are primarily based on historical performance. Benchmarks should be drawn from objective sources to the maximum extent possible. A few divisions use outside benchmarks to establish performance standards, such as Curriculum and Professional Development, Student Assessment, and Information Systems Software Development.

Management is responsible for allocating resources and ensuring that quality services are produced and made available at reasonable cost. Meaningful and valid performance information is critical in fulfilling these responsibilities. While statutes mandate reporting certain categories of performance measures, an effective management system should also develop and utilize additional Agency-specific indicators to monitor and improve the processes that produce ultimate results/outcomes.

Recommendation:

Management should improve its planning and performance measurement system for operations and administration. Starting with the strategic planning process, the management team should systematically focus on environmental scanning, risk assessment, the evaluation and establishment of priorities, and performance measure determination. The process should have an Agencywide focus, across departmental lines.

The revenue and expenditure estimating process should be improved in all program areas to consider factors beyond prior years' figures. Program areas should actively scan the environment to identify and analyze factors which affect revenues and expenditures. The process should be formalized to include:

- The review and interpretation of applicable legislation
- The review of external environmental factors, such as the economy, customer demographics, technology, etc.
- The review of internal environmental factors, such as organization structure, policies and procedures, technology, etc.

Operational plans in all divisions should be more specific to identify:

- Performance measures
- Deadlines, timetables, and schedules
- Progress checkpoints
- Individuals who will perform the tasks

Management should develop Agency-specific indicators in all divisions to evaluate the effectiveness and efficiency of Agency operations and administration. An evaluation of the Agency's effectiveness should focus on services to direct customers, which are not always students. The performance measurement system should measure the effectiveness, efficiency, and quality of key business processes—not just results. The initiative underway in the Internal Operations Division with Andersen Consulting should establish a framework for improvements throughout the Agency. As performance measures are defined, benchmarks should be established with consideration toward external organizations and other objective sources.

Management's Response:

- *The agency recognizes that performance measurement of its operations can be improved and is working to develop more effective measurement and evaluation tools. During the development of the strategic plan for 1997 - 2001, a focus group consisting of agency customers provided the agency with information about their current operating environments, levels of risk, and priorities. The agency developed specific operations measures in its 1997 - 2001 strategic plan, building on legislative intent to separate agency program and operations budgets and functions. The operations objectives and strategies in the 1997 - 2001 plan closely mirror agency program functions. They cross divisional lines and provide planning tools for budget and staffing allocations.*
- *The agency's revenue and expenditure estimating process is not based solely on prior years' figures. The agency currently monitors factors impacting availability of funding sources and builds this analysis into its legislative appropriations request. The state funding division, our federal government liaison in Washington, DC, as well as the budget management division working in conjunction with senior staff take an active role in analyzing financial trends.*

*The budget management division uses an analysis that combines prior year expenditures, monthly expenditures and projections, and the reasonableness of agency divisions' estimates. Fee revenues are projected annually during the budget preparation process and are monitored and adjusted monthly as needed. The budget management division asks divisions to submit their estimated revenues for the upcoming year, compares these estimates to prior year receipts, and follows up with divisions as appropriate. On a monthly basis during the fiscal year, budget management examines actual receipts and projects yearly receipts based on actual to date. When any source of funds shows a large deficit, it is brought to the attention of management. Action is then taken to work with divisions to balance projected revenues with projected budgets/expenditures.*

*Expenditure projections are performed once or twice a year to identify funds that are subject to being lapsed if not expended by year end. Any identified excess funds are placed in the agency's unallocated fund sources for redistribution.*

*The agency continually strives for ways to improve its ability to forecast expenditures. Management believes that the Integrated Statewide Administrative System will provide additional resources, including access to data and reporting tools, that will help enhance its budget process.*

*The agency has conducted a thorough review of implications of changing technology on its administrative and financial management systems. This analysis and recognition of an even more complex \$19 billion educational*

*financing system in the future led to the participation of the agency in the development and implementation of the Integrated State Administrative System. Functional features of this system will provide even a greater capability of the agency's budget management system of engaging in more extensive analyses of revenues, expenditures, and funding proposals.*

- *The internal operations department has developed performance goals and quarterly measures for accounting, budget, contracts and grants administration, and office services. The performance measures track divisional efficiency and effectiveness in achieving the performance goals and provide managers with quarterly and annual progress reports.*

*The performance measures in these divisions are a pilot effort to improve agency operations and functions. The measures will be evaluated at a retreat for internal operations divisions in early December 1996. Agency management recognize a need for implementing performance measures in all divisions. The internal operations pilot and evaluation will provide a foundation for agency-wide efforts in this area.*

Section 4:

## **Communication and Information Management Are Not Integrated Throughout the Agency**

The need for improvement in intra-Agency communication and coordination has been a recurring issue at the Agency for several years. Problems in communication and coordination were identified by Price Waterhouse in 1990. A general lack of coordination and planning for the information systems environment was reported by the State Comptroller in 1993. The Agency has reorganized during the past year in an effort to improve information sharing and communication with regional and local educators. However, management and staff still refer to a need for improved communication internally among divisions and between management and staff.

**Information systems management should be fully integrated.** The Agency has lacked a unified approach to information system management internally. Information resource planning does not address information systems for the entire Agency. It primarily addresses systems maintained by the Information Systems Division. As reported in the State Auditor's review of the Agency's monitoring systems for public education, the Agency has not identified all of its information systems. The Agency's divisions independently determine what automated resources will be purchased, developed, and implemented. Information systems policies and procedures are not followed in divisions outside of the Information Systems Division. The Agency estimated expenditures for information resources in fiscal year 1996 of \$25.0 million and in fiscal year 1997 of \$23.5 million.

In 1993, the Information Systems Division purchased a modeling tool to assist with an Enterprise Information Planning effort. However, the planning process has not been fully implemented. The Agency continued its efforts through the services of a

contractor in 1996. In response to the August 1996 State Auditor's report on the Agency's monitoring systems for public education, the Agency communicated its plans to charter an Information Systems Advisory Committee in September 1996. This committee will become the Agency's policy-making body governing information technology across the Agency.

**Controls should be improved in program divisions.** The lack of an integrated approach to information systems management has increased the likelihood of control weaknesses in program divisions. For example:

- A lack of adequate project management tools was noted in the development of the automated administrative system, which is estimated to cost the Agency approximately \$3.9 million. The Agency has been actively involved in the development project in partnership with the Office of the State Comptroller.
- A lack of adequate planning and project management has affected the proper transference of the teacher certification system to the new State Board of Education Certification. System development was highly dependent on one employee, who resigned. This system is estimated to cost \$1.9 million.
- A lack of comprehensive system development methodologies were noted in five program divisions: Professional Educator Preparation and Certification, Student Assessment, Accreditation, State Funding, and Performance Reporting. Specifically, some of the weaknesses were: incomplete needs analysis, high dependence on the developer and/or main initiator, minimal involvement from management, minimal quality control review or independent review, minimal documentation for automated systems, and weak security controls.

**The Information Systems Division is improving its management of resources.** Planning for mainframe-related purchases and support is generally adequate. A major initiative underway is to outsource the mainframe. The Agency is using mainframe software products that are old and not supported by the vendors, but there are plans to address this issue. Although the Information Systems Division has not used a formal methodology to develop and maintain automated systems, it is in the process of developing standards and project management tools for all of its projects.

Recommendation:

Management should continue to emphasize to all employees the importance of effective intra-Agency communication and coordination. Review and oversight of daily operational procedures should be emphasized in the form of performance requirements for every employee. Management should underscore effective communication and coordination through training and supervisory review.

Executive management must actively lead a unified approach to information systems management. As the Information Systems Advisory Committee is established,

responsibilities should include overall information systems planning, prioritization of development projects, establishment of standards and procedures, and enforcement of standards and procedures. The success of the Enterprise Information Planning effort, or any other information systems initiatives, will depend on management's involvement.

Management should require the use of a comprehensive systems development methodology for all automated projects. Emphasis should be placed on major projects, such as the automated administrative system and the teacher certification system. A standard methodology requires adequate project management tools, involvement from management and internal audit, quality assurance review, and monitoring and measurement methods. Specifically, project management tools should include:

- A well-defined organizational structure with clearly stated responsibilities and lines of authority
- A work plan outlining the work to be performed at the appropriate level of detail, the people assigned to each task (including backup personnel), and specific milestones and products to be completed
- Project standards related to such activities as time reporting, expense control, review procedures, and documentation

The Agency should continue with its efforts to eliminate older, unsupported products. As the older products are eliminated and a purchase plan is developed, backup assignments should be made to ensure that more than one employee is knowledgeable of a specific product. Additionally, the Information Systems Division should continue with its development of standards and project management tools for all of its projects.

Management's Response:

- *Commissioner Moses has reorganized the agency to facilitate communications and coordination among agency divisions; however, the need to constantly work toward improvement in intra-agency communication is recognized.*
- *Agency executive management is actively involved in developing strategies to emphasize the importance of a unified approach to information systems management. Commissioner Moses has chartered information systems initiatives that are cross-functional and include representatives from all parts of the agency. These efforts demonstrate executive commitment to and leadership toward a more proactive and unified approach to information systems management.*

*Agency management will increase organizational control of the information resources across the agency by participating in the Information Systems Advisory Committee. This group will be responsible for policy-making,*

*priority-setting and strategic direction. It will be supported by representatives from all parts of the agency charged with resolving critical data definition issues and sponsoring the ongoing Enterprise Data Model project.*

*The agency will continue the work of the Technology Standards Committee, which was created in 1993 to determine hardware and software standards for the agency. This committee provides input to information resources policies and procedures, researches new technologies and information exchanges, and maintains the Technology Handbook for TEA Employees. As the agency works toward improving its information management processes, this committee will be restructured to become the Enterprise Architecture Committee with a broader role in the development of strategic information systems planning for the technology infrastructure of the agency.*

- *The agency is fully committed to the use of a comprehensive systems development methodology for all automated projects. We have been in the process of implementing an effective project management methodology since January 1996 when the information systems department began training its staff on the use of Project Workbench. Following the full deployment in information systems, the use of the methodology will be extended to other divisions across the agency.*

*Full implementation in the information systems department includes the development of products that will assist customers in the use of the tool as they develop systems. These products will also encourage greater consistency across the agency in the work breakdown structures used and in the ability to roll up individual project reporting to departmental levels.*

*The information systems department will propose appropriate policies and procedures for agencywide project management to the Information Systems Advisory Committee during FY 97, with a target for initiating agency-wide project management by the end of FY 97. These policies and procedures will be based upon the experience gained within the Department and will address the differing needs of large and small development projects.*

- *The agency has outsourced its legacy mainframe operations, contracting with Integrated Systems Support Corporation, a wholly-owned subsidiary of IBM, and has purchased data recovery services from the West Texas Disaster Recovery Center. Management has also investigated lease/procurement plans to systematize the updating of its computer technology. In addition, the department of information systems is implementing a comprehensive systems development methodology.*

*The agency will continue to improve its management of information resources as opportunities arise.*

## Objective, Scope, and Methodology

### Objective

The objective of this audit was to evaluate the effectiveness of management processes and control systems within the Texas Education Agency.

### Scope

The scope of this audit included the operations and administration of the Agency. Operational strategies and appropriations for fiscal years 1996-1997 are defined by Goals B and C in the General Appropriations Act.

The scope of this audit included a review of the processes by which the Agency scans the environment and establishes plans; organizes itself to meet those plans; identifies and controls the use of human, financial, and other resources; and reports and evaluates the results of its performance.

### Methodology

Agency financial data was analyzed, and relevant reports and documentation were reviewed. Conventional audit procedures were applied to collect information, including interviews with management and staff of the Agency. Audit testing and analysis included control review, trend analysis of expenditures and performance statistics, review of project and personnel files, and review of performance measures. Our work will not necessarily reveal all the Agency's internal control weaknesses.

#### Information collected included the following:

- Prior reports related to the Agency
- Documentary evidence such as:
  - Texas Education Code
  - Various management reports
  - Performance Measure Reports since fiscal year 1992
  - Department documents, memoranda, and publications, including the Agency Strategic Plan and 1996-1997 Legislative Appropriations Request
  - Policy and procedures manuals
- Interviews with management and staff of the Department
- Survey of cost center directors and managers

#### Procedures and tests conducted:

- Review of documentation relating to Agency operations
- Direct testing of fixed assets and inventory systems

- Testing of travel expenditures, operating expenditures, and leave accounting records
- Observation and review of divisional systems development on a sample basis
- Review of contracts and grants

Analysis techniques used:

- Control review
- Trend analysis of budgets, expenditures, and performance statistics
- Process flowcharting of Agency operations
- Comparison of strategies and budgeted amounts
- Review of performance measures

Criteria used:

- SAO Methodology Manual
- Other standard audit criteria established during fieldwork

Fieldwork was conducted from April 1996 to August 1996. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

There were no instances of noncompliance with these standards.

The audit work was performed by the following members of the State Auditor's Office:

- Jon Nelson, CISA (Project Manager)
- Courtney Ambres
- Linda Buford, CPA
- Teresa Menchaca, CISA, CDP
- Nancy Raabe
- Bill Smith, CIA
- Janet Tarbell, CPA
- John Thompson
- Tom Wise
- Kyle Kelly (Quality Control Reviewer)
- Cathy Smock, CPA (Audit Manager)
- Craig Kinton, CPA (Director)

## Agency Financial Information

<i>Goals/Objectives/Strategies</i>	<i>Budget FY96</i>	<i>FTE FY96</i>	<i>Budget FY97</i>	<i>FTE FY97</i>
Operating Budget for Operations and Administration				
B.1.1 School Finance System	\$7,770,548	70.27	\$15,591,903	69.67
B.1.2 Textbooks	1,711,817	37.29	1,953,140	34.35
B.1.3 Leadership and Support	10,743,254	229.71	10,733,906	158.22
B.1.4 Technology and Support	5,745,061	68.31	6,696,472	70.98
B.2.2 Professional Development	2,221,407	29.29	714,969	7.20
B.3.1 Learning Outcomes	2,307,131	30.41	2,260,535	36.81
B.3.2 Student Assessment	1,771,349	44.22	3,161,716	71.30
B.3.3 Accountability System	9,798,622	167.24	7,475,590	116.96
B.4.1 Family/Community Support	2,406,296	39.99	2,259,649	30.43
B.5.1 Adult Education/Literacy	1,359,206	27.18	1,376,774	26.02
B.6.1 Proprietary Schools/Driver Training	2,761,050	56.16	1,244,294	24.52
<b>Subtotal</b>	<b>\$48,595,741</b>	<b>800.07</b>	<b>\$53,828,948</b>	<b>646.46</b>
Administrative Overhead	12,118,929	204.56	11,991,643	189.92
Educator Certification Board	2,862,104	51.00	3,339,371	52.00
<b>Total</b>	<b>\$63,576,774</b>	<b>1,055.63</b>	<b>\$69,159,962</b>	<b>888.38</b>

Figure 3  
**Budget Expense**

<i>Operating Budget By Object of Expense</i>	<i>Budget 1996</i>	<i>Budget 1997</i>
Salaries	\$34,070,275	\$33,106,805
Travel	3,179,802	2,953,404
Rentals	1,820,735	1,375,116
Communications and Utilities	2,252,175	2,433,283
Office Expense and Printing	3,440,286	3,377,673
Professional Services	16,473,604	23,141,181
Repairs and Maintenance	1,275,970	1,387,624
Capital Outlay	1,063,927	1,384,876
<b>Total</b>	<b>\$63,576,774</b>	<b>\$69,159,962</b>

## Agency Profile

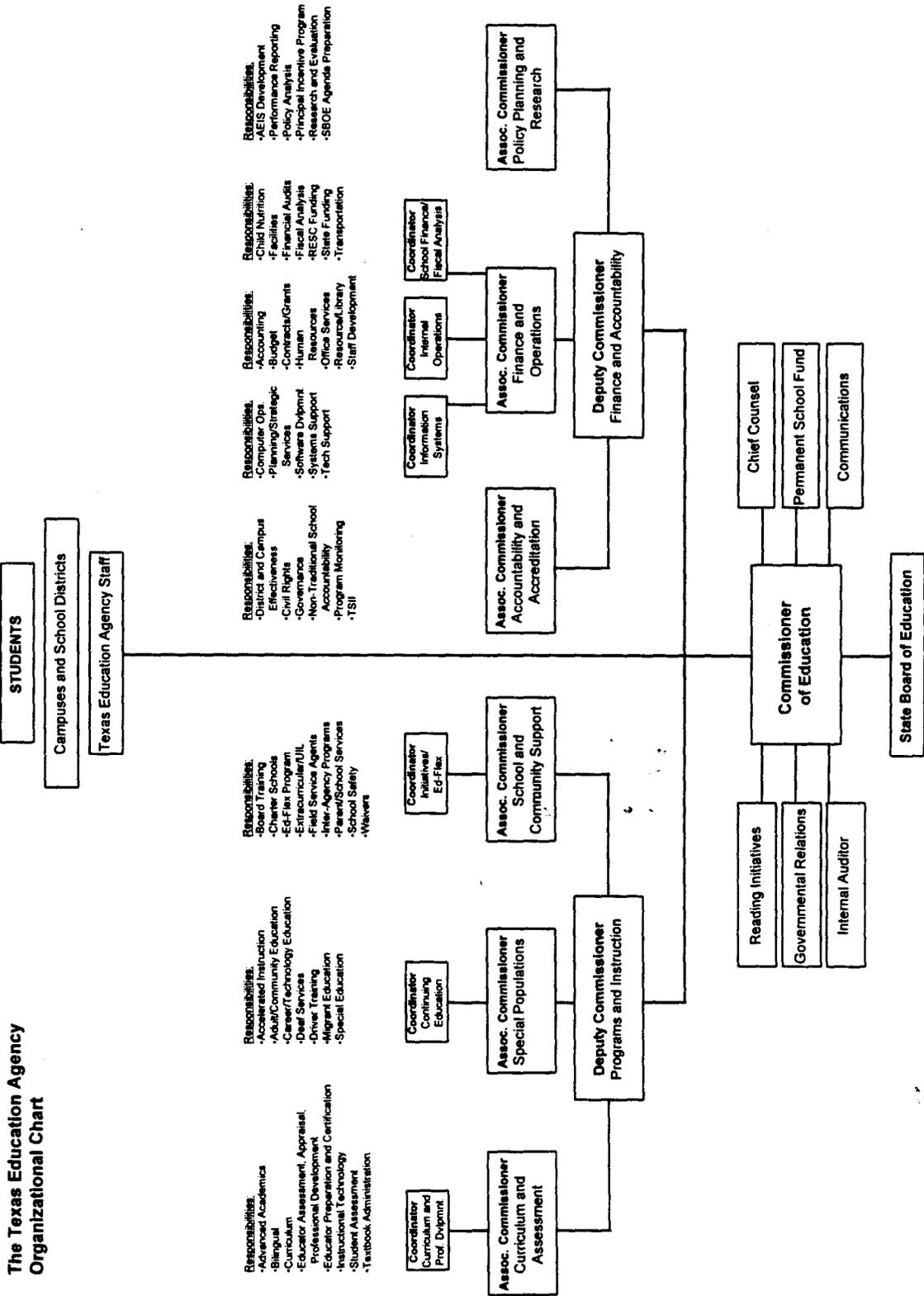
The mission of the Texas Education Agency is to build the capacity of the Texas public education system to provide all students with a quality education. As mandated by the Texas Education Code, the Texas Education Agency is composed of the Commissioner of Education and Agency staff. The Agency's major legislative responsibilities are to administer and monitor compliance with education programs required by federal or state law, including federal and state funding for those programs; and to conduct research, analysis, and reporting to improve teaching and learning. Other duties are defined related to specific areas, such as the investment capital funds, pilot programs, teacher recruitment, electronic information transfer, and telecommunications.

Agency activities are currently organized in the following areas:

- **Special Populations** - responsible for the administration of federal and state programs impacting special education, adult education, career and technology education, driver training, and federal programs including Safe and Drug Free Schools, Immigrant Education, Eisenhower Professional Development, Innovative Practices, and the Title I program for the educationally disadvantaged.
- **Curriculum, Assessment, and Technology**- responsible for the development of the Texas Essential Knowledge and Skills for all subject areas, the coordination of the Texas Assessment of Academic Skills, state programs for educator professional development, bilingual education, advanced and gifted education, the administration of the state textbook program, the state educator assessment program, and initiatives in technology including T-STAR, TENET, and TETN.
- **School and Community Support**- responsible for the state waiver program, inter-Agency coordination, support for field service agents, charter schools, year-round schools, and school district inquiries on student discipline in accordance with Chapter 37 of the Education Code. In addition, the area is responsible for processing all complaints through the Division of Parent and School Services and for the Federal Ed-Flex waiver program, as well as other initiatives involving flexibility for local districts and decentralization of Agency functions.
- **Accountability and Accreditation** - responsible for the accreditation of all school districts, the monitoring of federal and state educational programs to ensure compliance with applicable statutes, and implementation and training in support of the Texas School Improvement Initiative. The area is also responsible for issues involving school district governance and oversees the civil rights unit, which is responsible for monitoring school district compliance with federal civil rights statutes and court orders.

- **Policy Planning and Research** - responsible for the development and reporting of the Academic Excellence Indicator System, the statewide accountability manual, the preparation of the agenda for the State Board of Education, and all other activities relating to Agency research and evaluation.
- **Finance and Operations** - responsible for the disbursement of all state funding under the Foundation School Program and funding support for regional education service centers, as well as federal funds in support of the child nutrition program, all contracts and grants executed by the Agency, and the financial audits of all entities receiving public education funds. The area is also responsible for the internal operations of the Agency including accounting, budget, human resources, and all office support services. In addition, the development and support of all Agency management information systems are within this area.

# Organizational Chart



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