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State Auditor

A Financial Review of The Commission on Human Rights

February 27, 2002

Members of the Legislative Audit Committee:

There was gross fiscal mismanagement at the Commission on Human Rights (the Agency) from fiscal year 1998 through May 31, 2001. During this period, the Agency significantly mismanaged its fiscal responsibilities and put state and federal funds at risk of loss and abuse. In addition, the Agency failed to perform 69 percent of its statutorily required reviews of state agency and higher education institution personnel policies.

The Agency's newly appointed Executive Director has extensive finance and management experience. Since his arrival in August 2001, the Executive Director, with the support of the Commissioners, has taken a proactive approach toward rapidly correcting many issues. The actions the Agency is taking will assist it in progressing toward more sound fiscal management. In addition, we have recommended a framework for a financial remediation plan that, if followed, should repair the financial health of the Agency and ensure that it can provide reliable financial information. We will follow up as part of our ongoing risk assessment to ensure that the Agency continues to move toward financial soundness.

As a result of gross fiscal mismanagement, the Agency provided unreliable financial information to legislative budget committees and Commissioners. For example, the expenditure information by strategy in the Agency's 1998-1999, 2000-2001, and 2002-2003 Legislative Appropriations Requests (LARs) was misleading because it did not reflect the true expenditures for each strategy. Unreliable financial information impairs the Legislature's ability to appropriate funds effectively and the Commissioners' ability to properly monitor the Agency.

The Agency's former management made decisions that caused the Agency's financial information to be misleading. Specifically:

- The Agency routinely redirected expenditure disbursements among its three strategies (Training, Monitoring, and Investigations). Instead of paying expenses for a particular strategy out of funds appropriated to that strategy, the Agency paid expenses out of any strategy that had available cash. This practice negated the usefulness of the Agency's financial information.
- The Agency overestimated its revenues and its expenditures. As a result, the Agency's appropriations requests for individual strategies inaccurately depicted the funding required to provide services under those strategies. This condition developed because the Agency lacked a sound budgeting process. While the Agency overestimated revenues and underspent its forecasted budget, its actual expenditures exceeded its actual revenue. The net effect for fiscal years 1998 through 2000 was a fund balance reduction of \$180,230. In the past, the Agency's positive fund balance had provided a cushion that allowed the Agency to continue operating.

Texas Government Code, Section 2104.001, specifies four criteria that result in gross fiscal mismanagement:

- Failure to keep adequate fiscal records.
- Failure to maintain proper control over assets.
- Failure to discharge fiscal obligations in a timely manner.
- Misuse of state funds.

The Agency met all four of the above criteria. See the attachment to this letter for additional detail.

- The Agency did not collect 53 percent of its estimated fee-based revenues in its Monitoring strategy during appropriation years 1998 through 2000. It also did not collect 27 percent of its estimated fee-based revenues in its Training strategy. The Agency waived fees for work it performed and failed to deliver planned fee-based services. The Agency's failure to deliver services also left state agencies and higher education institutions at greater risk for employment discrimination claims because they did not receive the guidance in this area that the Agency was required to provide.

In addition to providing unreliable financial information, the Agency did not spend funds in accordance with restrictions in a federal contract, the Texas Constitution, applicable state regulations, and the General Appropriations Act. For example:

- The Agency inappropriately used a portion of federal funds to pay expenses associated with an unrelated strategy. As a result, the Agency could lose federal funds. The Agency's contract with the U.S. Department of Housing and Urban Development (HUD) states that HUD funds must be used for "activities having relevance to matters affecting fair housing." However, in fiscal year 2000 the Agency used \$415,410 from HUD funds for expenses that were unrelated to matters affecting fair housing. The expenditures were made through the Agency's Training strategy.
- The Agency violated the Texas Constitution by allowing employees to take leave they had not accrued. One employee resigned from the Agency while still owing the State for 20 hours of leave that was taken but not yet accrued. The Agency sent this employee letters in an attempt to recoup the equivalent salary when the employee resigned; however, it did not follow up and did not recoup any funds.
- The Agency paid for some employees' benefits with state General Revenue while paying those employees' salaries with federal funds. The General Appropriations Act (75th and 76th Legislatures) specifies that General Revenue cannot be used to pay for benefits if the associated salaries are paid from a source other than General Revenue.

The Agency's redirection of its expenditure disbursements and revenue deposits distorted any relationship between expended funds and the outcomes of the services it provided. However, it is important to note that, according to the Agency, it has failed to perform 69 percent of its statutorily required reviews of state agency and higher education institution personnel policies. These reviews are intended to help reduce the number of employment discrimination complaints filed with the Agency. Therefore, the Agency's failure to conduct these reviews is a critical shortcoming.

The opportunity to commit fraud and the ability to conceal it existed within the Agency's financial operations during our review period. Recognizing this condition, we performed work to identify possible questionable transactions. Nothing came to our attention from this testing that indicated possible fraudulent transactions had occurred.

This financial review was an extension of work we conducted during fiscal year 2001 at the request of the Senate Finance Committee and the House Appropriations Committee. The attachment to this letter contains additional detail on the results of our work, as well as management's responses. The Agency agrees with our recommendations, and

its responses are included in the attachment. We appreciate the Agency's cooperation and responsiveness during this project. If you have any questions, please contact Susan Riley, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

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Attachment

cc: Commission on Human Rights
Ms. Mary E. Banks, Interim Chair
Mr. Carroll G. Maclin, Commissioner
Mr. David Manning, Commissioner
Mr. Charles W. Taylor, Jr., Commissioner
Mr. John D. Powell, Executive Director

Objectives, Scope, and Methodology

The project objectives were to:

- Determine whether the Agency's reporting processes enable it to provide legislative budget committees and Commissioners with accurate and consistent financial information.
- Determine whether the Agency is using appropriated funds in accordance with applicable laws and regulations.
- Determine the relationship between funds expended and outcome results.

To achieve these objectives, we reviewed financial reports, expenditures, revenues, transfers, lapses, and fund balances. We also examined the relationship between expenditures, key strategies, and expected outcomes for the strategies.

The audit methodology consisted of collecting information, performing selected audit tests and other procedures, and analyzing and evaluating the results against established criteria.

We conducted fieldwork between July and September 2001 and tested transactions that occurred from fiscal year 1998 through May 31, 2001. This audit was conducted in accordance with generally accepted government auditing standards.

There Was Gross Fiscal Mismanagement At The Agency During Our Review Period

There was gross fiscal mismanagement from fiscal year 1998 through May 31, 2001, at the Commission on Human Rights (the Agency). During this period, the Agency significantly mismanaged its fiscal responsibilities, put state and federal funds at risk of loss and abuse, and failed to provide certain key services. It also provided unreliable financial information to its Commissioners and the Legislature.

The Agency’s former Executive Director and its Director of Administration left the Agency in February 2001. Its Director of Enforcement resigned in July 2001. Following those departures, the Commission began implementing changes to address the deficiencies in its financial operations. In August 2001, an Executive Director who has extensive finance and management experience was hired. Since his arrival, the current Executive Director has reorganized staff positions and has added and filled positions for a Director of Operations and a Comptroller.

The Agency’s current Executive Director acknowledges that numerous problems exist at the Agency. With the support of the Commissioners, the Executive Director is taking a proactive approach to rapidly correct many issues. We have not performed an audit to verify that proposed changes have been implemented. However, we have received documentation of the Agency’s staff reorganization, draft policies and

procedures manuals, a management information system upgrade, and new reports that should provide useful information to the Commissioners. The actions the Agency is taking will assist it in progressing toward more sound fiscal management.

Texas Government Code, Section 2104.001, specifies four criteria that result in gross fiscal mismanagement. As Table 1 on the next page shows, the Agency met the four criteria.

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Table 1

Evidence Of Gross Fiscal Mismanagement		
Texas Government Code Criteria For Gross Fiscal Mismanagement	Summary Of Audit Evidence Confirming That The Agency Met The Criteria	Where To Find More Detailed Information In This Report
Failure to keep adequate fiscal records	The Agency redirected its expenditures to pay expenses from any strategy that had available funds. This negated the usefulness of its financial information.	Section 2-A (page 4)
	The Agency did not allocate the payment of its indirect costs proportionately among its three strategies.	Section 2-A (page 4)
	The Agency did not make accurate revenue and expenditure projections essential to making accurate appropriation requests.	Section 2-B (page 7)
	The Agency did not properly reconcile the federal funds it received through its contract with the U.S. Equal Employment Opportunity Commission. As a result, the Agency failed to collect \$72,000 in federal funds.	Section 2-C (page 7)
	The Agency did not base appropriation requests on actual and valid cost data because it did not accurately track expenditures by program or strategy.	Section 2-D (page 10)
	Because the Agency's financial information was unreliable, it is not possible to compare funds expended by strategy with outcomes by strategy.	Section 4 (page 14)
	Management's decisions for budgeting, revenue deposits, and disbursements were not documented.	Section 5 (page 15)
Failure to maintain proper control over assets	The Agency risked losing federal funds from the U.S. Department of Housing and Urban Development (HUD) because it inappropriately used a portion of those funds to pay expenses associated with a strategy unrelated to its HUD activities.	Section 3 (page 12)
	In violation of the Texas Constitution, Article III, Sections 50 and 51, the Agency allowed employees to take leave that the employees had not yet accrued, thus advancing salary to the employees. One employee resigned from the Agency while still owing the State for leave that was taken but had not yet accrued.	Section 3 (page 12)
Failure to discharge fiscal obligations in a timely manner	The Agency did not collect 53 percent of its estimated fee-based revenues in its Monitoring strategy during appropriation years 1998 through 2000. It also did not collect 27 percent of its estimated fee-based revenues in its Training strategy. The Agency failed to make timely requests for additional federal funds for reimbursement of work performed.	Section 2-C (page 7)
Misuse of state funds	In violation of the General Appropriations Act, the Agency did not reimburse General Revenue for the cost of employee benefits associated with the salaries it paid with federal funds.	Section 3 (page 12)
	Instead of using surplus fees collected for its Equal Employment Opportunity Conference to pay conference-related salary costs, the Agency used funds appropriated to its Training strategy.	Section 2-A (page 4)

ATTACHMENT

Do The Agency's Reporting Processes Enable It To Provide Legislative Budget Committees And Commissioners With Accurate And Consistent Financial Information?

As a result of gross fiscal mismanagement, the Agency did not provide legislative budget committees and Commissioners with accurate and consistent financial information. For example, the expenditure information in the Agency's 1998-1999, 2000-2001, and 2002-2003 Legislative Appropriations Requests (LARs) was misleading because it did not reflect the true expenditures for each strategy. Unreliable financial information impairs the Legislature's ability to appropriate funds effectively and hinders the Commissioners' ability to properly oversee the Agency. The Agency's former management made decisions that caused the Agency's financial position to be stated in a misleading manner.

The Agency misrepresented its financial position because it:

- Routinely redirected expenditure disbursements among its three strategies. Rather than pay expenses for a particular strategy out of the funds appropriated to that strategy, the Agency paid expenses out of any strategy that had available cash. This practice negated the usefulness of the Agency's financial data and made it impossible for the Agency to use accurate financial information as a guide when preparing its LARs. In addition, the historical strategy financial information that the Agency included in its LARs was misleading because it did not truly reflect the actual expenditures for each individual strategy.
- Overestimated its revenues and underspent its planned appropriated budget. As a result, the Agency's appropriation requests for individual strategies inaccurately depicted the funding required to provide program services under those strategies. The Agency has consistently failed to collect the revenues that its LARs specify it will collect
- Lacked a formal budgeting process that would enable it to prepare accurate LARs. A single member of Agency management prepared the Agency's LARs in isolation with insufficient input from other management or program staff. In addition, the Agency did not perform cost analyses to calculate the costs associated with the services it provided.

It is also important to note that the financial information the Agency provided to its Commissioners did not clearly reflect the Agency's current status, original budget, budget revisions, and remaining budget.

Section 2-A:

The Agency Negated The Usefulness Of Its Financial Data By Routinely Redirecting Its Expenditure Disbursements

The Agency's financial data was unreliable because the Agency redirected its disbursements to pay expenses from any strategy that had available cash. The Agency did not perform all of the services it had planned; it did not bill for some of the services it did perform; and it did not collect revenues in a timely manner. This resulted, at times, in negative cash flow for the strategies associated with these activities. As a result, the Agency compensated by using available cash that was appropriated to other strategies. However, the Agency never corrected its actions by reimbursing those strategies.

By operating in this manner, the Agency negated the usefulness of its financial data. In addition, because the Agency used this data to prepare its LARs, the usefulness of its LARs was also compromised. Reliable historical financial information is critical because it provides a valuable roadmap for making future appropriations requests.

Without this data, the Agency was forced to prepare its LARs with little consideration of its true current or historical financial position.

Redirecting expenditure disbursements among strategies is more than a matter of inadequate bookkeeping. By simply making disbursements from the strategy in which there is available cash, the Agency spent funds for purposes other than the purposes for which those funds were intended. This negates the benefits of budgeting by strategy and creates a distorted representation of the cost of providing each strategy's services. For example, charging expenditures unrelated to training to the Training strategy creates the impression that this strategy is performing at a level higher than actual. It also indicates to the Legislature that the strategy needs more appropriations than are truly necessary to cover its expenses. Likewise, expenditures that are inappropriately excluded from the Monitoring strategy present an inaccurate performance and financial picture in the opposite direction.

Expenditure Information is Unreliable

The Agency's expenditure account information does not accurately reflect the financial condition of the Agency or its individual strategies.

The Agency paid for expenses from any strategy that had available funds, without regard for the origin of the expenditure.

As a result, the Agency's appropriation year 2000 Training strategy expenditures were overstated and its Monitoring strategy expenditures were understated.

Summary of the Agency's Three Strategies

- The Investigations strategy involves investigating two types of complaints: allegations of employment discrimination and violations of the Fair Housing Act.
- The Monitoring strategy involves reviewing state entities' personnel policies and procedures and affirmative action plans to ensure compliance with the Texas Commission on Human Rights Act.
- The Training strategy involves providing training and technical assistance on compliance with laws prohibiting employment discrimination.

If the Agency wanted to use funds from one strategy to pay expenditures for another strategy, it should have transferred funds between strategies. Transfer of funds between strategies is the appropriate accounting mechanism to increase the available cash in a strategy. Using the transfer mechanism would have allowed the Agency to preserve the usefulness of its financial information.

Examples in three areas—payroll, indirect costs, and legal settlements—illustrate how the Agency redirected its expenditures.

The Agency paid payroll expenses associated with one strategy from funds appropriated to another strategy.

The Agency's Uniform Statewide Payroll System report for appropriation year 2000 demonstrates how the Agency paid staff salaries from funds that were appropriated to other purposes. For example:

- The Agency used \$111,118 from funds appropriated to its Training strategy to pay the salaries of employees who performed work in both the Training and the Monitoring strategies. Agency records did not provide sufficient detail to determine the portion of each salary that should have been allocated to each program.
- The Agency used \$10,996 from funds appropriated to its Training strategy to pay the salary of an employee assigned full-time to its Monitoring strategy.
- The Agency used \$156,094 from funds appropriated to its Training strategy to pay the salaries of administrative staff (an accountant, a purchaser, a human resources supervisor, and a Director of Administration) who performed work for all three of the Agency's strategies. The Agency lacked the records needed to determine the portion of those salaries that should have been paid from each strategy.
- The employees responsible for organizing the Annual EEO Conferences (the conference coordinator and the Director of Administration) did not maintain records of the time they dedicated to the conferences. In fiscal year 2000, the estimated cost of their salaries to produce the conference was \$19,583. (We estimated the \$19,583 figure based on the current conference coordinator's estimate of time spent on the conference.) However, the Agency paid only \$3,174 of that cost from collected conference fees; it paid the remaining salary cost with funds appropriated to its Training strategy. Although this conference was paid for by participant fees and the Agency had surplus funds from these fees, the Agency never used these surplus funds to reimburse the Training Strategy for the associated salary expense.

The Agency did not proportionately allocate the payment of its indirect costs among its three strategies.

Because the Agency lacked an indirect cost allocation plan, it did not spread overhead and administrative expenses equitably among its three strategies.

The significant fluctuations in the percentage of indirect costs that each strategy has funded demonstrate how the Agency charged overhead and administrative expenses to any strategy that had available funds. While each strategy has consistently represented approximately the same proportion of the Agency's total activity, the amount of indirect costs each strategy funded has fluctuated significantly over the years. For appropriation years 1998 through 2000, the percentage of total indirect cost paid from funds appropriated to each strategy varied as follows:

- The investigations strategy ranged from 69.1 percent in 1998 to 86.7 percent in 1999 to 48.4 percent in 2000.
- The training strategy ranged from 17.7 percent in 1998 to 12.5 percent in 1999 to 51.2 percent in 2000.
- The monitoring strategy ranged from 13.2 percent in 1998 to 0.8 percent in 1999 to 0.04 percent in 2000.

In appropriation year 2000, the Agency also paid its office building rental expense in a manner that was not proportional by strategy. The Agency paid 58 percent of this expense with General Revenue funds appropriated to the Investigations strategy and 42 percent with federal funds from its Training strategy. Although its Monitoring staff shared the same office space, no funding from this strategy paid for any part of the expense.

The manner in which the Agency paid for a legal settlement also distorted its expenditure data.

In appropriation year 2000, the Agency paid \$97,795 to settle a legal case that arose from its Investigations strategy. While it used federal funds intended for fair housing matters to pay this settlement, the manner in which the Agency handled this transaction in its accounting system distorted its expenditure data.

The Agency paid the judgment from its Training strategy instead of its Investigations strategy. It later moved \$90,000 from its Investigations strategy to its Training strategy, therefore supplementing the available cash in the Training strategy. The executive who stipulated that the transaction be handled in this manner no longer works for the Agency. In addition, this decision was not documented; thus we were unable to determine the reason the Agency handled the transaction this way (except that the Training strategy had cash available at the time the payment was made). The end result was that the Agency's Training strategy expenditure data was artificially inflated, while its Investigations strategy expenditure data was artificially understated.

In addition, the Agency did not use the appropriate transfer accounting procedure to move the funds from one strategy to another. By using a bookkeeping correcting entry rather than the approved transfer transaction, the Agency circumvented the controls the Legislature has established to monitor the movement of funds between strategies.

Section 2-B:

The Agency Did Not Accurately Forecast Revenue And Expenditures

The Agency has historically overestimated both its revenues and its expenditures. As a result, the information in its 1998-1999, 2000-2001, and 2002-2003 LARs for individual strategies inaccurately depicted the funding required to provide program services under those strategies. Having accurate revenue and expenditure projections is essential to making accurate appropriations requests and to monitoring the ongoing operations of the Agency.

The Agency's overestimation of its revenue is demonstrated by the fact that it did not collect the amount of federal funds, payments in interagency contracts, and appropriated receipts that it stated it would collect in its LARs for appropriation years 1998 through 2000. The variances range from a low of \$208,152 to a high of \$502,020. The Agency was able to compensate for a fiscal year 2000 shortfall because it received federal funding to sponsor a conference that year. Based on the data available during our review period, the Agency also was not expected to collect the revenue it stated it would collect in its LAR for 2001.

Because it was unable to collect estimated revenue, the Agency could not spend as much as it was appropriated. During fiscal years 1998, 1999, and 2000, the Agency underspent its total forecasted budget by \$514,260, \$316,654, and \$206,223, respectively. This also meant that the Agency did not perform certain activities that it was responsible for performing (see Section 4 for additional details).

While the Agency overestimated revenues and underspent its forecasted budget, its actual expenditures exceeded its actual revenue. The Agency's total actual expenditures exceeded total actual revenues in fiscal years 1998 and 2000. The net effect for fiscal years 1998 through 2000 was a loss of \$180,230. In the past, the Agency's positive fund balance provided a cushion that allowed the Agency to continue operating.

Section 2-C:

The Agency Failed To Collect Revenue That It Could Have Collected In Each Of Its Strategies

During appropriation years 1998 through 2000, the Agency did not collect 53 percent of its estimated fee-based revenues in its Monitoring strategy. It also failed to collect 27 percent of its estimated fee-based revenues in its Training strategy. Appropriation year 2001 is not included because this year was incomplete during our review period. However, based on available data, the Agency was expected to experience a shortfall in its estimated collected revenue in 2001.

The Agency did not collect \$250,196 in revenue it could have collected during this time. This uncollected amount could have been \$1,123,228 had the Agency not received an additional \$873,032 in unanticipated federal grants. The \$873,032 included \$620,000 for sponsoring a conference.

The Agency failed to collect this revenue because it:

- Waived fees for work it performed in its Monitoring strategy.
- Failed to deliver planned fee-based services in its Training and Monitoring strategies.
- Failed to make timely requests for additional federal funds to reimburse its Investigations strategy for cases that the Agency investigated on behalf of the U.S. Equal Employment Opportunity Commission (EEOC).

Although the funding method for the Monitoring strategy estimated the Agency would collect \$359,330 in revenue, the Agency collected only \$170,309.

Inadequate management and staffing of the Agency's Monitoring strategy, the use of various rate plans, poor contract management, and untimely invoicing all contributed to the Agency's failure to collect the amount of monitoring fees it expected to collect in appropriation years 1998 through 2000. The Texas Labor Code, Sections 21.451 through 21.455, requires the Agency to review the employment policies and procedures of all state agencies and institutions of higher education on a six-year cycle. The Agency is authorized to charge state entities a fee for this service. However, the Agency failed to develop and implement a plan that would allow it to achieve its goals under this strategy and, therefore, collect its estimated revenue. Specifically:

- According to the Agency, it failed to perform 69 percent of its required reviews of personnel policies and procedures. Therefore, it has not collected all of the revenue it expected to collect. In 1997 the Agency issued 90 contracts with state agencies for the six-year cycle. Because the Agency was required to review the policies and procedures of 198 agencies and higher education institutions, the 90 contracts it issued in 1997 represented less than half of the contracts the Agency should have issued. In addition, the six-year cycle was supposed to begin in 1996; thus, there was a one-year delay in issuing these contracts. Of the 90 contracts the Agency issued, 39 were blank or unsigned, suggesting that the Agency did not establish a set price for its services.
- The Agency did not plan or manage the review process adequately. It underestimated the amount of time required to complete reviews and changed the job responsibilities of its trainers to include training and monitoring. This led to significant staff turnover, and at one point there were no staff available to perform either function.
- The Agency set various rate schedules for its Monitoring services. Initially, the Agency charged a uniform fee for all agencies to pay at the beginning of a review. The Agency subsequently began billing at the conclusion of a review when it certified an agency's policies and procedures. By billing at the conclusion of reviews instead of billing as it completed individual sections of reviews, the Agency missed opportunities to collect revenue. In fiscal year 2001 the Agency began to bill at an hourly rate. The hourly rate billing rate was based on a temporary rate recommended in August 2000 by the

Management Advisory Services group of the State Auditor's Office (see Section 2-D of this report for additional detail).

- By the time the Agency billed state agencies for its review work in fiscal year 2001, its contracts with the applicable state agencies had expired. The Agency took two to three years to complete most of its reviews. When state agencies received the related invoices in fiscal year 2001, the funds these agencies had budgeted for these reviews had already been spent. Some agencies refused to pay the Agency anything, while others requested a reduction in fees. The Agency complied with all of those requests.

Although the funding method for the Training strategy estimated \$547,453 in interagency contracts and appropriated receipts, the Agency collected only \$399,916.

Inadequate management of the Monitoring strategy also had an impact on the revenue the Agency collected from its Training strategy for its training workshops and Annual Equal Employment Opportunity Conferences. Restructuring the job duties of the Training strategy's staff to include Monitoring strategy responsibilities reduced the number of billable hours available for training workshops. This also triggered staff turnover that further diminished the Agency's ability to earn revenues and provide services.

Given its available resources, it would have been impossible for the Agency to complete the number of Training sessions and Monitoring reviews necessary to generate the revenue specified in its LAR. As Table 2 indicates, the resources available to the Agency were not sufficient to generate the billable hours to bring in that amount of revenue.

Table 2

LAR Revenue Estimates Were Not Realistic Given Available Agency Resources				
Fiscal Year	Projected Revenue From Training And Monitoring	Number Of Billable Hours Required To Meet Training And Monitoring Revenue Projections	Estimated Number Of Billable Hours The Agency Could Have Generated With Available Resources	Percent By Which Required Billable Hours Exceeded Available Billable Hours
1998	\$269,252	7,742.0	3,827.2	202%
1999	\$269,252	7,756.1	3,827.2	203%
2000	\$368,099	10,198.7	5,824.0	175%

Source: LARs for years 1998 through 2000 and Agency records regarding the number of available staff.

By not conducting mandatory training sessions it was required to conduct, the Agency also violated the Texas Labor Code. After an entity has three Equal Employment Opportunity (EEO) complaints, Texas Labor Code, Section 21.556, requires the entity to receive training to prevent future discrimination. In fiscal year 2000 the Agency suspended this mandatory training for one large entity, thus both violating the Texas Labor Code and foregoing the associated potential revenue from training fees.

Although the funding method for the Investigations and Training strategies estimated \$4,305,280 from federal contracts, the Agency collected only \$4,211,774.

The Agency estimated it would receive \$4,305,280 from federal contracts, but it actually collected \$4,211,774. However, the \$4,211,774 amount includes \$873,032 of unanticipated grants. Without these unanticipated grants, the Agency would have collected \$3,338,742—only 77.5 percent of the amount the Agency estimated it would collect.

In preparing its LAR, the Agency estimates the amount it expects to collect from its federal contracts to conduct investigations on behalf of the U.S. Department of Housing and Urban Development (HUD) and EEOC. Although the Agency knew from past experience that it historically overestimated the revenue it would receive from its federal contracts, it continued to overestimate this revenue.

The Agency should have collected an additional \$72,000 in revenue from its EEOC contract for its Investigations strategy.

The Agency submitted more than the maximum number of investigation cases specified in its EEOC contract in fiscal years 1998, 1999, and 2000. However, the Agency was not reimbursed for investigation cases it closed beyond the maximum number specified in its contract. Because the Agency did not perform regular reconciliations to compare the number of cases it had submitted to EEOC with the number of cases remaining on its contract, the Agency did not recognize that it needed to request a contract modification. As a result, the Agency was unable to collect \$72,000 in federal funds for investigations it performed in excess of the maximum number of contracted investigations.

In addition to the loss of potential federal funds, the Agency was forced to pay the costs of the extra investigations with state General Revenue, rather than with federal funds from the EEOC.

Why is Having an Accurate Budget Important?

A budget is a spending plan based upon anticipated events. The anticipated events are typically calculated using historical data and factoring in known changes that will occur in the future. As the anticipated events occur, the budget should be used as a tool to monitor actual activity and compare it with budget estimates.

The purpose of a budget is to identify resources, allocate resources efficiently, and account for those resources.

Section 2-D:

The Agency's Budgeting Process Was Inadequate

The budgeting process the Agency used to prepare both its LARs and its internal operating budgets was inadequate because:

- The process did not involve sufficient input from program staff members.
- The process did not take into account the actual costs associated with providing services under each of the Agency's strategies.

- The process was based on a fee structure that had not been carefully developed to ensure that the fees were appropriate.

A single member of Agency management prepared the Agency's LARs and operating budgets in isolation.

The Agency inadequately planned and executed the preparation of its LARs and internal operating budgets. It did not prepare planning memos advising staff of the planning and preparation process; did not assign budget preparation responsibilities to appropriate staff; and did not establish schedules of target dates for various aspects of the budget preparation process. In addition, the Agency did not clearly document its budget assumptions.

One member of Agency management prepared LARs and operating budgets with insufficient input from staff who oversee the Agency's programs. The lack of input from staff who were knowledgeable about programs they administered made it more difficult to project future activity and, therefore, develop a realistic budget. In addition, after the Agency prepared its LARs, it did not ask staff overseeing its programs to review the LARs before they were submitted.

The Agency did not have a process to track the actual costs of providing services under its individual strategies, and it did not base the fees it charged on cost analyses.

The Agency could not clearly support its appropriation requests for any of its three strategies. It was unable to provide support for appropriation requests because it neither tracked expenses accurately for these strategies nor calculated the costs of providing services under each strategy.

Investigations

The Agency does not know the cost of carrying out services under its Investigations strategy; therefore, the basis on which the Agency made its appropriation requests for its Investigations strategy is erroneous.

The Agency's stated assumption is that the total cost for processing complaints under its Investigations strategy is based on a projected ratio of 31 percent General Revenue and 69 percent federal funds. The Agency receives federal funds for complaints it investigates on behalf of two federal agencies: EEOC and HUD. However, these percentages are not based on accurate data because the Agency inaccurately combines the disparate financial information for its investigations of EEOC and HUD complaints.

The Agency also has no documentation to demonstrate that it takes into account the substantial differences between EEOC and HUD complaints in areas such as reimbursement rates, number of cases processed, and resources required to process cases. Therefore, the Agency is not taking into account actual costs associated with investigating EEOC and HUD complaints when it requests General Revenue.

Monitoring

The Agency lacks a methodology for assessing the actual costs of delivering services under its Monitoring strategy. This prevents the Agency from establishing an appropriate fee structure and, therefore, making an accurate appropriations request for this strategy.

The Agency has employed various fee schedules for performing reviews of state agencies' policies and procedures. However, none of these fee schedules was calculated based on a valid analysis of the costs associated with providing this service. The Agency set a flat fee of \$5,000 per review in 1996. It then began charging a flat fee of \$4,950.22 in 1997 and continued to use this fee until fiscal year 2001. Following a recommendation by the Management Advisory Services group of the State Auditor's Office, the Agency began charging a fee of \$29.85 per hour to review agencies' policies and procedures. The Management Advisory Services recommendation, however, clearly stated that the suggested hourly charge was to be an interim fee only. This interim fee was to be replaced by a charge that was based upon a determination of actual costs. However, the Agency never conducted a study to determine the actual costs.

Training

As with its Monitoring strategy, the Agency lacks a methodology for assessing the actual costs of delivering services under its Training strategy. This prevents the Agency from establishing an appropriate fee structure and, therefore, making an accurate appropriations request for this strategy. For the 2002-2003 biennium, the Agency increased its fees from \$800 to \$1,200 for training workshops. In calculating the increased rate, the Agency erroneously used the interim rate recommended by the Management Advisory Services group of the State Auditor's Office. That rate was recommended for the Agency's Monitoring strategy only.

Section 3:

Is The Agency Using Appropriated Funds In Accordance With Applicable Laws and Regulations?

During our review period, the Agency did not spend funds in accordance with restrictions in its contract with HUD, the Texas Constitution, applicable state regulations, and the General Appropriations Act.

The opportunity to commit fraud and the ability to conceal it existed within the Agency's financial operations during our review period. Specifically, management override, redirection of transactions, weak internal controls, and inadequate approval procedures increased the potential for fraud. Recognizing this condition, we performed work to identify possible questionable transactions. This work consisted of limited testing to compare billing invoices with posted revenues and to test expenditures and invoices for unusual transactions, appropriateness of amounts and

vendors, reasonableness of fluctuations, and conflict of interest. Nothing came to our attention from this testing that indicated possible fraudulent transactions had occurred.

The Agency violated the terms of its HUD contract and risked losing federal funds.

The Agency could lose federal HUD funds because it inappropriately used a portion of these funds to pay expenses associated with its Training strategy. The Agency's contract with HUD clearly states that HUD funds must be used for "activities having relevance to matters affecting fair housing." However, in fiscal year 2000 the Agency used as much as \$415,410 from HUD funds for expenses that were unrelated to matters affecting fair housing. The expenditures were made through the Agency's Training strategy.

The Agency violated the Texas Constitution because it allowed employees to take leave they had not accrued.

In fiscal years 2000 and 2001, the Agency allowed two employees to take vacation and sick leave that the employees had not accrued, thus advancing their salaries in violation of state law. One of the employees consistently abused the leave policy. Between June 2000 and June 2001, this employee used unearned leave on nine occasions. At one point, the employee had used 66 hours more leave than had been accrued. Another employee resigned from the Agency while still owing the State for 20 hours of leave taken but not accrued. The Agency sent the employee two letters requesting repayment. No money was recouped and the Agency never followed up on these letters.

The Texas Constitution, Article III, Sections 50 and 51, prohibits the State from giving or lending the State's credit for private purposes. Based on these sections of the Texas Constitution, Texas Attorney General Opinion H-74 (1973) states that it is unconstitutional for a state agency to advance salary to an employee.

In addition, the State Classification Office's Leave Interpretation Letter No. 97-03 states that a state agency must not allow an employee to carry negative balances for sick leave, vacation leave, or compensatory time.

The Agency violated the General Appropriations Act and Comptroller of Public Accounts' Accounting Policy Statement 001 because it did not properly reimburse General Revenue with federal funds.

Although the Agency paid for some employees' salaries with federal funds, it paid for those employees' benefits with state General Revenue. This was a violation of the General Appropriations Act (75th and 76th Legislatures), which specifies that General Revenue cannot be used to pay for employees' benefit costs if the employees' salaries are paid from a source other than General Revenue. In addition, the agency violated Comptroller of Public Accounts' Accounting Policy Statement 001, because it did not reimburse General Revenue for the employees' benefits costs as the policy statement requires.

We estimate that, at a minimum, the Agency used \$2,949,887 in federal funds to pay salaries in its Investigations strategy from fiscal years 1998 through 2001. It paid the benefits associated with these salaries with General Revenue. We were unable to quantify the amount the Agency should reimburse General Revenue for the cost of benefits associated with those salaries because the Agency could not provide financial data specifying exactly how much in federal funds it used to pay salaries.

Section 4:

Is There Alignment Between Funds Expended And Outcomes?

Whether there was alignment between funds expended and performance outcomes during our review period cannot be determined. The Agency redirected its expenditure disbursements and revenue deposits, thus distorting the relationship between expended funds and the outcomes of providing services. As previously stated, instead of properly and consistently classifying its expenditures and revenues by strategy, the Agency paid expenses from whichever strategy had available cash.

Normally, comparing trends in expenditure and performance data is a valuable tool to use when measuring an agency's performance and efficiency. However, the Agency's intermixing of expenditures significantly diminishes the value of this tool. The inability to measure the alignment between expenditures and performance outcomes also prevents the Agency from generating useful information to set performance standards and establish realistic budgets.

While it is not possible to compare trends in expenditure and performance data, the Agency reported that it failed to perform 69 percent of its statutorily required reviews of state agency and higher education institution personnel policies. These reviews are intended to help reduce the number of employment discrimination complaints filed with the Agency. The Agency reported that it planned to review and certify the personnel policies of 198 state agencies and higher education institutions during the six-year period from 1996 through 2001. However, according to the Agency, it certified the personnel policies of only 61 state agencies during that time period.

The Agency intended to review the personnel policies of state agencies first, followed by reviews at higher education institutions, courts, and law enforcement agencies. However, the Agency still has not reviewed all state agencies' personnel policies, and it has not yet begun reviewing the personnel policies of higher education institutions, courts, and law enforcement agencies. These reviews were intended to protect the State of Texas. Therefore, the Agency's failure to conduct these reviews is a critical shortcoming.

We also noted that the Agency did not assign the responsibilities of entering and releasing performance measure and caseload information into the Automated Budget Evaluation System of Texas (ABEST). In addition, the Agency did not perform reviews to ensure the accuracy of performance measure and caseload information. The employee who entered the information into ABEST also approved it by releasing it into the ABEST system. When reporting performance information to its Commissioners, the Agency provided only actual performance results and did not

provide Commissioners with a comparison of actual and targeted caseload information.

Section 5:

Are The Agency's Internal Controls Sufficient To Ensure The Proper Management Of Resources?

Significant control weaknesses in its financial operations prevented the Agency from properly managing its financial resources. These weaknesses included a lack of basic internal controls and management's preference for undocumented decision-making.

Well-designed internal controls that are properly implemented provide reasonable assurance that an organization will fulfill its fiduciary responsibilities. The Agency, however, lacked these internal controls.

The Agency did not segregate financial duties adequately.

The Agency lacked adequate segregation of duties to ensure that intentional and unintentional erroneous system transactions were not processed and to ensure that appropriate transactions were processed accurately and promptly. Not segregating these duties increases the risk that fraud or abuse could occur without detection. For example:

- The Agency's sole accountant has had the Agency's only access to the Uniform Statewide Accounting System since the system's inception in 1994. The accountant was responsible for entering, approving, and releasing data for processing.
- The accountant was the only employee in control of preparing and recording deposits and conducting financial reconciliations. In a prior State Auditor's Office report (*1997 Small Agency Management Control Audit*, SAO Report No. 97-086, August 1997), we recommended that the Agency reconcile its deposit vouchers against its cash receipt register to ensure that it is depositing checks within the 3-day requirement outlined in statute. The Agency only partially implemented this recommendation. It implemented the recommendation to verify supporting documentation, but it did not verify the timeliness of depositing checks.
- The accountant independently paid recurring expenditures such as rent and postage without going through the purchaser and receiving proper approval.
- The purchaser was responsible for both purchasing and receiving goods and services.
- The Agency did not require written approval from supervisors on purchase orders, regardless of the amount.

The Agency did not have adequate financial policies and procedures.

In some cases, the Agency's policies and procedures for various positions and functions were not documented; in other cases, policies and procedures were documented, but they were not implemented.

Policies and procedures are an integral component of the planning process and are essential tools for managerial direction and control of the operating environment. Not having adequate policies and procedures increases the risk that fraud or abuse could occur without detection. For example:

- The Agency did not have documented policies and procedures for the preparation and monitoring of the budgeting process, including preparation of LARs and the operating budgets.
- The Agency did not have documented policies and procedures for collecting, compiling, or reporting performance measure information.
- The Agency did not have documented policies and procedures for its accountant or conference coordinator to follow.
- The Agency did not have documented procurement policies and procedures defining the central procurement officer's responsibilities, the procurement process, and other procurement activities.
- Although the Agency had a documented policy regarding employee compensatory time, the Agency was not following its own policy.

The Agency did not document its financial decision-making.

The Agency did not have documentation to support the following:

- Decisions about budgeting.
- Decisions relating to expenditure disbursements and revenue deposits.
- Decisions regarding the establishment of fee amounts.
- Decisions regarding the collection and waiver of fees.

Without adequate documentation of decisions, the Agency did not have the historical information it needed, lacked employee accountability, and was unable to exercise proper oversight of its financial operations.

The Agency Should Take Immediate Action And Implement A Long-Term Financial Remediation Plan

The Agency's fiscal mismanagement was both severe and pervasive. To address this condition, the Agency should:

- Act immediately to correct certain deficiencies.
- Implement a long-term financial remediation plan to repair its financial health and ensure that it can provide reliable and useful information.

The Agency is at a critical juncture and must make a determined effort to correct the deficiencies in its financial operations. Left uncorrected, the financial management deficiencies will continue to hinder the Agency's ability to adequately manage its financial operations and provide services. By taking immediate action and implementing a long-term financial remediation plan, the Agency will be able to report reliable financial information, use state and federal funds efficiently, and more effectively serve the citizens of Texas.

The Agency must act immediately to correct certain deficiencies in its financial operations.

Implementing the following measures immediately will move the Agency toward better fiscal management:

- Set and follow a standard for documenting all financial decision-making.
- Develop and document policies and procedures to govern financial activities.
- Properly segregate financial duties.
- Implement a purchasing approval and receipt process for goods and services.
- Reconcile federal contract caseloads with maximum caseloads specified in contracts, and make timely requests for additional federal funds if the Agency exceeds the contract maximum.
- Record and pay expenditures from the proper strategy and program.
- Move funds from one strategy to another (if necessary), by using the appropriations transfer mechanism authorized by the General Appropriations Act, rather than by correcting journal entries.
- Comply with rules, contracts, and laws.
- Cease allowing employees to take vacation and sick leave they have not accrued.
- Start reimbursing the General Revenue Fund for benefit costs associated with salaries paid from federal funds.

The Agency must implement a long-term financial remediation plan.

To fully address and resolve its financial management system and internal control deficiencies, the financial remediation plan must incorporate steps to ensure that the Agency's financial management system supports:

- Management's and Commissioners' fiduciary role.
- Compliance with legal, regulatory, and other requirements.
- Budget preparation and execution functions.
- Fiscal management of program delivery and associated decision-making.
- Ongoing fiscal monitoring.
- The capture of financial information required to measure against program performance.
- The Agency's strategic plan.
- Contract management.
- The safeguarding of resources against waste, loss, and misuse.
- Generation of reliable data.
- Communication of useful financial information in a timely manner.

The success of the financial remediation plan will depend, in part, on the manner in which it is executed. For that reason, it is critical that the Agency:

- Clearly define the financial remediation plan's objectives.
- Specify timelines, benchmarks, and projected outcomes for each portion of the plan.
- Assign responsibility for corrective actions to specific staff and hold them accountable for carrying out their responsibilities.
- Implement a mechanism for regular review of plan implementation status.

At a minimum, the Agency's financial remediation should include the following tasks:

- Performance of a cost analysis to determine the direct and indirect costs associated with providing services.
- Determination of the fees needed, based on the cost analysis, to recover costs for providing Training and Monitoring services. These costs should be aligned with appropriations requests.
- Development of an indirect cost allocation plan to properly allocate the payment of indirect cost among strategies.
- Development of a sound budgeting process that incorporates reasonable forecasting techniques, reliable financial data, and adequate staff input.
- Development of a cash management plan that allows the Agency to better anticipate its financial condition.

- Regular tracking of the costs associated with conducting investigations in excess of the maximum number specified in the contract with EEOC. The EEOC should be approached to determine whether the contract can be modified to receive additional federal funding.
- Implementation of a realistic action plan and schedule for delivering Monitoring and Training services.
- Negotiation of contracts with state agencies to ensure that the Agency will perform Training and Monitoring services when promised and promptly earn the associated fees.

Management's Response

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TEXAS COMMISSION ON HUMAN RIGHTS

February 20, 2002

State Auditor's Office
Lawrence F. Alwin, CPA
P.O. Box 12067
Austin, Texas 78711

Re: Financial Review of the Texas Commission on Human Rights

Dear Mr. Alwin,

I would like to extend my gratitude to the State Auditor's Office for providing a clear assessment of the past financial management of the Texas Commission on Human Rights, and providing a basis for the direction necessary for its future financial management.

We have taken major steps within the agency to bring about positive changes in financial management. We recently hired a Director of Operations, as well as a Comptroller. These employees immediately initiated internal controls and implemented standard business practices to increase the overall operational effectiveness and efficiency of the agency.

Please find attached the agency's first response to your office's financial audit report. We will continue to assess our organization's operations and make the necessary changes in order to fully comply with all requirements that have been set forth by your office.

Should you have any questions or comments, please do not hesitate to contact either Rhonda M. Lane, Director of Operations, at 437-3459, or myself, at 437-3453.

Sincerely,

A handwritten signature in cursive script that reads "J.D. Powell".

J.D. Powell
Executive Director
Texas Commission on Human Rights

Attachment

"Texas Commission on Human Rights is an Equal Opportunity Employer"

ATTACHMENT

Texas Commission on Human Rights Response to Financial Review by the State Auditor's Office

The Texas Commission on Human Rights (TCHR) concurs with the recommendations made by the State Auditor's Office in its financial review of TCHR. The agency has implemented positive changes which address many of the findings regarding financial planning and forecasting. Below is a listing of all activities that the agency has undertaken to assist in progressing toward more sound fiscal management. This response has been organized to address the four gross fiscal mismanagement criteria identified in the financial review.

I. Adequate Fiscal Records

- The Executive Director has implemented an agency reorganization to ensure that various areas have segregated financial duties and appropriate management supervision. Part of the reorganization was the hiring of a Director of Operations/Chief Financial Officer, Comptroller, and Director of Enforcement.
- Strong emphasis has been placed in both the Enforcement and Training & Monitoring Divisions on hiring directors with strong contract management skills for the handling of private, interagency, and federal contracts.
- An internal process is being developed for tracking the number and the cost of the investigation cases that fall under the federal contracts. This process will allow the agency to reconcile federal contract caseloads with maximum caseloads specified in the contracts. Additionally, this process will allow the agency to make timely requests for additional federal funds, before the agency exceeds the contract maximum.
- The FY 2002 Operating Budget has been revised and resubmitted to the Legislative Budget Board to reflect more accurate revenue and expenditure projections, based on a more realistic cost capturing system to mirror the targeted amounts in the agency's performance measures. This process will ensure the agency is making accurate appropriation requests in the future.
- TCHR is now recording and tracking expenditures from the proper strategy and program. An internal budgeting system has been developed and implemented to capture actual costs in each of the strategies for reasonable forecasting techniques and reliable financial data. Appropriate staff had input and was instrumental in creating this budget system.
- TCHR has developed and implemented an indirect cost allocation plan to properly allocate the payment of indirect costs proportionately among the three strategies.
- By March of 2002, TCHR will begin implementing an internal process of performing quarterly expenditure transfers across the three strategies using the appropriations transfer mechanism authorized by the General Appropriations Act, rather than correcting journal entries for indirect/overhead cost. This will ensure proper payment of expenditures by strategy and program.

- For long-term planning and the Legislative Appropriations Request, TCHR is working on developing the request for an Administrative Cost Strategy to capture indirect/overhead cost.
- Revenue and expenditure projections are being reviewed on a monthly basis, as a building block in budgeting forecasted cash flow activities, to better anticipate the agency's financial condition.
- Policies and procedures have been developed and implemented in three manuals for process improvements involving purchases of goods and/or services, receipt of goods and/or services, payment of invoices, and reimbursement of travel vouchers. These manuals include the Travel Allowance Manual, the Procurement Process Manual, and the "Draft" Procurement Card Manual (to be completed by March 31, 2002). The manuals identify the necessary levels of review and approval to ensure quality assurance.
- Internal training was provided in January 2002 to agency staff regarding the appropriate policies and procedures for the Travel Allowance Manual and the use of the Travel Allowance Guide issued by the Comptroller's office. All the necessary tools for making travel arrangements and seeking reimbursement have been provided to agency staff.
- Properly segregated financial duties have been set up for all purchasing activities. TCHR has developed and implemented process improvements so that the requestor originates all purchases for goods and/or services, the Comptroller assigns a funding source and encumbers the amount requested, and the request is then approved for purchase by three separate signature authorities.
- Goods or services that are payable go through several internal controls for ensuring accuracy of the charges billed and to ensure prompt payment of an invoice in accordance with the Prompt Payment Act. The functions are all independent of each other with internal controls built in to ensure the accuracy of goods and services being paid.
- In order to ensure the agency is in full compliance with Texas rules, contracts, and laws, prior to the development and implementation of our internal policies and procedures, TCHR has begun reviewing the following materials: (1) Purchase Voucher Guide, Travel Allowance Guide, and Accounting Policy Statements (issued by the Comptroller's Office) and (2) Various rules issued by the Texas Building and Procurement Commission.
- The Operations Division is working with the Enforcement Division in evaluating the costs associated with postage and delivery charges for investigating cases. TCHR is evaluating the possibility for rule changes that govern the use of certified mail. The use of certified mail is a high cost item for the agency and necessitates the need for review and modification if applicable.
- Benchmarking efforts with other state agencies are currently underway in evaluating the development of a fee schedule for Training & Monitoring activities. Once a methodology is established in developing a fee schedule, TCHR can begin performing cost analysis to determine the fees needed to recover costs for providing Training & Monitoring services.

- Security access to the USAS and USPS accounting systems is being reviewed and revised to include access by the Director of Operations/CFO and Comptroller. This will ensure the segregation of duties when accessing the different accounting systems.
- Action is being taken to add an individual to the process of releasing payment transactions within USAS. In the interim, the Director of Operations is responsible for reviewing all expenditure transactions for accuracy of the information.

II. Maintain Asset Controls

- TCHR is currently taking the necessary steps in utilizing the Cash Flow Contingency Rider in Article I of the General Appropriations Act, 77th Legislature, Regular Session, to draw down 50% in the Monitoring strategy. This will ensure that sufficient funds are available to meet expenditure requirements within this strategy.
- A tracking system has been developed and implemented to capture the status of all interagency and/or private contracts in each of the Training & Monitoring strategies. This will streamline the process and ensure that our customers are receiving prompt services and the payment for services rendered is received in a timely manner.
- The Operations Division and the Training & Monitoring Division are currently working on process improvements for the implementation of a contract management process.
- Strong emphasis has been placed in both the Enforcement and Training & Monitoring Divisions on hiring directors with strong contract management skills for the handling of private, interagency, and federal contracts.
- Policies and procedures have been developed and implemented in three manuals for process improvements involving purchases of goods and/or services, receipt of goods and/or services, payment of invoices, and reimbursement or travel vouchers. These manuals include the Travel Allowance Manual, the Procurement Process manual and the "Draft" Procurement Card Manual (to be completed by March 31, 2002). The manuals identify the necessary levels of review and approval to ensure quality assurance.
- A Personnel Manual has been developed and submitted to the agency's Commissioners for review and approval at the next Commission meeting scheduled for April of 2002.
- The Human Resources Specialist is currently developing a new automated leave system, which will track all accrued/taken leave balances to ensure compliance with the Texas Constitution, Article III, Sections 50 and 51.
- Properly segregated financial duties have been set up for all purchasing activities. TCHR has developed and implemented process improvements so that the requestor originates all purchases for goods and/or services, the Comptroller assigns a funding source and encumbers the amount requested, and the request is then approved for purchase by three separate signature authorities.

- The Open Records Request process is being reviewed for cost capturing and revenue generation in appropriated receipts.
- Benchmarking efforts with other state agencies are underway in evaluating the development of a fee schedule for Training & Monitoring activities.
- Internal controls have been developed and implemented to segregate the duties of receiving and accepting warrants issued to the agency.
- Goods or services that are payable go through several internal controls for ensuring accuracy of the charges billed and to ensure prompt payment of an invoice in accordance with the Prompt Payment Act. The functions are all independent of each other with internal controls built to ensure the accuracy of goods and services being paid.

III. Timeliness of Obligations

- The Operations Division and the Training & Monitoring Division are working in conjunction to review current processes for tracking, scheduling, and vouchering for training and monitoring services.
- Strong emphasis has been placed in both the Enforcement and Training & Monitoring Divisions on hiring directors with strong contract management skills for the handling of private, interagency, and federal contracts.
- A tracking system has been developed and implemented to capture the status of all interagency and/or private contracts in each of the Training & Monitoring strategies. This will streamline the process and ensure that our customers are receiving prompt services and that payment for services rendered is received in a timely manner.
- An internal process is currently being developed for tracking the number and the cost of the investigation cases that fall under the federal contracts. This process will allow us to reconcile federal contract caseloads with maximum caseloads specified in the contracts, and make timely requests for additional federal funds before the agency exceeds the contract maximum.
- TCHR has taken into account the utilization of Accounting Policy Statement 14 – Interagency Payments and Receipts, in seeking assistance from the Comptroller’s office for obtaining payment from other state agencies or institutions of higher education that entered into an interagency contract with TCHR. Our Chief Accountant is making timely requests to the receiving agencies for reimbursement of services.

IV. Use of State Funds

- The Director of Operations met with the Comptroller’s office on February 15, 2002 to discuss the issue of reimbursing General Revenue for the cost of employee benefits associated with the salaries paid with federal funds.

- TCHR is in the process of restructuring our budget for FY' 04 & '05 to address the issue of employee benefits associated with the salaries paid with federal funds, without having significant financial impact to our agency. TCHR is currently working with the Legislative Budget Board, Governor's Office, Comptroller's Office, and State Auditor's Office to accomplish this initiative.
- The Operations Division is currently reviewing the process of using conference funds to supplement all conference-related activities. Necessary steps are being taken to do expenditure transfers to match conference-related expenditures with the funds available in the conference account.

Long-Term Planning

The agency has begun and will continue to utilize the framework established by the State Auditor's Office. A remediation plan will be developed and implemented to repair the financial health of this agency, and ensure that reliable financial information is provided to all of its customers. The agency intends to have a remedial plan in place by the first quarter of FY 2003; as a result, the remedial plan will be available for approval by the Commissioners by 08/31/02.