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January 1997

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Key Points of Report

A Management Control Audit of the Texas Department of Agriculture

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Overall Conclusion

The Texas Department of Agriculture (Department) has implemented management controls sufficient to provide reasonable assurance that its goals will be achieved, its assets are safeguarded, its management decisions are based on reliable data, and it is complying with applicable federal and state statutes.

Key Facts and Findings

Within the Department's existing system of sound management controls, as well as within the controls in place at the Texas Agriculture Finance Authority (TAFA), we identified several areas for improvement. Specifically:

- In the past, the TAFA Board has made some lending decisions without relying on its approved loan guidelines. Under the most active of the programs, the Loan Guaranty Program, the TAFA Board has approved loan guarantees of \$39,966,459 to 48 enterprises since June 1991. Ten of these loans are currently in default, and losses are expected to amount to \$2.7 million. In addition, three of the five TAFA programs reviewed do not appear to be active enough to meet program objectives. One program has yet to be activated while the other two programs require changes to procedures to enhance program participation.
- Information on the Department's market enhancement and regulatory enforcement divisions is not consistently included in its information systems, and the effectiveness of the marketing efforts has not been reviewed.
- Although the Department's Internal Audit Division (Internal Audit) provides management with analyses, appraisals, recommendations, and counsel regarding the Department's activities, Internal Audit is not complying with the standards set by the profession to ensure that management receives effective independent appraisal services.
- Controls over classified positions provide assurance that qualified individuals are hired and trained to do their jobs effectively. However, exempt employees are not subject to the same controls over hiring and evaluations as are classified employees. (Exempt employees account for 29 of the Department's 492 full time equivalent staff positions.)

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

Executive Summary

The system of management controls implemented by the Texas Department of Agriculture (Department) provides reasonable assurance that its goals will be achieved, its assets are safeguarded, decisions are made based on reliable data, and it is complying with applicable laws and regulations.

We also reviewed controls in place over the programs administered by the Texas Agricultural Finance Authority (TAFE). TAFE is a separate entity operating within the Department. It has its own Board of Directors and makes its own funding decisions. We found that while there are reasonable guidelines for TAFE loans, they have not always been followed. In addition, it appears that three of the five TAFE lending programs may not be active enough to meet their intended objectives.

The Department receives approximately \$23 million in state and federal appropriations each year to fulfill its marketing and regulatory responsibilities. The Department administers numerous laws relating to the control of plant pests and diseases; the quality of seeds sold in the State; the certification of the accuracy of weights and measures used in commercial transactions; the sale, use, and disposal of pesticides and herbicides; and the development of agricultural industry in Texas.

TAFE Board Should Adhere to Existing Lending Guidelines and Develop Other Strategies to Improve TAFE's Success

TAFE has established reasonable guidelines for evaluating loan applications. The TAFE Board (Board) approves loans and loan guarantees and has set these guidelines to ensure that the risk of default is minimized. However, in the past, the Board has approved

some loans which did not meet its lending guidelines. For example, applicants with negative net worth or with very high debt-to-worth ratios were provided loan guarantees under the TAFE Loan Guaranty Program. Two loan guarantees have been approved since the new Board became active in January 1996, and both of these loans adhered to the guidelines.

The Loan Guaranty Program is the most active of TAFE's programs, and it has approved loan guarantees of \$39,966,459 to 48 enterprises since June 1991. Ten of these loans are currently in default, and losses are expected to amount to approximately \$2.7 million.

Three of the five TAFE lending programs reviewed do not appear to be active enough to provide the intended benefits. Two of these programs (the Young Farmer Program and the Farm and Ranch Finance Program) have relatively low lending caps and few applications for these programs have been received. The other (the Rural Microenterprise Development Program) has never been activated. In addition, TAFE has not moved to implement the constitutional amendment passed in 1995 that allows use of TAFE funds for "other rural economic development programs."

In the past two years, TAFE has increased the amount of outreach it has provided for its programs. However, these efforts have been undertaken without a marketing plan or adequate market research to support targeting decisions.

Executive Summary

The Department Should Coordinate and Enhance Existing Information Systems to Better Manage the Marketing and Regulatory Enforcement Activities

The Department's primary information systems appear to meet the majority of its information needs. However, information on market enhancement and regulatory enforcement is not consistently included in these systems. For example:

- The Department's systems for tracking regulatory enforcement cases were not systematically developed and have historically lacked controls to ensure data accuracy. Weak controls over data entry and analysis of case information have prevented these systems from providing the Department with information that would help to enhance the efficiency of the regulatory enforcement function. The Department is currently addressing this concern.
- Available information and current market research is not used to plan and control marketing efforts. Current marketing information systems are not coordinated agencywide, nor are they consistent among regions. In addition, the effectiveness of the Department's marketing efforts have not been reviewed. As a result, the Department does not have all the information it needs to make good decisions about the efficiency of its marketing efforts.
- The accuracy of some of the performance measures reported to legislative agencies cannot be certified. The State Auditor's Office attempted to certify four of the performance measures reported to the Legislature, and found that only one could

be fully certified as accurate. This is reported in *An Audit Report on Performance Measures at 13 State Agencies and 7 Educational Institutions* (SAO Report No. 97-029, January 1997).

Select Internal Audit Projects Based on Risk, Detail Results of Audits in Written Reports, and Improve Audit Tracking Systems

Although the Department's Internal Audit Division (Internal Audit) provides management with analysis, appraisals, recommendations, and counsel regarding the Department's activities, Internal Audit is not complying with the standards set by the Institute of Internal Auditors to ensure that management receives effective independent appraisal services. Written audit reports are not sufficiently detailed and are not always supported by sufficient, relevant audit evidence. Also, documentation does not support the development of the audit plan or the follow-up of audit findings.

Department management is generally satisfied with Internal Audit's services and quality of work. Internal Audit provides ongoing assistance to management at all levels, and is seen as an aid to preventing material problems or control weaknesses. Addressing noted deficiencies should further enhance Internal Audit's ability to assist management in the effective discharge of its responsibilities and minimize the risk of control failure.

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The Department Should Improve Documentation of Hiring Decisions, Timeliness of Evaluations, and Controls Over Exempt Positions

Controls over classified positions provide assurance that qualified individuals are hired and trained to do their jobs effectively. (In fiscal year 1995, all but 29 of the Department's 492 employees were classified employees.) However, evaluations are not always performed on time, there is no policy for multiple-step merit increases, and exempt employees are not subject to the same controls over hiring and evaluation as classified employees.

Generally, the Department Has Adequate Controls Over Resources; However, Controls Over the Integrated Pest Management Grants Could Be Improved

Overall, controls over the Department's assets provide reasonable assurance that these assets will be safeguarded.

We found a few opportunities for improvement in cash management and management of fixed assets. In both of these cases, Department management has taken steps to address our concerns and implement our recommendations.

We also found that although the grant programs administered directly by the Department appear to be effectively run, the same controls are not in place over the \$250,000 it awards for grants for Integrated Pest Management. The Department pays a nonprofit association an administrative fee to administer this program on its behalf. We noted opportunities for improvement in the

award criteria, the contract provisions, and the review process associated with these grants:

- Not all the award criteria were described in the Request for Proposals.
- We could not determine whether the proposals were scored consistently among the evaluators.
- Contracts did not include any provision to compare the actual disbursements to the anticipated disbursements as of a specific date for possible reallocation.
- Contracts did not include a provision about who retains ownership of assets purchased with grant funds.
- Neither the Department nor the administering association documents the monitoring of grantee activities.
- Review of expenditures is done by the administering association. The Department authorizes payment based on review of association authorization. For one of the grants, the association authorizes payments to itself as the grantee.

The Department Has Developed Effective Mechanisms for Planning and Budgeting Its Resources

The Department appears to perform effective environmental scans, incorporating new information into its plans. These plans are monitored by the division within the organization that implements each section of the plan. However, the Department's process for monitoring financial activity at the strategy level is not well documented. Our review of

Executive Summary

expenditures for each of the strategies found
that expenditures by strategy were consistent

with the relative appropriations.

Overall Assessment

This report includes our assessments of the controls at the Texas Department of Agriculture (Department) and at the Texas Agricultural Finance Authority (TAFE).

Generally, the system of management controls implemented by the Department provides reasonable assurance that its goals will be achieved, its assets are safeguarded, decisions are made based on reliable data, and it is complying with applicable laws and regulations.

Our review included an assessment of the Department's mechanisms for managing its policies, its information, its performance, and its resources. More detail on specific areas reviewed is in Appendix 1 and Appendix 2 of this report. Overall, we found that:

- The Department has identified methods for achieving its mission through its strategic planning process.
- The Department's budgeting process ensures that funds are spent in a way that is consistent with planned priorities.
- Performance measures established in coordination with the Legislative Budget Board for the Department's regulatory function are used internally to plan activities and gauge the effectiveness of the Department's regulatory efforts.
- Controls over classified personnel ensure that qualified people are hired.
- The Department's primary information systems appear to meet the majority of its information needs.
- Cash receipts, property and equipment, and purchases are adequately safeguarded.

Within this system of established controls, we identified several areas in which the Department can enhance existing controls. These enhancements are detailed in Sections 2 through 8 of this report.

Section 1 of the report addresses TAFE. We found that some loans approved by TAFE's Board have not met its lending guidelines, and that some TAFE programs may not be active enough to meet their objectives. TAFE is a separate entity, established by the 70th Legislature, operating within the Department. TAFE receives staff support from the Department, but has its own Board of Directors, and makes its own funding decisions. The TAFE Board has responded separately to this part of the report.

Section 1:

Adhere to Existing Lending Guidelines and Develop Other Strategies to Improve TAFAs Success

While there are sound guidelines for TAFAs loans, they have not always been followed. In addition, three of the five TAFAs lending programs that we reviewed may not be active enough to be meet their intended objectives, and not all authorized programs have been implemented. Additional market research could provide some answers about how to make these programs more successful. Legislation passed in 1995 combined several of the agricultural finance programs and mandated that the TAFAs Board (Board) include four members from the agricultural lending community. This new Board has been active since January 1996.

Section 1-A:

Some TAFAs Loans Have Not Been Made in Accordance With Lending Guidelines

TAFAs has established reasonable guidelines for evaluating loan applications. The Board approves loans and loan guarantees, and the guidelines were set to ensure that the risk of default is minimized. However, the Board has made some lending decisions without relying on these standards.

TAFAs administers four active programs and is responsible for two inactive programs. These programs are to provide financial assistance for Texas agricultural enterprises. Under the most active of the programs, the Loan Guaranty Program, the Board has approved loan guarantees of \$39,966,459 to 48 enterprises since June 1991. Ten of these loans are currently in default, and six loans are on TAFAs watch list. Records provided by TAFAs indicate that after liquidation of assets, defaulted loan losses will be approximately \$2.7 million. At July 31, 1996, there were 32 entities with outstanding loan guarantees valued at \$19,323,023.

In the past, the Board has approved some loans that did not meet its lending guidelines. For example, applicants with negative net worth or with very high debt-to-worth ratios were provided loan guarantees under TAFAs Loan Guaranty Program.

During 1996, the new Board has implemented some changes to policy which, if followed, should strengthen TAFAs position. These changes include:

- Incorporating, by rule, the Credit Policy and Procedures criteria and guidelines in loan review and approval
- Limiting the maximum amount of participation in loan guarantees
- Changing the timing of payment of guaranty amounts so that TAFAs will pay only after all pledged collateral is liquidated, rather than after a specified period of time after the notification of default

- Enhancing the filing requirements to include such things as financial statements in a format similar to generally accepted accounting principles and a five-year plan for the proposed operation, which would provide a comprehensive overview of the operation including pro forma financial statements

In addition, TAFE has adopted a rule which will make it possible for the staff to screen loans before presenting them to the Board, and to include a recommendation for approval or denial for each loan. This rule, as amended in November 1996, becomes effective if the Board directs the staff to present only those loans that meet the minimum underwriting standards. No such direction has yet been made.

Figure 1 shows the number of times that guidelines used in the Loan Guaranty Program were not followed in ten loans. Our sample included loans made between 1991 and 1995. In our sample, we found that loans in default had a higher incidence of exceptions to the underwriting guidelines (3.7 per file examined) than those not in default (1.6 per file examined). Although our sample was a non-statistical one, this analysis implies that there is a strong correlation between not meeting underwriting guidelines and default rates.

Our initial sample did not include either of the two loans approved this year. At TAFE's request, we performed a review of the degree to which these two loans adhered to the current lending criteria. We found that both loans adhered substantially to existing lending guidelines.

Figure 1:

Underwriting Guideline Exceptions

	Underwriting Guideline	Exceptions Noted, of Seven Performing Loans Tested	Exceptions Noted, of Three Loans Tested that are In Default
General Eligibility Guidelines	Applicant has provided adequate equity	3	0
	Adequate collateral exists	1	3
	Personal joint or several guarantees have been offered	0	1
	Maximum debt to equity ratio of 4:1	0	2

Figure 1:
Underwriting Guideline Exceptions, concluded

	Underwriting Guideline	Exceptions Noted, of Seven Performing Loans Tested	Exceptions Noted, of Three Loans Tested that are In Default
Business Start-up Guidelines	Minimum equity injection by applicant of 25 percent	0	0
	At least 75 percent of owner contributed equity is cash	1	2
	Adequate analysis of current and future cash flow has been performed	0	2
	Pro forma financial statements for 36 consecutive months provided	0	1
Existing Business Guidelines	Three years of historical financial statements provided	1	N/A
	Maximum debt to equity ratio, 4:1	3	N/A
	Minimum current ratio, 1:1	1	N/A
	Debt service coverage of 1.5 x after incorporation of new debt	1	N/A
	Total Exceptions in Sample	11	11
	Average Exceptions per Loan	1.6	3.7

While we believe that the Board should rely on its lending guidelines, we recognize that some applicants may be credit-worthy without meeting all established standards. We agree that the Board should be free to consider these applications. However, the Board lacks current guidelines for policy waivers that would still facilitate good lending decisions. In addition, when decisions are made about these loans, the reasoning behind the granting of waivers has not always been documented in the files or in the Board minutes. Therefore, there is no way to know whether the special risk factors associated with these loans were given adequate consideration prior to approval.

Recommendations:

- When the TAFE Board does not adhere to its lending guidelines, the reasoning of the Board should be thoroughly documented in the case files. Improved documentation would simplify analysis of trends.
- The TAFE Board should provide the direction to staff as described in the rule adopted on November 22, 1996, that would allow staff to present for Board

consideration only those loan applications which meet minimum standards established in the Credit Policy and Procedures.

Management's Response - TAFE:

(Note: This is an excerpt of TAFE's response to this section. The entire response of the TAFE Board can be found in Management's Response - TAFE, page 38.)

While we agree that some lending decisions made in the past may have been made without fully adhering to all established lending guidelines, we want to stress that those instances occurred prior to the changes made to TAFE by the Legislature through Sunset legislation which became effective September 1, 1995. Since those legislative changes became fully effective, our established guidelines for making loans have been followed. Furthermore, the board has implemented policies and procedures that further strengthen the decision-making processes of the board.

Section 1-B:

Some TAFE Programs May Not Be Active Enough to Meet Their Objectives, and Not All Authorized Programs Have Been Implemented

Three of the five TAFE lending programs reviewed do not appear to be active enough to meet program objectives:

Young Farmer Program. Only five loans have been made since this program's inception. We found that the maximum loan guarantee amount (statutorily set at \$50,000) is considered by the lending community to be too low for agricultural business start-up purposes.

The program is funded by a \$5 assessment on each commercial farm vehicle. Owners of these vehicles can petition for reimbursement of the assessment, and many do. The Department estimates that it costs over \$6 to process each refund. There is currently \$5,073,244 in the Young Farmer Fund as a result of the assessment collections on commercial farm vehicles. With this balance, TAFE could fund an additional 95 loans for the maximum amount (or, if leveraged as described in statute, 190 loans could be funded). Given that only 5 loans have ever been funded, the current balance would cover all loans to be funded from this program for the foreseeable future.

TAFA Programs

TAFA is currently responsible for six programs:

- C The **Loan Guaranty Program** provides financial assistance to eligible agricultural businesses. The program provides up to a 90 percent guaranty to an eligible lender for loan made to an eligible borrower. The program has provided financial assistance to 48 borrowers since its inception in 1991.
- C The **Linked Deposit Program** provides a means for an eligible lending institution to offer an eligible borrower a reduced interest rate for production of an alternative crop or for production of crops which have declined because of a natural disaster, or for the purchase of water conservation equipment for agricultural purposes. Since the beginning of the program in 1988, it has provided financial assistance to over 60 borrowers.
- C The **Young Farmer Loan Guarantee Program** provides first-time farmers or ranchers with financing from a lending institution for his or her first farm or ranch operation. Five loans have been made since the inception of the program in 1993.
- C The **Farm and Ranch Finance Program** provides financial assistance to farmers and ranchers for the purchase of agricultural land. One loan has been made since its inception in May of 1995.
- C The **Rural Microenterprise Development Program** is to provide financial assistance to any eligible business, either agricultural or non-agricultural, in rural areas of Texas for start-up or expansion. It has not yet been activated.
- C The **Agricultural Diversification Grant Program** has in the past been funded by a direct appropriation from the Texas Legislature, but was not funded for the current biennium. We did not review this inactive program.

Farm and Ranch Finance Program. Only one loan has been made under this program, and loan caps are relatively low (statutorily set at \$150,000).

Rural Microenterprise Development Program. This program was authorized in statute in 1989, with loans limits of \$15,000 for start-up businesses and \$30,000 for existing businesses. This program was never activated, and no loans have been made.

In addition, a constitutional amendment passed in 1995 allows the use of TAFA funds for "other rural economic development programs." However, the TAFA Board has not yet developed a program in response to this amendment.

Recommendations:

- TAFA should consider discussing with the Legislature a number of options for changing the Young Farmer Program, such as temporarily discontinuing the assessment, to resume when and if the program becomes more active, or raising the loan cap to make the program more attractive.
- TAFA should also discuss with the Legislature options for continuing or changing the Farm and Ranch Finance Program.
- TAFA should assess inactive programs to determine whether they should be implemented; and if the Board determines that an authorized program would prove to be valuable, take steps to implement these programs.
- TAFA should begin planning to develop a program to address "other rural economic development programs" in a way that would meet the needs of the Department's stakeholders, as authorized by the voters in 1995. The program development

process should capitalize on the past experiences of TAFE programs, and be designed with good lending guidelines, a useful loan limit, appropriate promotional activities, sufficient data and established criteria against which program effectiveness will be assessed.

Management's Responses - TAFE:

We agree that some programs are not active enough to determine whether they are meeting their intended objectives. For the Young Farmer Loan Guarantee and the Farm and Ranch Finance Programs, we believe this is a result of limitations and/or restrictions in the respective enabling legislation that affect the attractiveness or the effectiveness of these programs. These statutory limitations have effectively, and indeed precluded, extensive use of these programs.

Within whatever latitude the enabling legislation allows for program changes by the board, we have taken a number of steps to try to improve the attractiveness of these programs to prospective borrowers. For example, the board has worked with the Texas Farm Bureau to effectuate any needed and/or desirable changes in the Young Farmer Loan Guarantee Program that can be accomplished through rule or policy changes. The board has likewise committed to work with the Legislature to achieve further needed changes in the Young Farmer and the Farm and Ranch programs to make them more effective and useful programs.

The audit report correctly points out that a constitutional amendment passed in 1995 allows the use of TAFE funds for "other rural economic development programs" and that the board has not yet developed a program in response to this amendment. However, the board would point out that this authority is expressly permissive in both the enabling statutory provision [Agriculture Code Section 58.021(e)] and the constitutional amendment [SJR 51]. The board will begin planning such a program when it is determined by the board that such an endeavor is timely and appropriate under all relevant factors.

As for the Rural Microenterprise Development Program, we will begin a process to determine the need and the usefulness of such future program. We understand that such program is to be funded using the general obligation of the state, therefore the availability of funds for development must be born by other programs of TAFE. Also we understand that any such program developed must be designed to meet the needs of the potential program participants while using good lending guidelines.

We firmly believe that the Loan Guaranty Program of TAFE is certainly a program that develops and provides assistance to rural areas of this state. We believe that a review of the current portfolio of TAFE will substantiate that the majority of the commitments approved by TAFE have been to rural areas.

Section 1-C:

TAFAs Program Promotion Is Not Based on Adequate Research, and Promotion Efforts Directed Toward Lenders Need Reassessment

TAFAs has increased the amount of outreach provided since recommendations made in 1995 by the Sunset Advisory Commission. However, these efforts have been undertaken without a marketing plan or adequate market research to support targeting decisions.

Past promotions by TAFAs staff have evenly targeted borrowers and lenders. However, since a borrower must bring the lender into the program, and lenders have minimal motivation to push TAFAs at the point of sale, it may be more useful to target the borrower in these efforts. This is supported by surveys done on the Young Farmers Program and the Farm and Ranch Program, in which only 3 of the 255 respondents reported hearing about the programs from lenders. Because lenders generally have other loan products to sell to the most credit-worthy borrowers, these borrowers are not likely to hear about TAFAs from the lenders. None of the seven TAFAs lenders we contacted routinely include information on TAFAs in their promotional literature.

Recommendation:

TAFAs should conduct market research to determine whether its promotional activities are targeted to create the maximum desired effect.

Management's Response - TAFAs:

We have made extensive outreach efforts in an attempt to effectively promote all of our programs. This has been done through development and distribution of informational brochures; booths and presentations at farm shows, the State Fair of Texas, FFA events and those of other ag organizations; broadcast of public service announcements; ads published in ag publications, such as newsletters for the Texas Farm Bureau and the Texas Department of Agriculture; presentation of program information and opportunities in speeches and other presentations by TAFAs and TDA staff. Yet, despite our efforts, there still appears to be significant lack of awareness of our programs. We do believe there is better understanding of the programs than what is identified as "3 of 255 respondents" from a survey. The referenced survey was completed in 1994 which was before the Farm and Ranch program was in existence. While we do agree that we need to do more market research to determine whether our promotional activities are effectively targeted to achieve the maximum desired effects, we believe that there may be more limiting factors (e.g. statutory limitations) for the programs than marketing.

We plan to develop and implement a marketing/promotional plan for the programs for further outreach efforts.

Section 1-D:

TAFAs Effectiveness Has Not Been Evaluated

TAFAs has not determined whether its programs are fulfilling the needs they were created to address. In 1995, the Legislature mandated that a cost-benefit analysis be performed regarding TAFAs programs. A biennial study is to address both active and inactive programs, and is to include an examination of the number of jobs created or retained in Texas as a result of these programs. The first of these studies is to be submitted to the Legislature by February 1, 1997. However, TAFAs has not collected data that would facilitate this evaluation of its programs. In addition, TAFAs has not developed other measures to determine the effectiveness of its programs, such as changes in fund balances over time.

Recommendation:

TAFAs should establish or identify benchmarks that would assist in evaluating the effectiveness of its lending programs. Collection of data related to the cost-benefit studies to be performed in future years should include some measure of job collection and retention, as well as information on the borrowers' annual revenues. In addition, if TAFAs determines that other measures would better describe the effectiveness of its programs, such as changes in operating income for several years after receiving a TAFAs loan, efforts should be made to collect and use this information.

Management's Response - TAFAs:

The first of the biennial cost-benefit studies required by legislation enacted in 1995 has just been completed by TAFAs's contract consultant and filed with the State Auditor's Office as required. Even though the audit report states that "TAFAs has not collected data that would facilitate the evaluation of its programs," the Final Report of the cost-benefit study correctly points out that this results from the fact that "the time periods for which data elements were available and applicable vary due to the time in which TAFAs was responsible for the program and because loan servicing and administrative requirement did not contemplate a cost-benefit study." Now with the requirement in place for biennial cost-benefit studies and with the model having been developed for such future studies, we agree that benchmarks or other measures should be developed that will assist in evaluating the effectiveness of our lending programs. This, will also, of course, require that we collect data related to the cost-benefit studies that will be performed in future years.

Section 2:

Coordinate and Enhance Existing Information Systems to Better Manage the Marketing and Regulatory Enforcement Activities

The Department's primary information systems appear to meet the majority of its information needs. However, information on market enhancement and regulatory enforcement is not consistently included in these systems, and we found that there are opportunities for improvement in these areas. These improvements, as well as improvements to the accuracy of reported performance measures, should enhance the Department's ability to track the results of regulatory enforcement activities and marketing efforts.

Section 2-A:

Ongoing Improvements to the Department's Regulatory Enforcement Information Systems Will Enable It to Better Track Case Status

The Department's systems for tracking regulatory enforcement cases were not systematically developed and have historically lacked controls to ensure data accuracy. Weak controls over data entry and analysis of case information have prevented these systems from providing the Department with information which would enhance the efficiency of the regulatory enforcement function. For example, in some cases, penalty assessments and collections have not been timely.

The Enforcement Division currently uses separate databases to track enforcement actions for regulatory programs such as cotton stalk destruction, the various seed programs, and price scanners. We analyzed this data for three enforcement programs. Figure 2 shows the number of cases included in each data set, the number of notices of violation for each program, and the dollar value of penalties assessed since creation of the enforcement data sets.

Figure 2

Regulatory Enforcement Statistics

	Cotton	Scanner	Seed
Number of Cases	623 (since 1995)	1,566 (since 1992)	196 (since 1995)
Number of Notices of Violation	57	1,192	175
Dollar Value of Enforcement Actions	\$49,422	\$128,275	\$27,735

The Enforcement Division has recently begun to develop policies and procedures to standardize data entry and assign responsibility for maintaining and using the regulatory enforcement information systems. In addition, the Enforcement Division has conducted audits of the data entered in all existing data sets and is considering

establishing an ongoing quality control review function to ensure the accuracy of new data entry. The Enforcement Division has also begun to develop standard reports that will identify and track outstanding payments. These changes should address the following:

- **The data sets included inconsistent and inaccurate data.** As a result, past analyses may have been based on inaccurate data, and enforcement action for some cases could have been delayed. For example, of 11 scanner cases reviewed, 3 had notices of violations issued almost one year after the initial inspection date. We found errors in all of the data sets we tested:
 - Of 10 cotton cases reviewed, 4 had errors or omissions
 - Of 6 scanner cases reviewed, 5 had erroneous data
 - Of 6 seed cases reviewed, 1 included an entry error

Inaccurate and incomplete data may have resulted from the absence of a complete "data dictionary" (which defines acceptable data ranges for each data field), few data entry edit checks, and inadequate monitoring of data accuracy and case status.

- **The Enforcement Division has not used standard reports to identify outstanding cases or cases for which payment is past due.** As a result, there is a risk that penalty assessments may not be collected in a timely fashion. Currently, the administrative technicians (responsible for data entry/system maintenance) and case preparation officers must review the complete data set to ensure that proper, timely action is taken on all cases. Our test of 16 cases found one penalty assessment which had not been paid by the due date. The Notice of Violation for this case included a \$600 penalty and was dated August 20, 1996, with action required (payment sent or hearing requested) within 20 days. As of late October 1996, payment had not been made, and no hearing had been requested, although the Enforcement Division reports that the respondent was to have been contacted by telephone. This follow-up was not documented in the case files.
- **Documentation for some cases was not readily available or was insufficient to determine why initial recommended actions were changed.** Some cases were initially determined to warrant notices of violations with penalties. Later, these assessments were dropped and notices of noncompliance were issued. However, the case file did not include new information to support the change in enforcement action. Specifically:
 - Three of 10 cotton cases reviewed had Notices of Violation rescinded by the Enforcement Division without adequate, documented justification. (Cotton penalties are assessed when growers fail to destroy standing cotton stalks by the required date.) In these three cases, the additional documentation supporting the abatement was not in the case file, but instead was filed with other related cases.

- Two of six scanner cases did not include sufficient documentation to support final enforcement actions. (Scanner penalties are assessed when sellers' price scanners fail to price an item either as advertised or as posted.) One of these two cases was from 1993, and the supporting documents to support abating a proposed penalty could not be located. In the other case, the case file did not include the memo on which the decision to abate the penalty was based, but a related file did. This memo documented that the Department's attorney spoke with the respondent's attorney and noted that the respondent's attorney would call back. The next notation on the memo simply states "Fine reduced to \$725" (from \$1,050).

Recommendations:

- Finalize policies and procedures related to regulatory enforcement data entry, and develop standard reports to allow case preparation officers to easily identify outstanding payments.
- Ensure that each case file includes sufficient documentation to support regulatory enforcement actions.

Management's Responses - the Department:

TDA, through its Enforcement division, had already recognized the concerns identified in this section, and as early as May of 1996, had begun a process of implementing necessary improvements to its regulatory enforcement information systems to address these matters. The audit report acknowledges that Enforcement has already begun taking a number of steps to address many of the recommendations made, and recommends that these processes be finalized. We agree.

Enforcement has developed uniform data set definitions which include detailed, easy-to-understand definitions for enforcement data fields. These definitions will help to maintain consistency within each docket and will designate which staff members are responsible for the accuracy of the various fields. The data sets now include payment tracking information, which will assist us in monitoring the payment status of cases. The "master docket" will also provide for consistency and uniformity of reporting across the various regulatory programs. Enforcement is in the process of incorporating these data sets into the FY 97 docket.

A set of standardized procedures also has been developed and is being implemented which will coincide with the data set definitions and ensure that staff are aware of their responsibilities for various functions. The procedures will ensure that all functions are completed and that cases continue to move through the system in a timely manner. The procedures also provide for use of standard computerized reports which will be run on a monthly basis—one program per week and will identify cases needing particular action. The reports will allow staff to track the status of cases and

ensure the cases are progressing in a timely manner, both in terms of movement through the administrative process and payment tracking.

As stated in the audit report, Enforcement has just completed a quality control audit of the FY 96 and FY 97 information contained in the existing regulatory data sets. The cotton stalk destruction and nursery/floral dockets underwent a 100% audit—all files on the dockets were pulled and the information checked for accuracy. The scanner and seed dockets were reviewed by the attorney in charge of the respective program and any cases which appeared to contain empty fields, discrepancies, or other questionable entries were noted. Additional cases were then chosen at random so that the total number of case files pulled equaled at least 10% of the cases on that docket. Corrections were made as necessary. In addition, the files were checked to ensure that proper documentation was included in the files.

Enforcement is in the process of designating a quality control staff member and instituting a quality control review system whereby the data fields/dockets will be checked on a regular basis. The designated staff member will be responsible for reviewing, at random, a stated percentage of cases from any cases that are still pending and any cases which reflect closure since the last quality control review. The quality control staff member will pull physical files, check all data for accuracy, note any documentation which appears to be missing or inadequate, and provide a report of the quality control findings to the Deputy General Counsel for Enforcement. Any errors or omissions will be corrected by the staff member responsible for that field or documentation, and any unacceptable error rates or recurring errors will be addressed in an appropriate manner by the Deputy General Counsel.

Finally, Enforcement has developed a set of standardized statistical reports which will be generated for each regulatory program on a quarterly and end-of-year basis. Enforcement is currently in the process of generating these reports for FY 96.

We would point out that the lack of documentation issue mentioned in the audit report generally involved rather old cases or cases in which a memorandum was generated covering a number of cases but the memorandum was inadvertently placed in one of the affected files and not placed in all the others. To address this, Enforcement staff have been advised that all actions must be documented to all affected files, and the new procedures discussed above require that staff must document all actions to the file and assigns specific responsibility for this task. Also, the new quality control review system discussed above will include review for proper and adequate documentation of the files. Any lack of documentation found in the quality control reviews will be reported to the Deputy General Counsel and any problems noted will be immediately addressed and necessary steps be taken to ensure proper documentation. Finally, Enforcement has developed a standard form that will be used by attorneys to assist in proper documentation of files.

Available Information and Current Market Research Could Be Better Used to Plan and Control Marketing Efforts

The Department's information systems do not consistently track and combine output information in ways that fully describe marketing activity. This is true of the two primary systems that are used by the market enhancement strategy as well as the other systems at the Department. Current marketing information systems are neither coordinated agencywide nor consistent among regions. For example, although the Department tracks and reports the number of hours, inspections, and contacts expended in its regulatory areas, the management information system does not track staff hours spent for marketing contacts. As a result, the Department does not have all the information it needs to make good decisions about the efficiency of its marketing efforts, and plans and budgets are not consistently supported by adequate information on why specific marketing actions are appropriate.

Also, the Department does not have a system for assessing the effectiveness of its marketing function. The Marketing Division measures its success through the use of data that may not be the most effective ones to use. Current measures are sales, referrals, and jobs, but the data on sales and jobs is neither complete nor consistent, since it relies on proprietary and self-reported information from vendors. While these measures would be useful if the data were complete, gathering this data is difficult because the entities are under no obligation to report it.

In addition, use of these kinds of measures will not account for other factors unrelated to the Department's involvement. We have recommended several alternatives for the Department to consider using as supplemental measures. For example, using Comptroller data on sales taxes paid would allow the Department to compare sales taxes paid (and therefore sales) by a sample of businesses participating in Department programs with those not participating in Department programs. Another possibility would be to compare historical trends in sales according to the financial statements of the Department's program participants and others. (This recommendation would only work for publicly held companies.) If a process like this were used, the Department would be better able to determine whether its marketing efforts relate to successes on the part of the companies that participate in the programs.

Without evaluating the effectiveness of this function, resources may be used without achieving desired results.

Recommendations:

- The Department should expand and integrate its marketing information system. To this end, the format of marketing-related reports should be standardized, and the data on client activity should be expanded. In addition, the Department should explore the system's ability to track performance data.

- Several opportunities also exist to improve market research. For example, the Department should ensure that head counts and participant contact information are gathered at all presentations, special events, and trade shows. Customer surveys could be used as a routine part of marketing operations. Participant reactions and the results of marketing presentations and special events could be tracked using a combination of comment cards, feedback forms, or on-site surveys.
- The Department should establish or identify benchmarks that would assist in evaluating the effectiveness of its marketing programs.

Management's Responses - the Department:

We agree. Research by the marketing division has been utilized to determine activities and set budget priorities. Research was compiled on consumer preferences to buy Texas products through a shopping mall survey in March, 1995, and through a mailed survey to readers of Texas Monthly magazine in August, 1995. Also in 1995, follow-up surveys were performed on program members who participated in marketing functions to measure the effectiveness of market promotion activities. Each of these was used to assist in determining budget priorities and the direction of marketing activities. As a follow-up, the marketing division is currently conducting consumer surveys to determine the continuing effectiveness of our marketing efforts. These surveys will be tabulated and future marketing activities will be driven by what we learn from this research.

The audit report recommends expanding and simplifying the agency's integrated marketing information system. We are in the process of making changes to TAME's (Texas Agricultural Marketing Exchange) reporting system to bring greater accuracy, simplicity and continuity to the reporting elements of this system. Moreover, we are developing a system to complement TAME that will outline formats and procedures for marketing activities. The combination of these two systems will allow us to gather participant and sales information at various marketing events—retail promotions, trade shows, livestock sales, etc. On-site customer surveys will continued to be used to evaluate customer preferences and awareness. We will also consider using other tools outlined in the audit recommendations, such as comment cards and feedback forms.

In the effort to measure as accurately as possible the effectiveness of marketing efforts, we currently track three important measurements: sales facilitated, referrals and jobs created. "Sales facilitated" measure sales of raw and processed products that transpired due to staff's efforts of bringing buyers and sellers together in a variety of situations. "Referrals" measure the number of instances staff refer a buyer of a product to a seller—a producer or processor of a Texas agricultural product. Business development efforts are measured primarily through the number of "jobs created" through our efforts to recruit new agricultural processing facilities to Texas and to assist expansions of existing businesses.

We believe these measurements are effective to capture the effectiveness of our marketing efforts mainly due to our ability to gather information from entities enrolled in the various marketing promotional programs. Other measurement standards have been suggested and staff is in the process of analyzing them. We will continue to look for and review other measurement options. However, we will strive to ensure that any measurement standard used should come as close as possible to measuring the results of staff's activities and actions—not merely track standards such as gross receipts at the farm gate or by agricultural processors. Such standards generally track overall economic activity, but are affected by significant forces beyond the control of the agency—i.e. interest rates, currency rates, overall economic growth, etc. We will continue to analyze other methods that effectively monitor and track our marketing activities and actions.

Section 2-C:

The Accuracy of One of the Four Performance Measures Tested Could Not Be Certified

Of the four fiscal year 1996 performance measures reviewed for certification, only one could be fully certified as accurate. Two others, "Percent increase from the 1994 level in the number of Texas Farmers and Ranchers Using New Technologies . . ." and "Average Cost per Pesticide Applicator Licenced" were certified with qualifications. The definitions for these two measures have been changed, addressing the primary obstacle to unqualified certification. The other measure tested, "Number of Companies Enrolled in TDA Marketing Programs," was found to be inaccurate. These performance measures are reported to the Legislature and are used during the appropriations process. The results of this work is more fully described in An Audit Report on Performance Measures at 13 State Agencies and 7 Educational Institutions (SAO Report No. 97-029, January 1997).

Nineteen of the 34 Department Pesticide and Regulatory Division managers responding to our survey cited performance measures as an indicator of effective or efficient job performance. Accurate performance measures are, therefore, not only valuable for external users, but also for internal users of this information.

Management's Response - the Department:

The audit report is correct that one performance measure could not be certified and steps are being taken to assure that future reporting is accurate and consistent. Testing of the two measures certified with qualifications showed the measures to be "materially accurate," but they were qualified because their definitions had not been updated to reflect "changing environments." We requested and received approval from the Legislative Budget Board and the Governor's Office of Budget and Planning to revise the definitions for these two measures.

As a result of this finding, we will modify the portion of our strategic planning process that involves performance measure review to include appropriate consideration of the impact of changing environmental factors have on measure definitions. Measure definitions will be revised when environmental changes warrant. Further, we will enhance our measure reporting by outlining more specific procedures for calculating all performance measures.

Section 2-D:

Some Complaints Are Not Systematically Tracked

Complaints can provide a good indication of customer satisfaction, but the Department does not systematically track all complaints. Our survey of Department management revealed that 27 of the 61 respondents used complaints or "negative feedback" as an indicator that corrective action is needed. Complaints associated with pesticide handling are maintained centrally, but complaints about Department inspectors and complaints about members of the regulated community (e.g., that a competitor is operating without a license) are addressed at the regional level. Although the Department tracks these complaints individually to ensure that they are resolved, there is no systematic way to analyze statewide trends in types of complaints or to determine whether specific businesses have a history of noncompliance.

Complaints about laws, policies, and procedures related to specific programs at the Department are not tracked at all. Some of these may be brought to the attention of Department management for resolution, but there is no assurance that all are brought forward for consideration. The Department does not have a system to ensure that the person making the complaint hears what action has been taken, or at what level.

Recommendation:

The Department should better monitor complaints, and include information from analysis of complaints into its strategic planning process. The system developed should also include a method for ensuring that people making complaints are informed of the actions taken as a result of the complaints.

Management's Response - the Department:

We agree. We currently track complaints at the regional level on a system that is consistent from region to region. Our new Chief of Operations in Administrative Services has been assigned the task of coordinating an agencywide complaint system to ensure consistency and have the ability to track complaints from a statewide prospective. That project is in the beginning planning phase and will be completed in FY 97.

Ensure That Audits Comply With Professional Standards, and Improve Documentation of Planning and Results

Although the Department's Internal Audit Division (Internal Audit) provides management with analyses, appraisals, recommendations, and counsel regarding the Department's activities, Internal Audit is not complying with the standards set by the profession to ensure that management receives effective independent appraisal services. We found that:

- Written audit reports do not contain sufficient detail to allow readers to understand the audit findings, do not include all information required by professional standards, and are not always supported by sufficient, relevant audit evidence.
- Audits that were assessed a high level of risk were not always included in the audit plan, and lower-risk audits were included. Although management concurred with the final audit plan, there was no documentation to support the changes.
- Internal Audit's system for tracking the status of audit recommendations and results of audit work does not include information on all audits, and some information is inaccurate.

Department management is generally satisfied with Internal Audit's services and quality of work. Internal Audit provides ongoing assistance to management at all levels and is seen as an aid to preventing material problems or control weaknesses. Addressing noted deficiencies should further enhance Internal Audit's ability to assist management in the effective discharge of its responsibilities and minimize the risk of control failure.

Section 3-A:

Ensure Written Reports and Supporting Evidence Comply With Professional Standards

Reports provided to management do not contain sufficient detail to allow the reader to understand the results of the audit or the extent of work performed. Although Internal Audit's last peer review recommended that written reports include more detail, reports now include less. In addition, reports do not include the audit purpose and scope as required by the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing (Standards). Lastly, we found that the evidence cited in referenced reports was not sufficient to support the conclusions.

- Currently, Internal Audit's final written reports use four paragraphs of standard wording from report examples provided by the American Institute of Certified Public Accountants. Internal Audit's standard reports also include a

brief statement of finding condition, criteria, cause, effect, and auditor recommendation (with each element described in no more than two sentences). This formal report is supplemented by a high-level management report on internal controls. Neither of these reports includes all elements required by professional standards, and neither provides sufficient written detail to describe the audit results or scope of work performed.

The Standards state that a signed, written report should be issued after an audit examination is completed; that reports present the purpose, scope, and results of the audit; and that the report include those findings which are necessary to support or prevent misunderstanding of the internal auditor's conclusions and recommendations. Written reports can provide valuable information to external readers, but only if they are sufficiently detailed. The Department's Internal Audit reports do not currently provide enough detail to be meaningful to external readers.

- Significant report sections were not adequately supported by sufficient, referenced evidence. For example, one audit finding on the Nursery/Floral Program concerned a reporting limitation in the Integrated Licensing System, but the only evidence referenced to support the conclusions related to the information system's limitations was four pages of print screens from a totally separate system.

Standards require that audit working papers record the information obtained and the analyses made to support the basis for the findings and recommendations reported in such a way that a prudent, informed person would reach the same conclusions. Internal Audit's current level of working paper documentation is insufficient to comply with this requirement.

The Department's Internal Audit Division currently consists only of the Director of Internal Audit. As a result, there are fewer opportunities to have other auditors review audit work and ensure that findings are sufficiently supported.

Recommendations:

- Internal Audit should ensure that audit reports contain all required elements. At the minimum, written reports should provide sufficient detail to allow an external reader to understand the procedures performed and the significance of the results obtained, along with sufficient additional detail to provide a compelling argument for the recommendations offered.
- Supporting evidence should be better referenced to audit conclusions and/or more convincing evidence should be obtained to support audit findings.
- Internal Audit should consider alternatives for instituting a review process. For example, the Director could trade review services with another one-person

internal audit department or could arrange to have an independent third party from within the Department review his work.

Management's Responses - the Department:

We agree and will implement reporting formats and procedures to ensure that the audit reports fully comply with all appropriate professional standards. Currently, the Internal Audit division has an internal practice that allows the auditor to report orally or in writing issues that may warrant attention before the field work is completed. Also as a standard practice of the division, all findings, supporting evidence and recommendations are reviewed with the auditee before the audit report is formally discussed with senior management.

In addition, an independent third party person within TDA will review the Internal Auditor's working papers to ensure that all auditing standards are met. When possible, the individual selected will be a Certified Public Accountant having prior audit experience.

Section 3-B:

Internal Audit Does Not Adequately Track and Report the Results of Its Work, and the Annual Audit Plan Is Not Adequately Documented

Documentation maintained by the Internal Audit Division does not meet the requirements established by Standards for planning, nor does it meet the requirements established by the Texas Internal Audit Act (Government Code, Chapter 2102) for reporting on the results of the work of Internal Audit.

- The annual audit plan is not compiled based on the documented risk assessment prepared by Internal Audit. In addition, the divergences from the risk assessment are not consistent with management's written input. Three projects were listed in the fiscal year 1996 audit plan. These audits received risk scores of 420, 310, and 290. A list of the auditable units at the Department was also provided to Department management for input, which were ranked as "high," "medium," "low," or "hold." However, there were three auditable units with risk assessment scores higher than 290, with no comment from management, that were not included in the annual audit plan. In addition, one area received a risk score of 330 and was ranked as "high" by management but was not included in the plan. Subsequent discussions with management confirm that the development of the final audit plan was discussed, but there is no documentation of these meetings.

The Texas Internal Auditing Act requires that an annual audit plan be prepared using risk assessment techniques. In addition, the Standards of the Institute of Internal Auditors describe the risk assessment process as crucial. If the results

of the risk assessment are not communicated, audit resources may be spent in areas of lower importance, and significant risks may not be addressed.

Documenting the development of the audit plan, including input from both Internal Audit risk assessment and management, would address this concern.

- Internal Audit does not track its available audit hours and does not estimate the number of hours each planned project is expected to take. As a result, it cannot determine whether it has sufficient resources to perform the planned audits, or if the annual audit plan is reasonable.
- Internal Audit's annual reports are also inaccurate. For example, the 1995 report noted that the Pesticide Registration audit was in progress at the end of the year. However, the 1996 report does not list either of the two findings from that audit in the current or prior year sections. In addition, the informal tracking system that Internal Audit uses to monitor the status of its recommendations is neither complete nor accurate. Incomplete and inaccurate information could adversely affect Internal Audit's planning for audit follow-ups, the quality of any kind of analysis done on the tracking system data, and the usefulness of Internal Audit's annual report.

Recommendations:

- Audits included in the annual audit plan should be selected based on assessed risk. When high-risk audits are not included in the plan, the reasons why these projects were excluded should be documented and management should be notified of the risk assumed by excluding these projects.
- Estimated hours for proposed projects should be developed and documented as part of the annual planning process to ensure that all planned projects can be completed, and to enable Internal Audit to improve planning for special projects.
- The Department should take steps to update the audit tracking system and ensure the accuracy of information reported to the Legislature and used for internal planning.

Management's Responses - the Department:

The Internal Audit division has a risk analysis program that allows the auditor to give the most attention to activities of highest risk or those that are of greatest concern to senior management. Management is fully informed of the assumed risk when projects are excluded. However, we will implement necessary and/or appropriate procedures to ensure that the annual audit plan is based on the risk assessment process and that any changes will be fully reviewed and documented and approved by the Deputy Commissioner before implemented. In addition, as part of the annual audit planning process, the Internal Audit department will estimate the number of hours that will be

necessary to carry out each project. Any change to the estimated hours will be fully documented, reviewed and approved. Although the current audit tracking system is an informal tool to aid the auditor, we will update and enhance the system to ensure the information contained therein is accurate and consistent with the audit work performed or ongoing.

Section 4:

Improve Timeliness of Evaluations, Develop a Policy on Multiple-Step Merit Raises, and Enhance Controls Over Exempt Positions

Controls over classified positions provide assurance that qualified individuals are hired and trained to do their jobs effectively. In fiscal year 1995, all but 29 of the Department's 492 employees were classified employees. We noted that in most job categories, the Department either met or exceeded ethnic and gender goals. However, evaluations of classified employees are not always performed on time, and there is no policy on multiple-step merit raises. Exempt employees are not subject to the same controls over hiring and evaluation that classified employees are.

Section 4-A:

Evaluation Processes for Classified Employees Appear to Be Adequate; However, All Employees Have Not Been Evaluated in a Timely Manner, and Merit Increases Have Been Awarded Without Current Evaluations

Evaluations of classified employees used criteria that were generally job-related, and the evaluations that were present used job-related comments to support ratings. Department policy requires that all employees be evaluated annually. However, evaluations for staff in our sample of 20 were not current.

- 13 of the 20 evaluations were more than 1 year old.
- 10 of the 20 were more than 18 months old.

The Department has recently revised its performance appraisal process, and during this revision many evaluations were postponed until the new process was in place. Therefore, our results may not be indicative of the Department's usual practice. The Department expects the new appraisal policies and procedures to address these concerns.

In addition, we identified two concerns related to the award of merit increases. Fifteen of the nineteen classified employees in our sample received merit raises, and six of these received merit raises for more than one step. The General Appropriations Act allows merit raises to be given "to classified employees whose job performance and productivity is consistently above that normally expected or required."

- Personnel files do not always include adequate documentation to ensure that merits have been warranted. Two of the fifteen classified employees in our sample that had merit increases had not had evaluations in the year before the pay action.
- The Department does not have an agencywide policy for merit raises of more than one step. The Department adopted a policy related to merit increases in August 1996, but it does not expressly address multiple-step merit raises. The Department instead relies upon the judgement of its managers in determining the number of steps awarded in any given instance. The General Appropriations Act states that "agency criteria for granting merit salary increases must include specific criteria and documentation to substantiate the granting of more than a one step merit increase" (IX-27, 5c). Without a policy for awarding multiple-step merit raises, there is an increased risk that these raises could be awarded for reasons other than intended by the Legislature.

Recommendations:

- The Department should ensure that employees receive timely evaluations according to its policy. Supervisors should be held accountable for not completing their employees' evaluations on time.
- Ensure that the August 1996 policy on merit raises is implemented. This policy includes a requirement that the merit be supported by a current performance appraisal with specific ratings on performance factors.
- Develop and implement policies for multiple-step merit raises.

Management's Responses - the Department:

New employee appraisal policy and procedures were implemented in September 1996 and include a notification system to managers regarding appraisal due dates. Timely notices are sent to managers reminding them of appraisals that are due for a given month, followed up by two other reminders if the required appraisals are not received in the Human Resources office on schedule. We are confident the new policy and procedures will adequately address all the matters raised in the audit report.

The August 1996 agency policy on merit increases has been fully implemented. Merit increase requests are closely reviewed in relation to the policy for a current appraisal and for appropriate performance ratings to justify an increase. We are reviewing our current merit raise policy and will make necessary revisions to ensure that the policy sets forth specific criteria for the award of multiple step raises.

Section 4-B:

For Exempt Employees, Controls Over Hiring and Evaluation Do Not Provide Assurance That the Best-Qualified People Are Hired, Promoted, and Retained

Exempt employees are not governed by the controls that apply to classified employees. Exempt positions may not be posted (although some are) and applications are not as thoroughly reviewed. We found that in seven cases, people were hired for exempt positions on or before the date that their applications were signed. In addition, staff in exempt positions do not always receive written evaluations. As a result, the Department does not have adequate assurance that those hired to fill exempt positions are the most qualified, or that their performance meets agreed-upon expectations.

Recommendation:

Enhance controls over the hiring and evaluation of exempt employees. Specifically, exempt positions should be posted if external applicants will be considered, and a hiring process should be developed to ensure that the best applicant is hired. This would require that applications be completed far enough in advance of the hiring date to ensure adequate consideration of all applicants' qualifications. Written performance evaluations should be prepared for all levels, including exempt positions, to ensure adequate performance and to determine future salary or disciplinary actions.

Management's Response - the Department:

We disagree. The Commissioner selects and appoints exempt positions. Therefore, the system for hiring and evaluation of these staff members is at the sole discretion of the Commissioner. The Classification Office of the State Auditor's Office acknowledges that there are no statewide criteria for hiring exempt positions. The concept of exempt positions allows statewide elected officials such as the Commissioner to put in place qualified, senior level staff who will be able to quickly implement the policy initiatives of the elected official. These exempt staff are selected by virtue of their expertise and/or experience in a particular area. They serve at the will of the Commissioner, and their performance is effectively evaluated constantly by the Commissioner, based on how well the staff member is accomplishing the initiatives of the Commissioner. To subject the exempt staff and the Commissioner to the same system as classified employees would be cumbersome and redundant since the exempt staff are already measured at a stricter standard.

As stated above, exempt staff are selected by the Commissioner by virtue of their specialized expertise and/or experience in a particular area. Their qualifications have thoroughly been reviewed in the Commissioner's selection process, and any written documentation of their qualifications that might be needed (e.g. resumes) is usually submitted well in advance of the beginning date of their employment. When someone

is hired for an exempt position, they usually fill out an application on their beginning day of employment for informational purposes only.

All salary determinations for exempt employees are likewise determined at the discretion of the Commissioner, within the guidelines established by the Legislature. Salary levels and salary adjustments for exempt employees are made in accordance with requirements and limitations in the Appropriations Act and consistent with salary range levels approved by the Legislative Budget Office and the Governor's Office of Budget and Planning.

Auditor's Follow-Up Comment:

The Classification Office acknowledges that agencies develop their own job descriptions for exempt positions, and that agencies set their own qualifications for hiring exempt employees. However, executive branch agencies headed by elected officials are not exempted from the statutory requirement that all employment openings be posted (Government Code, Sections 656.001-656.025). In addition, the Department's enabling legislation does not limit annual performance evaluations to classified employees (Agriculture Code, Section 12.013[b]).

Section 5:

Generally, the Department Has Adequate Controls Over Resources; However, Controls Over the Integrated Pest Management Grants Could Be Improved

Overall, controls over the Department's assets provide reasonable assurance that these assets will be safeguarded. Although the grant programs which are administered directly by the Department appear to be effectively run, the same controls are not in place over the Integrated Pest Management grant program. We also found a few opportunities for improvement in cash management and management of fixed assets. In both of these cases, Department management has taken steps to address our concerns and implement our recommendations.

Section 5-A:

Controls to Safeguard Resources Are Generally Good

Our review of the following processes suggested that the existing controls provide reasonable assurance that the resources are safeguarded:

- **Cash Receipts.** Of the \$8.7 million of cash that was collected by the Department in fiscal year 1995, \$6.9 million (79.2 percent of total) went directly to the State Treasury lock box. We reviewed the procedures for processing the \$1.8 million sent to the Austin office, and found those procedures to be adequate. In fiscal year 1995, approximately \$800,000 was

collected by the Giddings Seed Lab. During our review of controls, nothing came to our attention that suggested that cash had been lost or misappropriated. We have made several recommendations, which the Department has already begun to implement, to improve the physical security of checks sent to that office.

- **Property and Equipment.** As of October 7, 1996, the Department had \$540,000 in fixed assets on a special list of property that had not been located. Regional staff members confirmed that discrepancies on their property lists had been reported to the Austin office, and corrections were not always made. Only one deletion request had been made in the last three years. Because the Department's list of assets was not current, assets were probably overstated in the Department's financial statements.

Since we discussed this problem with Department staff, concerted efforts have been initiated to correct these matters. Department staff reports that an inventory begun at the end of October has thus far accounted for \$261,000 in equipment and has deleted an additional \$275,000 of equipment from the Department's fixed asset list.

- **Personnel Expenditures.** In a sample of 20 employees, our tests confirmed that the personnel files agreed with the amount paid for salaries. Personnel expenditures accounted for approximately \$17 million of the Department's \$23 million budget in fiscal year 1996.
- **Operating and Program Expenditures.** (Operating and program expenditures accounted for approximately \$6 million of the Department's \$23 million budget in fiscal year 1996.) Our tests of purchases confirmed that the Department was in compliance with purchasing rules set forth by General Services Commission rules. In addition, expenditures supported the programs against which they were charged. However, we found that not all TAFE administrative expenditures are tracked separately from other Department expenditures. Although the Department asserts that the aggregate amount of these expenditures is immaterial, we do not believe that this can be determined unless those expenditures which can be allocated to TAFE administration are tracked separately.

Management's Response - the Department:

We agree. The new cash receipt procedures implemented at the Giddings Seed Lab as recommended by the auditors will enhance controls over cash receipts at the Lab. These new procedures were put in place December 1, 1996.

Our new Chief of Operations in Administrative Services has been assigned the task of reviewing all inventory policies and procedures and making any necessary and/or appropriate changes to ensure proper and accurate fixed asset accounting.

Beginning in FY 98, we will appropriately allocate all expenditures incurred by TDA in support of TAFE programs to TAFE's various fund accounts.

Section 5-B:

Controls Over Grants for Integrated Pest Management Could Be Improved

The Department's administrative oversight of its Integrated Pest Management (IPM) grant program is not structurally consistent with its oversight of two other effectively run grant programs. The Department pays a nonprofit association an administrative fee to administer the IPM program on its behalf. Although two other grant programs (Texas-Israel Exchange and Fair Park Restoration) administered directly by the Department appear to be effectively run, the same controls are not in place over the IPM program.

Of the original \$200,000 allocated for these grants in fiscal year 1996, the administering association awarded all of the money, less its administrative fee, to Texas A&M agencies. (See Figure 3.) These 17 grants were awarded competitively by a committee that included Texas A&M personnel as well as representatives from the Department, the farming community, and the association.

Late in the fiscal year, an additional \$50,000 was awarded non-competitively to two grantees recommended by the administering association. One of these grants went to the association itself.

Figure 3
Integrated Pest Management Grants, Fiscal Year 1996

Grant Awardee	Grants Awarded	Dollars Awarded	Percent of Dollars
Texas Agricultural Extension Service (a Texas A&M agency)	16	\$161,811	73.55%
Texas Agricultural Experiment Station (a Texas A&M agency)	2	\$33,189	15.09%
Administering Association*	1	\$25,000	11.36%
Total Grants Awarded in FY 96	19	\$220,000	100%

*The administering association also received a \$30,000 fee for administering the grants. The Department allocated a total of \$250,000 for IPM grants.

We noted opportunities for improvement in the award criteria, the contract provisions, and the review process associated with these grants:

- Not all the award criteria were described in the Request for Proposals. For example, a grant was not funded through this program if it was known that it

had received funding from another source, but this preference was not stated in the Request for Proposals.

- The score sheets used by the evaluators were not completed consistently. As a result, we could not determine whether the proposals were evaluated consistently among the evaluators. In some cases, for example, evaluators would provide scores and comments on each parameter. In other cases, the entire proposal was given a single numeric score with no explanation.
- There is no provision in the contract to compare the actual disbursements to the anticipated disbursements as of a specific date for possible reallocation. Review of variances could allow the Department to reallocate funds for other IPM projects before the end of the fiscal year. For 1995, \$325,941 was awarded. Actual expenses were \$299,114. The \$26,827 difference was not needed for the grants that were funded for that fiscal year. This money could have funded at least one more grant.
- The contract does not include a provision about who retains ownership of assets purchased with grant funds. For example, office furniture was charged to one grant. Although this was not a material expense, the contract does not specify whether this furniture is now owned by the State, the grant administrator, or the grantee.
- Neither the Department nor the administering association documents the monitoring of grantee activities. Grantees provide quarterly reports to the association, and the association says that it monitors them annually, but records are not maintained on what is reviewed during these visits.
- Review of expenditures is done by the administering association. The Department authorizes payment based on a review of association authorization. Neither level of review has always identified unallowable expenditures charged to the grants. For example, \$50 in administrative charges, which are specifically listed in the contract as unallowable, were charged to and paid for one grant.
- Proper segregation of responsibilities has not always been maintained. For one of the grants, the association authorizes payments to itself as the grantee. In this case, the same person receives the grant, expends the grant funds, and authorizes the payments.

Recommendations:

- The Department may want to consider whether, given the additional oversight that is needed, the Department receives enough benefit from the administering organization to warrant the \$30,000 it paid for grant administration last year. Other grant programs, such as the Texas-Israel Exchange, are administered within the Department and are awarded by a board appointed by the agencies

that cooperate in these grants. A similar board for the IPM grants could be used to ensure that all stakeholders are represented.

- The Request for Proposals should clearly indicate all the criteria that will be used to evaluate applications, and ensure that evaluations are scored consistently by the Project Review Committee members.
- The Department should revise the contract to include the missing elements, including a provision stating who will own assets purchased with grant funds, and allow for a mid-year reallocation of funds not being expended as anticipated.
- Monitoring activities should be documented to provide assurance that grant activities are progressing according to plan. Consider using a checklist for monitoring activities to ensure consistent levels of monitoring, or a log of when monitoring occurred and what areas were reviewed.
- Implement a more thorough review of charges against the grant. This should include verification that the approved items are allowable according to the contract.
- The Department should preclude the association from administering a grant to itself. If the Department chooses to contract with the association, the parties to the contract should be the Department and the association.

Management's Responses - the Department:

We acknowledge that our administrative oversight of the Integrated Pest Management (IPM) program has not been structurally consistent with our oversight of the two other grant programs. We agree that there are opportunities for improvement in this regard and are taking steps to address these matters.

We will continue to ensure that the published requests for proposals (RFPs) clearly indicate all the criteria that will be used to evaluate proposals. All IPM proposals are pre-screened by the Texas Pest Management Association (TPMA) to ensure that the basic criteria included in the RFP are met. As a practical matter, efforts are made not to fund proposals that are the same as submitted to other state grant programs and which are funded through those other programs. Even though this aspect is not specifically published in the RFP as a selection criteria, some members of the review committee are knowledgeable on this information and are extremely helpful in ensuring that some proposals are not consequently "double-funded." However, proposals that obtain funding from other sources are not categorically disqualified from an IPM grant award. Also, while we believe that the consistent level of review by the proposal review committee cannot be determined by simply reviewing proposal score sheets, we will continue to ensure that the evaluations are scored appropriately by persons with expertise in IPM.

We agree that in the past there has been no contract provision to compare actual disbursements to anticipated disbursements as of a specific date for possible reallocation. We are in the process of finalizing new contract language to address this situation. However, the situation of each grantee differs substantially in the amount of the grant that is unused and when it is determined the funds are not needed. Twelve of the sixteen grantees in FY 95 did not seek reimbursement for grant funds awarded in amounts ranging from \$2.41 to \$7,800. The circumstances ranged from funds left in travel budgets to operating, equipment and supply costs being less than originally anticipated. We will consider proposals to reasonably determine how reallocation of funds can be anticipated due to unexpended funding situations being unique in each circumstance. A deadline for allocating funds could be determined and documented in the required second quarter report in cases where it is known that total funding will not be spent. A separate list of unfunded grant proposals could be developed so that any additional funds coming available could be provided before the end of the fiscal year.

We likewise agree that the current contract does not address ownership of assets purchased with grant funds, and proper language is being incorporated into the new FY 97 contract.

The monitoring process developed for the IPM program requires quarterly reports from all grantees. Additional site visits are not required by the contract, but certainly are allowed if deemed necessary. Monthly budget reports, obtained from those grantees who request payments, provide another check on the progress of the grant. Separate monitoring logs will be developed to help monitor quarterly progress. Requests for reimbursement are thoroughly reviewed when expenditures seem questionable and some written explanations are required. In addressing the grant under which the TPMA authorizes payments to itself, a review of the grant and expenditures is performed by TDA. TDA is the final checkpoint on all expenditures by TPMA under this grant. However, we agree that TPMA should not administer a grant to itself. In the future, if we choose to contract with TPMA, that will be done by contractual agreement rather than by a grant award.

Finally, given the extensiveness of needed oversight on the part of TDA discussed by the audit report, serious consideration will be given to determine if there is enough benefit that will then be received from the administering organization to warrant the administration fee paid.

Auditor's Follow-Up Comment:

The Department's review of expenditures seems to have become more thorough since we brought our concerns to the Department's attention. However, we saw no evidence that any expenditure request had ever been questioned in the past, and some of the Texas Pest Management Association requests for travel reimbursement, which were paid, did not include explanations as to how they related to the purpose of the grant, as required by the contract.

Section 6:

The Department Has Developed Effective Mechanisms for Planning and Budgeting Its Resources

Although the Department effectively plans to accomplish its mission, and effectively monitors its activities by division, its process for monitoring financial activity at the strategy level is not well documented.

Section 6-A:

The Department's Planning Process Provides Assurance That the Department Has Identified Methods for Achieving Its Mission

The Department appears to perform effective environmental scans, incorporating new information into its plans. For the last two years, the Department has conducted an annual strategic planning session to determine whether corrections are needed. These sessions are attended by senior staff members, and it appears that their input affects budget decisions. Opportunities also exist for executive management, staff throughout the Department, and stakeholders served by the Department to participate in ongoing planning.

The Department's strategic plan incorporates most of its major functions as described in its enabling legislation. The only exception that we found was that the investigation of sub-soiling is assigned to the Department in the Agriculture Code, Section 12.005, but it is not being done at the Department.

Recently, the Department performed a comprehensive "rules sunset," in which any rule in the Texas Administrative Code that was not needed was rescinded. Although this was a time-consuming process, it resulted in the elimination of many rules that were obsolete or redundant.

Performance targets and action plans are set for each division during the budget process. The Department as a whole has set specific, measurable goals for itself.

Management's Response - the Department:

We are in complete agreement with all comments relating to the effectiveness of our strategic planning and budgeting processes.

With regard to the audit comment about the investigation of sub-soiling not being done at TDA, we would point out that all work necessary to be done in that area is being done, and indeed has been done for many years, by the Soil and Water Conservation Board under their statutory authority to provide technical assistance on, among other things, returning erosive crop land to pasture and other practices which maximize water conservation; increase water use efficiency; increase water quality; and reduce erosion. Any TDA role in this area would be totally redundant.

Section 6-B:

The Budgeting Process Appears to Operate Effectively, but Would Benefit From Additional Documented Policies and Procedures

The Department monitors its budgets by division rather than by strategy, and one effect could be that the Department may not be spending money in accordance with legislative intent. However, our tests found that there were no significant deviations from legislative intent as described in the General Appropriations Act.

The Department does have informal processes for monitoring the budget at the strategy level, but these processes are not documented and they are not necessarily performed consistently. Because there is high turnover in the Budget Division, documentation of the process is even more important.

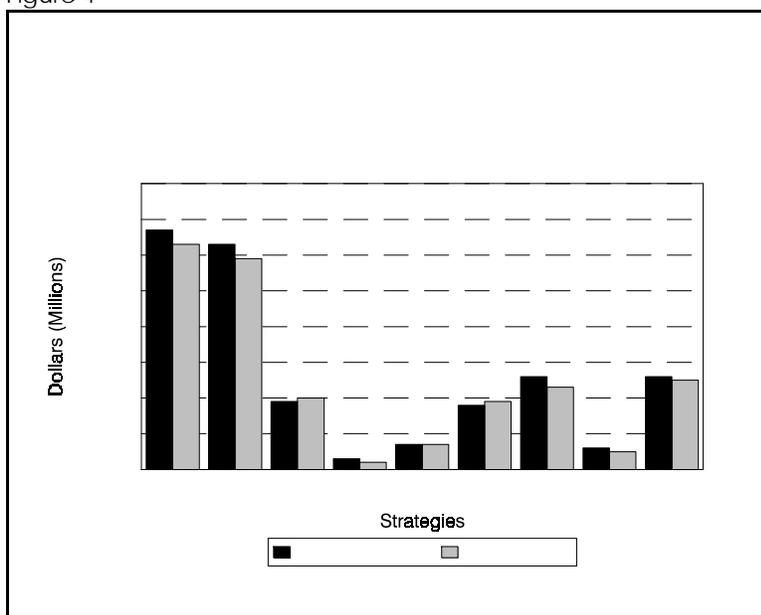
Recommendation:

The Department should document the process for monitoring budgets by strategy, and implement a process to ensure that it is done regularly.

Management's Response - the Department:

We agree and are taking steps to formalize the review process that currently exists and document policies and procedures. As a result of the auditors' recommendations, the budget staff has already begun, with the December, 1996 monthly budget reports, providing a budget report by strategy to executive management. This will now be routinely done monthly, along with the regular monthly budget reports by division and office.

Figure 4



Section 7

The Department's Expenditures Align With Legislative Appropriations

The General Appropriations Act grants the Department (and other agencies under the direction of elected officials) the authority to "direct agency resources and transfer such amounts appropriated . . . between strategy line items." We reviewed the transfer activity for fiscal year 1996 to determine whether,

after considering the use of this transfer authority, funds were used consistently with legislative intent as described in the original appropriation. We found that expenditures for each of the strategies were consistent with the relative appropriations. (See Figure 4 on the previous page.)

- Of the Department transfers recorded by the Uniform Statewide Accounting System (USAS), we only found one example of a transfer between program strategies. Approximately \$185,000 was transferred from the Seed Quality Program to the Nursery Regulation Program. Other transfers were generally associated with the Budget Reduction Act, worker's compensation or unemployment benefits, or other administrative functions.
- We reviewed the basis for allocating costs to administrative strategies at the Department. We found that the Department has used a reasonable process to determine which costs should be paid from administrative strategies and how the costs would be shared by the contributing strategies. In addition, we tested expenditures to ensure that charges to strategies benefited those strategies.
- 24.15 percent of the Department's appropriations (before riders) were transferred from program strategies to administrative strategies. Appropriations for most agencies include a line item for administration and indirect support. However, agencies headed by statewide elected officials must use their transfer authority to fund the administrative function. We

compared the amount transferred from program to administrative strategies for each of these agencies, using as the base amount the appropriations before riders.

Figure 5
Transfers from Program Strategies
to Administrative Strategies, Fiscal Year 1996

Agency	Dollars Transferred to Administration	Percent of Total Appropriation
Office of the Attorney General	\$11.5 million	3.67%
Office of the Comptroller of Public Accounts	\$38 million	21.34%
Department of Agriculture	\$5.7 million	24.15%
General Land Office	\$12.2 million	26.43%
Governor's Office	\$2.9 million	29.01%
Railroad Commission	\$7.2 million	14.55%
Treasury	\$2 million	4.68%

Transfers to administrative accounts for other statewide elected officials ranged from 3.67 percent to 29.01 percent. (See Figure 5.) We did no additional review at the other agencies to determine whether administrative expenditures were charged only to the administrative accounts.

It appears that the Department's use of its transfer authority has not resulted in a change from the intent of the Legislature as expressed in the General Appropriations Act. In addition, the amount of money transferred from program to administrative strategies at the Department does not appear unreasonable when compared to transfers to administrative strategies by other statewide elected officials.

Management's Response - the Department:

We agree completely.

January 3, 1997

State Auditor's Office
Two Commodore Plaza
206 East Ninth St., Suite 1900
Austin, Texas 78701

Dear Sir:

The Texas Agricultural Finance Authority Board of Directors met on December 17, 1996 to review and respond to the TAFE-related portion of the Texas Department of Agriculture management control audit performed by your agency. We specifically reviewed Section 1 and its related parts, as it relates to TAFE and the actions necessary. We have also reviewed a revised draft provided on December 19 as a result of our questions and comments submitted to your audit staff at our December 17 meeting. Our formal response to this final draft follows:

Section 1: Adhere to Existing Lending Guidelines and Develop Other Strategies to Improve TAFE's Success

Section 1-A: Some TAFE loans have not always been made in accordance with lending criteria.

While we agree that some lending decisions made in the past may have been made without fully adhering to all established lending guidelines, we want to stress that those instances occurred prior to the changes made to TAFE by the Legislature through Sunset legislation which became effective September 1, 1995. Since those legislative changes became fully effective, our established guidelines for making loans have been followed. Furthermore, the board has implemented policies and procedures that further strengthen the decision-making processes of the board.

During the 74th Legislative Session, Chapter 58 of the Texas Agriculture Code, entitled "Agriculture Finance Authority", was amended based upon a number of recommendations from the Sunset Advisory Commission. The change that had a significant impact on TAFE was the restructure of the TAFE board. As a result of this statutory revision, effective September 1, 1995, the composition of the TAFE board was modified to require that four of the nine members have agricultural-

related lending or investment experience. Prior to September 1, 1995, the TAFE board was statutorily required to have "one but not more than two members from lending institutions with agricultural experience". Another statutory change, although not as significant, required all TAFE members to receive relevant financial training before assuming their duties as members. According to the Sunset Advisory Commission report to the Legislature, "adding members with financial experience will enhance the board's ability to make lending and investment decisions", and "providing investment and money-management training will ensure that TAFE members with non-financial backgrounds have equal input in board decisions".

These legislatively-adopted recommendations from the Sunset Advisory Commission have proven to be significantly positive for TAFE operations. Having at least four of the nine TAFE board members with agricultural-related lending or investment experience has resulted in a marked difference in the way the board reviews and approves loan applications. Applications coming before the new TAFE Board for approval since January, 1996, now regularly and routinely receive the type of review more like private lending institutions would give the same applications.

Since January, 1996, with the Governor's appointments to TAFE in compliance with the statutory requirements, the new TAFE board has made a number of significant changes to its rules, policies and procedures to effectuate needed or desirable changes to the board's lending practices. The audit report enumerates these changes.

In addition, given its new financial lending expertise, the board routinely imposes greater scrutiny on applications for creditworthiness, repayment ability and collateral sufficiency. The board has worked closely with its contracted financial advisors and bond counsel to ensure continuing overall financial stability of the loan programs. The board has purchased new loan monitoring software to provide consistent and timely loan accounting information on an accrual basis. An additional staff analyst has been hired to assist in loan workouts and liquidations. All of these events and steps have already successfully led to greater scrutiny of the soundness and creditworthiness of loan applications submitted.

All board loan considerations and decisions are fully discussed in board meetings open to the public. The staff credit memoranda for loans under consideration, as well as the tape recording and the official minutes of all board meetings, adequately document all board consideration of loan applications coming before it and all reasons for approving or denying the loans. Thus, there is adequate and readily available documentation to determine any and all consideration given to any special risk factors that might be associated with loans approved.

As part of the new policies and procedures that have been adopted by the board, the board has directed that staff present for board approval only those applications which meet minimum underwriting standards established in the credit policy and procedures. If staff determines that an application does not meet minimum underwriting standards, then staff shall notify the applicant and the lender in writing to this effect, and shall advise them of the minimum underwriting standards not met. The applicant and the lender may appeal the determination of the staff to the board, but shall have the burden of convincing the board that the minimum standards not met should be waived.

With regard to the underwriting guideline exceptions identified in Figure 1, we would like to point out that the loan guaranty program has been an ever-evolving program since its inception in 1991. The program rules and the credit policy and procedures have been changed a number of times with the intent of the changes being to strengthen the credit quality of applications to the program. We understand that there may have been instances where applications were approved that would certainly not meet the guidelines that are effective at this time. We also understand that applications will need to meet guidelines in effect at the time of their presentation, but guidelines are established and/or will be established to protect TAFE and provide it with creditworthy applications.

Section 1-B: Some TAFE programs may not be active enough to meet their objectives, and not all authorized programs have been implemented.

Response

We agree that some programs are not active enough to determine whether they are meeting their intended objectives. For the Young Farmer Loan Guarantee and the Farm and Ranch Finance Programs, we believe this is a result of limitations and/or restrictions in the respective enabling legislation that affect the attractiveness or the effectiveness of these programs. These statutory limitations have effectively, and indeed precluded, extensive use of these programs.

Within whatever latitude the enabling legislation allows for program changes by the board, we have taken a number of steps to try to improve the attractiveness of these programs to prospective borrowers. For example, the board has worked with the Texas Farm Bureau to effectuate any needed and /or desirable changes in the Young Farmer Loan Guarantee Program that can be accomplished through rule or policy changes. The board has likewise committed to work with the Legislature to achieve further needed changes in the Young Farmer and the Farm

and Ranch programs to make them more effective and useful programs.

The audit report correctly points out that a constitutional amendment passed in 1995 allows the use of TAFAs funds for "other rural economic development programs" and that the board has not yet developed a program in response to this amendment. However, the board would point out that this authority is expressly permissive in both the enabling statutory provision [Agriculture Code Section 58.021(e)] and the constitutional amendment [SJR 51]. The board will begin planning such a program when it is determined by the board that such an endeavor is timely and appropriate under all relevant factors.

As for the Rural Microenterprise Development Program, we will begin a process to determine the need and the usefulness of such future program. We understand that such program is to be funded using the general obligation of the state, therefore the availability of funds for development must be born by other programs of TAFAs. Also we understand that any such program developed must be designed to meet the needs of the potential program participants while using good lending guidelines.

We firmly believe that the Loan Guaranty Program of TAFAs is certainly a program that develops and provides assistance to rural areas of this state. We believe that a review of the current portfolio of TAFAs will substantiate that the majority of the commitments approved by TAFAs have been to rural areas.

Section 1-C: TAFAs program promotion is not based on adequate research, and promotions efforts directed toward lenders need reassessment.

Response

We have made extensive outreach efforts in an attempt to effectively promote all of our programs. This has been done through development and distribution of informational brochures; booths and presentations at farm shows, the State Fair of Texas, FFA events and those of other ag organizations; broadcast of public service announcements; ads published in ag publications, such as newsletters for the Texas Farm Bureau and the Texas Department of Agriculture; presentation of program information and opportunities in speeches and other presentations by TAFAs and TDA staff. Yet, despite our efforts, there still appears to be significant lack of awareness of our programs. We do believe there is better understanding of the programs than what is identified as "3 of 255 respondents" from a survey. The referenced survey was completed in 1994 which was before the Farm and Ranch program was in existence. While we do agree that we need to do more market

research to determine whether our promotional activities are effectively targeted to achieve the maximum desired effects, we believe that there may be more limiting factors (e.g. statutory limitations) for the programs than marketing.

We plan to develop and implement a marketing/promotional plan for the programs for further outreach efforts.

Section 1-D: TAFE effectiveness has not been evaluated.

Response

The first of the biennial cost-benefit studies required by legislation enacted in 1995 has just been completed by TAFE's contract consultant and filed with the State Auditor's Office as required. Even though the audit report states that "TAFE has not collected data that would facilitate the evaluation of its programs", the Final Report of the cost-benefit study correctly points out that this results from the fact that "the time periods for which data elements were available and applicable vary due to the time in which TAFE was responsible for the program or because loan servicing and administrative requirement did not contemplate a cost-benefit study". Now with the requirement in place for biennial cost-benefit studies and with the model having been developed for such future studies, we agree that benchmarks or other measures should be developed that will assist in evaluating the effectiveness of our lending programs. This, will also, of course, require that we collect data related to the cost-benefit studies that will be performed in future years.

We appreciate the efforts of your staff in this matter. It has been a pleasure working with them.

Sincerely,

Dickie Geris
Chairman
Texas Agricultural Finance Authority

DG/rk

January 3, 1997

Mr. Lawrence F. Alwin
Office of the State Auditor
Two Commodore Plaza
206 East Ninth Street, Suite 1900
Austin, Texas 78701

Re: Texas Department of Agriculture Management Control Audit

Dear Mr. Alwin:

We have thoroughly reviewed the findings and recommendations contained in the management control audit report of the Texas Department of Agriculture. Based on our review of the findings and recommendations presented to us in the final draft report on December 16, 1996, we submit our formal responses on the following attached pages.

I want to take this opportunity to commend your staff who performed the management control audit for the highly professional manner in which they conducted their audit work and the very fair, objective and helpful review that that they afforded us.

We appreciate the opportunity to submit our comments and responses in these regards.

Sincerely,

Rick Perry
Commissioner

Section 2 Coordinate and Enhance Existing Information Systems to Better Manage the Marketing and Regulatory Enforcement Activities.

Section 2-A: Ongoing improvements to TDA's regulatory enforcement information systems will enable the department to better track case status.

Response: TDA, through its Enforcement division, had already recognized the concerns identified in this section, and as early as May of 1996, had begun a process of implementing necessary improvements to its regulatory enforcement information systems to address these matters. The audit report acknowledges that Enforcement has already begun taking a number of steps to address many of the recommendations made, and recommends that these processes be finalized. We agree.

Enforcement has developed uniform data set definitions which include detailed, easy-to-understand definitions for enforcement data fields. These definitions will help to maintain consistency within each docket and will designate which staff members are responsible for the accuracy of the various fields. The data sets now include payment tracking information, which will assist us in monitoring the payment status of cases. The "master docket" will also provide for consistency and uniformity of reporting across the various regulatory programs. Enforcement is in the process of incorporating these data sets into the FY 97 docket.

A set of standardized procedures also has been developed and is being implemented which will coincide with the data set definitions and ensure that staff are aware of their responsibilities for various functions. The procedures will ensure that all functions are completed and that cases continue to move through the system in a timely manner. The procedures also provide for use of standard computerized reports which will be run on a monthly basis - one program per week and will identify cases needing particular action. The reports will allow staff to track the status of cases and ensure the cases are progressing in a timely manner, both in terms of movement through the administrative process and payment tracking.

As stated in the audit report, Enforcement has just completed a quality control audit of the FY 96 and FY 97 information contained in the existing regulatory data sets. The cotton stalk destruction and nursery/floral dockets underwent a 100% audit - all files on the dockets were pulled and the information checked for accuracy. The scanner and seed dockets were reviewed by the attorney in charge of the respective program and any cases which appeared to contain empty fields, discrepancies, or other questionable entries were noted. Additional cases were then chosen at random so that the total number of case files pulled equaled at least 10% of the cases on that docket. Corrections were made as necessary. In addition, the files were checked to ensure that proper documentation was included in the files.

Enforcement is in the process of designating a quality control staff member and instituting a quality control review system whereby the data fields/dockets will be checked on a regular basis. The designated staff member will be responsible for reviewing, at random, a stated percentage of cases from any cases that are still pending and any cases which reflect closure since the last quality

control review. The quality control staff member will pull physical files, check all data for accuracy, note any documentation which appears to be missing or inadequate, and provide a report of the quality control findings to the Deputy General Counsel for Enforcement. Any errors or omissions will be corrected by the staff member responsible for that field or documentation, and any unacceptable error rates or recurring errors will be addressed in an appropriate manner by the Deputy General Counsel.

Finally, Enforcement has developed a set of standardized statistical reports which will be generated for each regulatory program on a quarterly and end-of-year basis. Enforcement is currently in the process of generating these reports for FY 96.

We would point out that the lack of documentation issue mentioned in the audit report generally involved rather old cases or cases in which a memorandum was generated covering a number of cases but the memorandum was inadvertently placed in one of the affected files and not placed in all the others. To address this, Enforcement staff have been advised that all actions must be documented to all affected files, and the new procedures discussed above require that staff must document all actions to the file and assigns specific responsibility for this task. Also, the new quality control review system discussed above will include review for proper and adequate documentation of the files. Any lack of documentation found in the quality control reviews will be reported to the Deputy General Counsel and any problems noted will be immediately addressed and necessary steps be taken to ensure proper documentation. Finally, Enforcement has developed a standard form that will be used by attorneys to assist in proper documentation of files.

Section 2-B: Available information and current market research could be better used to plan and control marketing efforts.

Response: We agree. Research by the marketing division has been utilized to determine activities and set budget priorities. Research was compiled on consumer preferences to buy Texas products through a shopping mall survey in March, 1995, and through a mailed survey to readers of Texas Monthly magazine in August, 1995. Also in 1995, follow-up surveys were performed on program members who participated in marketing functions to measure the effectiveness of market promotion activities. Each of these was used to assist in determining budget priorities and the direction of marketing activities. As a follow-up, the marketing division is currently conducting consumer surveys to determine the continuing effectiveness of our marketing efforts. These surveys will be tabulated and future marketing activities will be driven by what we learn from this research.

The audit report recommends expanding and simplifying the agency's integrated marketing information system. We are in the process of making changes to TAME's (Texas Agricultural Marketing Exchange) reporting system to bring greater accuracy, simplicity and continuity to the reporting elements of this system. Moreover, we are developing a system to complement TAME that will outline formats and procedures for marketing activities. The combination of these two systems will allow us to gather participant and sales information at various marketing events --

retail promotions, trade shows, livestock sales, etc. On-site customer surveys will continued to be used to evaluate customer preferences and awareness. We will also consider using other tools outlined in the audit recommendations, such as comment cards and feedback forms.

In the effort to measure as accurately as possible the effectiveness of marketing efforts, we currently track three important measurements: sales facilitated, referrals and jobs created. "Sales facilitated" measure sales of raw and processed products that transpired due to staff's efforts of bringing buyers and sellers together in a variety of situations. "Referrals" measure the number of instances staff refer a buyer of a product to a seller -- a producer or processor of a Texas agricultural product. Business development efforts are measured primarily through the number of "jobs created" through our efforts to recruit new agricultural processing facilities to Texas and to assist expansions of existing businesses.

We believe these measurements are effective to capture the effectiveness of our marketing efforts mainly due to our ability to gather information from entities enrolled in the various marketing promotional programs. Other measurement standards have been suggested and staff is in the process of analyzing them. We will continue to look for and review other measurement options. However, we will strive to ensure that any measurement standard used should come as close as possible to measuring the results of staff's activities and actions -- not merely track standards such as gross receipts at the farm gate or by agricultural processors. Such standards generally track overall economic activity, but are affected by significant forces beyond the control of the agency - - i.e. interest rates, currency rates, overall economic growth, etc. We will continue to analyze other methods that effectively monitor and track our marketing activities and actions.

Section 2-C: The accuracy of one of the four performance measures tested could not be certified.

Response: The audit report is correct that one performance measure could not be certified and steps are being taken to assure that future reporting is accurate and consistent. Testing of the two measures certified with qualifications showed the measures to be "materially accurate", but they were qualified because their definitions had not been updated to reflect "changing environments." We requested and received approval from the Legislative Budget Board and the Governor's Office of Budget and Planning to revise the definitions for these two measures.

As a result of this finding, we will modify the portion of our strategic planning process that involves performance measure review to include appropriate consideration of the impact of changing environmental factors have on measure definitions. Measure definitions will be revised when environmental changes warrant. Further, we will enhance our measure reporting by outlining more specific procedures for calculating all performance measures.

Section 2-D: Some complaints are not systematically tracked.

Response: We agree. We currently track complaints at the regional level on a system that is consistent from region to region. Our new Chief of Operations in Administrative Services has been assigned the task of coordinating an agencywide complaint system to ensure consistency and have the ability to track complaints from a statewide prospective. That project is in the beginning planning phase and will be completed in FY 97.

Section 3 Ensure that Audits Comply with Professional Standards, and Improve Documentation of Planning and Results.

Section 3-A: Ensure written reports and supporting evidence comply with professional standards.

Response: We agree and will implement reporting formats and procedures to ensure that the audit reports fully comply with all appropriate professional standards. Currently, the Internal Audit division has an internal practice that allows the auditor to report orally or in writing issues that may warrant attention before the field work is completed. Also as a standard practice of the division, all findings, supporting evidence and recommendations are reviewed with the auditee before the audit report is formally discussed with senior management.

In addition, an independent third party person within TDA will review the Internal Auditor's working papers to ensure that all auditing standards are met. When possible, the individual selected will be a Certified Public Accountant having prior audit experience.

Section 3-B: Internal Audit does not adequately track and report the results of its work and the annual audit plan is not adequately documented.

Response: The Internal Audit division has a risk analysis program that allows the auditor to give the most attention to activities of highest risk *or those that are of greatest concern to senior management*. Management is fully informed of the assumed risk when projects are excluded. However, we will implement necessary and/or appropriate procedures to ensure that the annual audit plan is based on the risk assessment process and that any changes will be fully reviewed and documented and approved by the Deputy Commissioner before implemented. In addition, as part of the annual audit planning process, the Internal Audit department will estimate the number of hours that will be necessary to carry out each project. Any change to the estimated hours will be fully documented, reviewed and approved. Although the current audit tracking system is an informal tool to aid the auditor, we will update and enhance the system to ensure the information contained therein is accurate and consistent with the audit work performed or ongoing.

Section 4 Improve Timeliness of Evaluations, Develop a Policy on Multiple-step Merit raises, and Enhance Controls over Exempt Positions.

Section 4-A: Evaluation processes for classified employees appear to be adequate. However, all employees have not been evaluated timely, and merit increases have been awarded without current evaluations.

Response: New employee appraisal policy and procedures were implemented in September 1996 and include a notification system to managers regarding appraisal due dates. Timely notices are sent to managers reminding them of appraisals that are due for a given month, followed up by two other reminders if the required appraisals are not received in the Human Resources office on schedule. We are confident the new policy and procedures will adequately address all the matters raised in the audit report.

The August 1996 agency policy on merit increases has been fully implemented. Merit increase requests are closely reviewed in relation to the policy for a current appraisal and for appropriate performance ratings to justify an increase. We are reviewing our current merit raise policy and will make necessary revisions to ensure that the policy sets forth specific criteria for the award of multiple step raises.

Section 4-B: For exempt employees, controls over hiring and evaluation do not provide assurance that the best qualified people are hired, promoted and retained.

Response: We disagree. The Commissioner selects and appoints exempt positions. Therefore, the system for hiring and evaluation of these staff members is at the sole discretion of the Commissioner. The Classification Office of the State Auditor's Office acknowledges that there are no statewide criteria for hiring exempt positions. The concept of exempt positions allows statewide elected officials such as the Commissioner to put in place qualified, senior level staff who will be able to quickly implement the policy initiatives of the elected official. These exempt staff are selected by virtue of their expertise and/or experience in a particular area. They serve at the will of the Commissioner, and their performance is effectively evaluated constantly by the Commissioner, based on how well the staff member is accomplishing the initiatives of the Commissioner. To subject the exempt staff and the Commissioner to the same system as classified employees would be cumbersome and redundant since the exempt staff are already measured at a stricter standard.

As stated above, exempt staff are selected by the Commissioner by virtue of their specialized expertise and/or experience in a particular area. Their qualifications have thoroughly been reviewed in the Commissioner's selection process, and any written documentation of their qualifications that might be needed (e.g. resumes) is usually submitted well in advance of the beginning date of their employment. When someone is hired for an exempt position, they usually fill out an application on their beginning day of employment for informational purposes only.

All salary determinations for exempt employees are likewise determined at the discretion of the Commissioner, within the guidelines established by the Legislature . Salary levels and salary adjustments for exempt employees are made in accordance with requirements and limitations in the Appropriations Act and consistent with salary range levels approved by the Legislative Budget Office and the Governor’s Office of Budget and Planning.

Section 5 Generally, TDA has Adequate Controls over Resources. However, Controls over the Integrated Pest Management Grants Could Be Improved.

Section 5-A: Controls to safeguard resources are generally good.

Response: We agree. The new cash receipt procedures implemented at the Giddings Seed Lab as recommended by the auditors will enhance controls over cash receipts at the Lab. These new procedures were put in place December 1, 1996.

Our new Chief of Operations in Administrative Services has been assigned the task of reviewing all inventory policies and procedures and making any necessary and/or appropriate changes to ensure proper and accurate fixed asset accounting.

Beginning in FY 98, we will appropriately allocate all expenditures incurred by TDA in support of TAFA programs to TAFA’s various fund accounts.

Section 5-B: Controls over grants for Integrated Pest Management could be improved.

Response: We acknowledge that our administrative oversight of the Integrated Pest Management (IPM) program has not been structurally consistent with our oversight of the two other grant programs. We agree that there are opportunities for improvement in this regard and are taking steps to address these matters.

We will continue to ensure that the published requests for proposals (RFPs) clearly indicate all the criteria that will be used to evaluate proposals. All IPM proposals are pre-screened by the Texas Pest Management Association (TPMA) to ensure that the basic criteria included in the RFP are met. As a practical matter, efforts are made not to fund proposals that are the same as submitted to other state grant programs and which are funded through those other programs. Even though this aspect is not specifically published in the RFP as a selection criteria, some members of the review committee are knowledgeable on this information and are extremely helpful in ensuring that some proposals are not consequently “double-funded”. However, proposals that obtain funding from other sources are not categorically disqualified from an IPM grant award. Also, while we believe that the consistent level of review by the proposal review committee cannot be determined by simply reviewing proposal score sheets, we will continue to ensure that the evaluations are scored appropriately by persons with expertise in IPM.

We agree that in the past there has been no contract provision to compare actual disbursements to anticipated disbursements as of a specific date for possible reallocation. We are in the process of finalizing new contract language to address this situation. However, the situation of each grantee differs substantially in the amount of the grant that is unused and when it is determined the funds are not needed. Twelve of the sixteen grantees in FY 95 did not seek reimbursement for grant funds awarded in amounts ranging from \$2.41 to \$7,800. The circumstances ranged from funds left in travel budgets to operating, equipment and supply costs being less than originally anticipated. We will consider proposals to reasonably determine how reallocation of funds can be anticipated due to unexpended funding situations being unique in each circumstance. A deadline for allocating funds could be determined and documented in the required second quarter report in cases where it is known that total funding will not be spent. A separate list of unfunded grant proposals could be developed so that any additional funds coming available could be provided before the end of the fiscal year.

We likewise agree that the current contract does not address ownership of assets purchased with grant funds, and proper language is being incorporated into the new FY 97 contract.

The monitoring process developed for the IPM program requires quarterly reports from all grantees. Additional site visits are not required by the contract, but certainly are allowed if deemed necessary. Monthly budget reports, obtained from those grantees who request payments, provide another check on the progress of the grant. Separate monitoring logs will be developed to help monitor quarterly progress. Requests for reimbursement are thoroughly reviewed when expenditures seem questionable and some written explanations are required. In addressing the grant under which the TPMA authorizes payments to itself, a review of the grant and expenditures is performed by TDA. TDA is the final checkpoint on all expenditures by TPMA under this grant. However, we agree that TPMA should not administer a grant to itself. In the future, if we choose to contract with TPMA, that will be done by contractual agreement rather than by a grant award.

Finally, given the extensiveness of needed oversight on the part of TDA discussed by the audit report, serious consideration will be given to determine if there is enough benefit that will then be received from the administering organization to warrant the administration fee paid.

Section 6 TDA Has Developed Effective Mechanisms for Planning and Budgeting Its Resources.

Section 6-A: TDA's planning process provides assurance that the agency has identified methods for achieving its mission.

Response: We are in complete agreement with all comments relating to the effectiveness of our strategic planning and budgeting processes.

With regard to the audit comment about the investigation of sub-soiling not being done at TDA, we would point out that all work necessary to be done in that area is being done, and indeed has been done for many years, by the Soil and Water Conservation Board under their statutory authority to provide technical assistance on, among other things, returning erosive crop land to pasture and other practices which maximize water conservation; increase water use efficiency; increase water quality; and reduce erosion. Any TDA role in this area would be totally redundant.

Section 6-B: The budgeting process appears to operate effectively, but would benefit from additional documented policies and procedures.

Response: We agree and are taking steps to formalize the review process that currently exists and document policies and procedures. As a result of the auditors' recommendations, the budget staff has already begun, with the December, 1996 monthly budget reports, providing a budget report by strategy to executive management. This will now be routinely done monthly, along with the regular monthly budget reports by division and office.

Section 7 TDA's Expenditures Align with Legislative Appropriations.

Response: We agree completely.

Objective, Scope, and Methodology

Objective

Our audit objective was to evaluate the existing management control systems at the Texas Department of Agriculture (Department) and the Texas Agriculture Finance Authority (TAFA) to identify both strengths and opportunities for improvement. We evaluated these control systems to determine whether they provide reasonable assurance that Department objectives will be accomplished. The evaluation was based on the control systems in place as of October 1996.

Management controls are the policies, procedures, and processes used to carry out an organization's objectives. They should provide reasonable assurance that:

- Goals are met.
- Assets are safeguarded and efficiently used.
- Reliable data are reported.
- Laws and regulations are complied with.

Management controls, no matter how well designed and operated, can only provide reasonable assurance that objectives will be achieved. Human error, circumvention by collusion, and management override can reduce the effectiveness of the established controls. However, monitoring the established controls can assist in detecting and correcting weaknesses in a timely manner.

Scope

The scope of this audit included consideration of the Department's overall management control systems: policy management, information management, resource management, and performance management.

Consideration of the Department's policy management system included review and testing of:

- Processes used to create, monitor, and adjust Department plans
- Documents related to the development of strategic, operating, and work plans
- Department requests for legislative appropriations, general appropriations, and operating budgets
- Processes, controls, and reports used to plan, create, administer, control, monitor, report on, and adjust Department budgets
- Relationships among the Department's strategic plan, budget, and accounting systems
- Processes used to develop, document, communicate, review, and revise policies and procedures
- Recalculation of certain allocations to administrative expenses

Consideration of the Department's information management system included review and testing of controls related to the Texas Agricultural Marketing Exchange (TAME) database, the Management Information System, and the Integrated Licensing System, including:

- Processes used to identify, collect, classify, evaluate, maintain, and update information
- Systems used to coordinate interdependent program needs
- Existing management reports and the determination of current and future information needs
- The availability, timeliness, accuracy, and communication of information needed to support Department mission, goals, and objectives

Consideration of the Department's resource management system included review and testing of:

- Processes, controls, and reports relating to recruiting, selecting, training, compensating, and evaluating employees
- Revenue collection and identification processes related to the regulatory process and the Texas Cooperative Inspection Program
- Transfers recorded by the Uniform Statewide Accounting System
- Processes used to ensure that fixed assets are adequately safeguarded
- Processes used to allocate and monitor grant funds
- Processes used to allocate, track, and report on required and complaint-based inspections

Consideration of the Department's performance management system included a review and testing of:

- Processes and reports used to identify, track, and use performance measures
- Processes used to evaluate programs and to ensure quality products and services

Consideration of the processes used by TAFE included:

- Review of training materials provided to the Board, as well as other applicable statute and rules
- Review and tests of files associated with loans in the Loan Guaranty Program
- Analysis of interest revenue lost because of when linked deposit amounts are reduced
- Comparison of contributors to the Commissioner's political campaigns to principals in companies with non-current TAFE loans
- Analysis of current and recent activity in all of the lending programs
- Analysis of recent outreach activity
- Review of processes used to determine whether TAFE programs are effective and efficient

Methodology

The audit methodology consisted of gaining an understanding of how each process or control system was supposed to work. Tests were then performed to gather evidence in determining whether these systems were operating as described. Finally, the results were evaluated against established criteria to determine system adequacy and identify opportunities for improvement.

An understanding of the control systems was gained through review of various Department documents, interviews with and surveys of Department personnel, and field office visits. Systems were tested by comparison of the intended and the actual processes through review of documents and files, interviews, observation, analytic review and transaction testing.

The following criteria were used to evaluate the control systems:

- Statutory requirements
- General and specific criteria developed by the State Auditor's Office Inventory of Accountability Systems Project
- General Accounting Office publication Assessing Internal Controls in Performance Audits
- State Auditor's Office Project Manual System: The Methodology
- State Auditors Office Project Procedures Manual
- Department plans, policies, and procedures
- The Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing

Other Information

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

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

There were no significant instances of noncompliance with these standards.

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

- Rachel Cohen, CPA (Project Manager)
- Linda Buford, CPA
- Julie Cleveland, CIA
- Bill Hurley, CPA
- Brad McMahan, CPA
- Bruce Truitt, MPA
- Betsy Whitley

- Bernie Gilmore, CPA (Audit Manager)
- Craig Kinton, CPA (Audit Director)

Inventory of Tested Systems at the Texas Department of Agriculture

Our audit included consideration of the Department’s overall management control systems, including policy management, information management, performance management, and resource management.

This audit report, like most audit reports, focuses on areas in which the agency could enhance the efficiency or effectiveness of operations. Nevertheless, it is important to note that we reviewed many areas at the Department in which controls appear to be well designed and implemented.

The following tables summarize both our positive and our negative findings. Areas in which we found the controls to be adequate provide reasonable assurance that:

- The Department’s goals will be achieved
- Its assets are safeguarded
- Management decisions are based on reliable data
- The Department is complying with applicable laws and regulations

Policy Management: Policy management includes the processes that an agency uses to plan and budget, develop policies and procedures, and manage and organize its staff.			
General Area	Specific Areas Reviewed	Controls Appear Adequate	Controls Should Be Improved
Planning and Budgeting	Strategic planning, including the development of departmental and divisional work plans, and ensuring that the Department is organized to fulfill the mandates of its enabling legislation(See report Section 6)	T	
	Budgeting, including creating and adjusting divisional budgets(See report Section 6)	T	
	Methods for monitoring expenditures against budgets	T	
	Allocation of resources to administrative categories	T	
	Cost recovery processes under development, for expenses associated with regulatory efforts	T	

Policy Management: Policy management includes the processes that an agency uses to plan and budget, develop policies and procedures, and manage and organize its staff.			
General Area	Specific Areas Reviewed	Controls Appear Adequate	Controls Should Be Improved
Human Resources (Note: exempt employees account for 29 of the Department's 429 full-time equivalents.)	Recruitment and selection of classified employees, including: C Ensuring that only qualified people are hired C Determining effectiveness of recruitment efforts	T	T
	Assignment of responsibilities, including job descriptions, for classified employees	T	
	Process for determining training needed for job performance	T	
	Evaluation system for classified employees, including: C Use of appropriate parameters for performance evaluation C Timeliness of evaluations (See report Section 4-A)	T	T
	All aspects of hiring and evaluating exempt employees (See report Section 4-B)		T

Information Management: Information management includes both automated and non-automated processes used to ensure that accurate information is available to decision makers on a timely basis			
General Area	Specific Areas Reviewed	Controls Appear Adequate	Controls Should Be Improved
Information flow and Communication	Informal communication processes among regions, between the regions and central offices, and within the central office	T	
	Regulatory enforcement information systems (See report Section 2-A)		T
	Information on efficiency and effectiveness of marketing efforts (See report Section 2-B)		T
	Information on effectiveness of regulatory enforcement	T	
	Data collection related to performance measures (See report Section 2-C)		T
	Systematic evaluation of trends in complaints (See report Section 2-D)		T

Performance Management: Performance management includes the ways in which the agency monitors the effectiveness of its programs and operations.			
General Area	Specific Areas Reviewed	Controls Appear Adequate	Controls Should Be Improved
Bench-marking	Process for setting performance objectives, particularly for regulatory, pesticide, and field operations divisions	T	
Monitoring	Process for tracking progress toward meeting objectives	T	

Resource Management: Resource management includes management of assets, liabilities, revenues, and expenditures.			
General Area	Specific Areas Reviewed	Controls Appear Adequate	Controls Should Be Improved
Cash	Process for receiving and safeguarding cash receipts (See report Section 5-A)	T	
Property and Equipment	Process for purchasing and safeguarding property and equipment (See report Section 5-A)	T	
Fee collection	Process for identifying and notifying the regulated community to ensure prompt payment of fees and licenses (See report Section 5-A)	T	
Grants and Contracts	Process for awarding and monitoring contracts for the C Texas-Israel Exchange (\$250,000 in fiscal year 1996) C Fair Park Restoration Project (\$1.9 million in fiscal year 1996) C Integrated Pest Management Grants (\$250,000 in fiscal year 1996) (See report Section 5-B)	T T	T
Operating Expenditures	Process for ensuring that money is spent for legitimate purposes, including appropriate authorization of disbursements and compliance with General Services Commission rules	T	
Program Expenditures	Process for ensuring that funds are expended against the appropriate strategy, and that expenditures benefit the program charged	T	

Status of Sunset Recommendations for Management Action

The Sunset Advisory Commission made 11 recommendations for management action in its 1994 report Staff Report to the Sunset Advisory Commission on the Texas Department of Agriculture. These recommendations did not involve statutory changes. In accordance with Government Code, Section 325.012(b), we followed up on implementation of these recommendations.

	Recommendation for Management Action	Status
1	The Texas Agricultural Finance Authority (TAFE) should implement the Rural Microenterprise Loan Program using the general obligation bond authority voters have already approved or recommend that the Legislature abolish the authority or transfer it to another agency. (Page 26)	Not implemented. Board minutes and testimonial evidence do not indicate that transfer or abolition of the program has been addressed.
2	TAFE should work with the State Treasury to review linked deposit reporting and money handling practices to reduce, to the extent practical, the amount of funds left in linked deposits in excess of existing loan balances. (Page 33)	Implemented. Balances are now adjusted monthly. Based on our calculations, approximately \$4,000 in interest is lost annually by not adjusting balances more frequently.
3	TAFE should, as required by current law, place a priority on considering applications based on potential for job creation and retention. (Page 38)	Not implemented. The potential for job creation and retention was mentioned by one board member as a consideration, but was not found in the criteria for loan approval. In addition, data is not retained that provides good information on the numbers of jobs created or retained.
4	The Department and TAFE should place a priority on outreach efforts to provide information on availability of finance services. (Page 44)	Implemented. Based on the increase in the number of marketing activities by Department and TAFE staff in the last two years, it appears as though efforts have been made.
5	The Department should place a priority on submitting a full regulatory cost recovery fee schedule with its biennial request for appropriations. (Page 53)	Partially implemented. There is no fee schedule per se, but the Department has accumulated and analyzed the information for cost recovery. Because of the drought, the Department chose to implement full cost recovery for only one program at this time.
6	The Department should establish an accounting system that tracks the cost and revenue of its regulatory programs and adjusts fees annually to provide an equitable fee schedule. (Page 53)	Partially implemented. The Department has developed information that will track cost by strategy, but not by program.

	Recommendation for Management Action	Status
7	The Department should evaluate the appropriateness of its current inspection intervals in its regulatory programs. (Page 53)	Partially implemented. The appropriateness of inspection intervals was considered as part of the Department's cost recovery analysis.
8	The Department should take steps necessary to establish the program already authorized for LPG meters and ranch scales. (Page 62)	Implemented. The Department is currently using private inspectors for LPG meter inspections. However, to date, no private inspectors have applied to conduct ranch scale inspections.
9	The Department should study the approach needed to establish similar programs for other weighing and measuring devices. (Page 62)	Implemented. The Department is monitoring the success of the LPG program and obtaining feedback from participants/associations before proceeding. The next program is expected to be gas pumps, then scales.
10	The Department should work with the Legislative Budget Board (LBB) to establish performance goals that would measure the success of privatizing testing and inspection of LPG meters and ranch scales. (Page 62)	Partially implemented. Coordination is informal, through feedback from the regulated community and through the output measure submitted to the LBB. The Department does follow-up visits to ensure the quality of the work that has been done. However, formal outcome measures have not been developed.
11	<p>The Department of Agriculture should work with the Department of Information Resources to provide the public with dial-up computer access to:</p> <ul style="list-style-type: none"> C The Department's three existing information systems: Market News, Texas Agricultural Statistics Service, and the Texas Agricultural Marketing Exchange C Texas Agriculture Code and Department regulations C The list of Department-registered pesticides and other Department-licensed businesses C Other types of similar information, as the Department deems appropriate <p>The Department should include, in its dial-up information, production and marketing information for farmers and ranchers interested in adopting sustainable methods, or practicing sustainable agriculture. (Page 85)</p>	Implemented. The Department has set up a web site that includes Market News, Texas Agricultural Statistics Service, and the Texas Agricultural Marketing Exchange. The Texas Administrative Code is available on the Internet through the Texas State Library site. Currently, the Agriculture Code is not available on-line. The Department's web site also includes other types of information, including staff members and their areas of expertise and Texas Agriculture Today.

Department Profile

Mission

The mission of the Texas Department of Agriculture is "to make Texas the nation's leader in agriculture while providing efficient and extraordinary service."

Its goals, as set out in the Department's 1996 strategic plan, are:

- To enable Texas farmers, ranchers, and agribusinesses to expand profitable markets for their agricultural products while protecting public health and our State's natural resources
- To protect consumers by establishing and enforcing standards for agricultural commodities
- To increase the likelihood that goods offered for sale to Texas consumers are properly measured, priced and marketed

To accomplish these goals, the Department operates programs that provide marketing, agribusiness development and financing, pesticide and herbicide regulation, integrated pest management, commodity warehouse regulation, plant quality inspections, seed and produce certification, and weights and measures certification.

Organization

The Department operates from Austin and also five regional offices and four suboffices. In addition, the Department maintains laboratory facilities in four locations and livestock export facilities.

The Department is organized into ten divisions, as follows:

- Marketing and Agribusiness Development covers the marketing of Texas agricultural products, and also provides staff support for the Texas Agricultural Finance Authority
- Pesticide Programs regulates pesticides in the State of Texas, in cooperation with the Environmental Protection Agency, through pesticide product regulation, certification and training of pesticide applicators, and support of the inspection activities conducted throughout the year.
- Producer Services provides livestock export facilities and distributes agricultural commodity production and price information to the public.

- Regional Operations comprise approximately 40 percent of the Department's staff. This staff consists primarily of field inspectors.
- Regulatory Programs maintains the information on regulating commodities such as Texas-grown vegetables and citrus fruit, determining quarantine regulations for nurseries and floral, and seed quality.
- Intergovernmental Affairs monitors and analyzes federal and state legislative and regulatory activities that affect the Department or producers or consumers of Texas agricultural products. The division administers the Integrated Pest Management, Texas-Israel Exchange, and Fair Park Restoration Projects.
- Administrative Services provides all support functions, including financial services, information resources, and human resources.
- Communications provides information to the media and the public.
- Cooperative Inspections conducts grading and inspections of citrus, vegetable, tree nut, and peanut industries of the State to ensure that federal standards are met, which enhances the marketability of commodities.
- General Counsel provides legal services for all departmental programs. General Counsel section handles administrative legal support for the commissioner, all open government issues and rules. The Enforcement Section of the General Counsel Division is responsible for the enforcement of regulatory functions. (This section does not handle pesticide functions.)

Financial Information

For fiscal year 1996, the Texas Department of Agriculture was appropriated \$23,407,315. Of this amount, \$19,564,745 was general revenue. In addition, the Department was appropriated \$1,808,876 in federal funds and \$1,039,917 in appropriated receipts. 524 full-time equivalent positions were authorized for the Department for fiscal year 1996.