



A Legislative Summary Document Regarding Texas Workforce Commission

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A significant issue facing the Texas Workforce Commission (Agency) is the demand on and the declining balance of the Unemployment Compensation Trust Fund (Fund). The Agency is projecting that the Fund balance will be negative at the end of December 2002 and through the first quarter of 2003. The Fund balance is projected to be negative \$486 million as of the end of March 2003.

The Agency anticipates that more Temporary Assistance to Needy Families (TANF) participants will opt to participate in the TANF Choices program because prior exemptions from work are no longer available. The Texas Welfare Waiver, which permitted Texas to use less stringent work requirements for federal TANF recipients than under federal rules, expired on March 31, 2002.

Five of nine fiscal year 2001 performance measures tested were inaccurate.

We estimate that during a five-month period, contractors for 6 of 28 Local Workforce Development Boards may have made as much as \$1.9 million in unsupported payments, largely for services to clients whose eligibility we could not confirm. The projected \$1.9 million represents 3 percent of the \$62.4 million in total payments made to child care providers during the period audited. In addition, in fiscal year 2001, these same six Boards paid \$20.8 million to relative self-arranged care providers without adequately ensuring that children received care.

According to Agency data, an average of 82 percent of the 28 Boards' fiscal year 2001 expenditures were for direct child care. This amounts to \$68 million to administer the program, which is within the 70 percent guideline set forth in the federal regulations.

The Agency follows a defined process to produce projections for the balances in the Unemployment Compensation Trust Fund and the Smart Jobs Holding Fund. The Agency's projection process uses specific factors and reliable historical data to predict fund balances.

The Agency had no significant reportable findings for the major programs tested in the federal portion of the statewide Single Audit report for the fiscal year 2001.

Prepared for the 78th Legislature
by the State Auditor's Office

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SAO No. 03-369

This is not an audit report and, with the exception of any audit report summaries, the material in this document has not been subjected to all of the tests and confirmations performed in an audit.

Texas Workforce Commission

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Financial Profile

Unemployment Compensation Trust Fund

A significant issue facing the Texas Workforce Commission (Agency) is that the Unemployment Compensation Trust Fund (Fund) balance has been declining. In October 2002, the balance for the Fund was lower than the statutory floor, which triggers the imposition of a deficit tax for calendar year 2003 (Labor Code, Section 204.603). The imposition of the deficit tax has increased the unemployment insurance tax rate for most employers. The unemployment insurance tax rate includes three component taxes: the general tax, deficit tax, and replenishment tax. The Agency indicates that as of December 20, 2002, the Agency has borrowed approximately \$53 million from the federal government, at a premium rate, to fund the program.

Legislative Appropriations Request Preparation

The Agency used its 2003 operating budget as a basis for preparing the 2004–2005 Legislative Appropriations Request (LAR). As part of the process of creating the operating budget, each Agency division submitted a budget for salary and salary-related costs to the Budget Department.

The Agency's methods and assumptions for estimating federal revenues and expenditures appear reasonable and produce a reasonably accurate LAR. Federal funding levels are based on caseloads and demographics and represent 88 percent of the Agency's total revenues.

The accuracy of the Agency's predictions for federal revenues and expenses is contingent on its federal programs' continuing to be authorized at their present level. Temporary Assistance for Needy Families (TANF) is among the programs due for reauthorization in 2003.

Expenditures by Category

The table below shows the Agency's expenditures by Comptroller of Public Accounts category as reported by the Agency in USAS for appropriation years 2000, 2001, and 2002. This data has not been audited. It is provided for informational purposes to show how the Agency has spent its funds. We obtained explanations from the Agency for fluctuations across years that appeared unusual.

Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Interfund Transfers/Other (Note A)	\$ 2,328,749,080	\$ 2,811,110,007	\$ 3,941,012,592
Public Assistance Payments (Note A)	1,514,860,550	1,728,874,158	3,031,210,654
Intergovernmental Payments (Note B)	377,411,819	411,953,983	316,173,635
Salaries and Wages ^a	129,379,431	132,556,253	147,472,969
Employee Benefits (Note C)	22,232,416	41,737,997	47,875,784
Rentals and Leases	11,211,775	10,988,420	10,568,285
Other Expenditures	10,242,821	12,216,500	10,427,179
Capital Outlay	7,884,515	6,842,402	3,150,775
Repairs and Maintenance	7,465,303	9,556,655	10,977,372
Professional Fees and Services	5,791,787	5,848,666	6,885,722
Communications and Utilities	4,994,853	5,139,502	4,729,627

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Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Claims and Judgments	2,391,381	2,660,699	2,728,949
Supplies and Materials	2,146,100	2,242,868	2,552,764
Travel	2,000,974	2,147,608	2,010,645
Printing and Reproduction	612,224	598,992	1,030,005
Cost of Goods Sold	86,113	68,567	60,022
Interest/Prompt Payment Penalties	19,775	8,805	3,177
Total Expenditures	\$ 4,427,480,917	\$ 5,184,552,082	\$ 7,538,870,156

^a The amounts shown here for Salaries and Wages will not agree with the Salary Expenditures in the Workforce Summary Document prepared by the State Classification Office (SCO) because the USAS Salaries and Wages category does not include certain object codes that SCO considers employee compensation. These include performance awards and employee recognition awards.

Source: USAS - All funds including appropriated, unappropriated, and non-appropriated as of November 30, 2002.

Note A – The appropriation year 2002 increases in both Interfund Transfers and Public Assistance Payments reflect the increased costs of unemployment compensation in a period of higher unemployment.

Note B – The apparent decline in Intergovernmental Payments between appropriation years 2001 and 2002 is the result of appropriation year 2002 encumbrances that have not yet been liquidated. These encumbrances are primarily associated with the Workforce Investment Act program.

Note C – For appropriation years 2001 and 2002, employee benefits increased because of a change in process. In previous years, the Employees Retirement System (ERS) paid for the State’s portion of certain employee benefits for all agencies. In fiscal year 2000, agencies using the Uniform Statewide Payroll System (USPS) received the funding and paid the employee benefits directly. Because the Commission did not use USPS, the benefits were still paid by ERS in fiscal year 2000. The process changed in fiscal year 2001, and all agencies received the funding and paid the employee benefits directly.

Key Findings from Previous Audits and Reviews

January 1, 2001–December 31, 2002

An Audit Report on the Child Care Program at the Texas Workforce Commission

(Report No. 03-006, October 2002)

The Local Workforce Development Boards (Boards) and contractors that administer the Texas Workforce Commission’s (Agency) subsidized Child Care Program have gaps in their processes for managing contracts. As of May 2002, the Agency had not sanctioned any Board for weaknesses relating to the Child Care Program. We estimate that during a five-month period, contractors for 6 of 28 Boards may have made as much as \$1.9 million in unsupported payments, largely for services to clients whose eligibility we could not confirm. The projected \$1.9 million represents 3 percent of the \$62.4 million in total payments made to child care providers during the period audited. In addition, in fiscal year 2001, these same six Boards paid \$20.8 million to relative self-arranged care providers without adequately ensuring that

**Status of Audit Recommendations as of
November 30, 2002**

No status is reported at this time to allow the Agency sufficient time to address recommendations in this recently released report.

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children received care. Furthermore, the Boards' incomplete safeguards for electronic information relating to the Child Care Program could result in inaccurate payments to providers.

Additionally, we found that the actual rates the six Boards paid providers generally matched the contracted rates. These services were provided in compliance with federal and state requirements, with the previously mentioned exceptions. Based on Agency data, an average of 82 percent of the 28 Boards' fiscal year 2001 expenditures were for direct child care. This amounts to \$68 million to administer the program, which is within the 70 percent guideline set forth in the federal regulations.

Of the three performance measures in the Agency's child care contracts with the Boards, two are inaccurate. The "Average Number of Children Served per Day" measure is inaccurate because the data the Agency uses to calculate the measure is not reliable. The measure "Percent of Child Care Management System Vendors Who Have Met Designated Vendor Criteria" is inaccurate because the Agency does not follow the measure definition. The definition for the third measure, "Number of Clients Trained Through TWC Child Care Training," is too broad, resulting in inconsistent information from one Board to another.

A Review of Projections for the Smart Jobs Fund, the Unemployment Compensation Trust Fund, and the Smart Jobs Holding Fund

(Report No. 02-001, September 2001)

The Texas Workforce Commission (Agency) follows a defined process to produce projections for the balances in the Unemployment Compensation Trust Fund and the Smart Jobs Holding Fund. The Agency's projection process uses specific factors and reliable historical data to predict fund balances.

The Agency's projected Unemployment Compensation Trust Fund balances are generally within five percent of the actual fund balance for each month end.

An Audit Report on the Local Workforce Boards

(Report No. 01-022, March 2001)

The six Local Workforce Development Boards (Boards) we audited are progressing at varying rates in addressing weaknesses in accounting for funds and contact management reported in a prior audit report (*An Audit Report on Welfare Reform Implementation at the Texas Workforce Commission*, Report No. 99-051, August 1999); however, in some cases, significant improvements still must be made. At most Boards, improvements are still necessary in the following areas: ensuring proper accounting for program funds, managing contracts with service providers, and/or ensuring data integrity.

The Texas Workforce Commission (Agency) reported that half of the 28 Boards failed to meet either required expenditure targets or local matching funds requirements during fiscal year 2000. As a result, a total of \$10.1 million in child-care funding was taken from these 14 Boards and redistributed through reobligations.

We found that 56 percent of the 85,602 net clients who exited the Agency's four major workforce programs during fiscal year 2000 left with employment, according to data in The Workforce Information System of Texas (TWIST). The Agency could benefit by tracking performance using an additional systemwide measure that evaluates its programs as they are managed (as parts of a comprehensive, one-stop service network). For example, the Agency should measure combined outcomes for all programs.

Status of Audit Recommendations as of November 30, 2002 (unaudited)	
The Agency reported the following:	
Implemented	5
Has other explanatory information	1
Total recommendations¹	6
¹ Total represents recommendations made to the Agency and not the recommendations made to the local boards.	

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An Audit Report on the Integrated Statewide Administrative System at Selected Agencies

(Report No. 01-013, January 2001)

The Texas Workforce Commission's (Agency) Integrated Statewide Administrative System (ISAS) project is behind schedule, over budget, and has yet to fully provide the expected benefits for which ISAS was selected as the internal financial management system. The two modules that are not yet implemented are Cash Receipts and Procurement.

Status of Audit Recommendations as of November 30, 2002 (unaudited)	
The Agency reported the following:	
Implemented	1
Total recommendations	1

Although the installation of ISAS is not complete, those portions of the software that have been installed appear to be functioning correctly and are capable of providing reliable financial information.

Some of the Agency's best practices could benefit other agencies that are implementing ISAS or other PeopleSoft™ applications.

Performance Management

Performance Indicators Used by Management

The Texas Workforce Commission (Agency) uses more than 100 performance measures. The measures are based on requirements set by the Legislative Budget Board (LBB).

All levels of management, including the Commissioners, are involved in setting, tracking, and monitoring performance measures. The monthly Commissioners' meetings provide a public forum for measuring progress. Executive management conducts weekly meetings with division directors to monitor their progress and provide additional instruction, based on the Commissioners' direction.

Monitoring documents are comprehensive, providing both financial and performance management information at the state and local levels. The Agency monitors the performance of Local Workforce Development Boards and has several courses of action available to address below-standard performance.

Estimating Performance Targets

The Agency's methods for developing key performance targets appear to be reasonable and appropriate. In the 2004–2005 LAR, the Agency lists 26 key performance measures. It uses Department of Labor data as a starting point for setting measurement targets, although the LBB may direct the Agency to set higher targets than the Department of Labor requires. The Agency then uses environmental information from the Comptroller of Public Accounts, such as data on the Texas economy, including indicators, production and consumption statistics, regional outlooks, population data, etc. All of these items might aid in predicting Agency performance measures such as unemployment, welfare, and growth industries needing additional trained workers to help identify targets to adjust. Lastly, the Agency uses past performance, trend data, and Commissioners' input to set performance targets.

The Agency contracts with Local Workforce Development Boards (Boards) for some of its programs, and the Boards use contractors to provide many services. Many of the Agency's measures are based on the aggregation of the targets and results achieved by the Board's contractors.

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Most Recent Performance Measure Certification

Fiscal Year 1998–Fiscal Year 2003

The results included in *An Audit Report on Fiscal Year 2001 Performance Measures at 14 Entities* (Report No. 03-008, November 2002) for this entity are summarized below.

Period	Goal/Strategy		Measure	Certification Results
2001	A	Communities Assistance	Percent of Unemployment Insurance Claimants Paid Timely	Certified with Qualification
2001	A.2.1	Unemployment Insurance	Average Time to Process Initial Unemployment Insurance Claim	Certified with Qualification
2001	B	Employee Assistance	Percent of Childcare Management System (CCMS) Vendors Who Have Met Designated Vendor Criteria ^a	Inaccurate
2001	B	Employee Assistance	Choices Participation Rate for Two-Parent Families	Inaccurate
2001	B	Employee Assistance	Choices Participation Rate for All Families	Inaccurate
2001	B.1.1	General Workforce Clients	Average Cost Per Individual Who Participates (All Programs)	Factors Prevent Certification
2001	B.1.2	Adult Public Assistance Recipients	Average Cost Per Client Served in Component Activities: Choices	Inaccurate
2001	B.2.1	Early Child Care	Average Number of Children Served per Day for Child Care Services, Excluding Choices and Employment and Training Services ^a	Inaccurate
2001	C	Employers	Percent of Skills Development Fund Trainees Securing Employment With Participating Businesses	Factors Prevent Certification
Total Measures Certified Without Qualification^b				0/9 (0%)
Data Reliability Percentage (Certified and Certified with Qualification)				2/9 (22%)
^a Measure was audited separately and is included in <i>An Audit Report on the Child Care Program at the Texas Workforce Commission</i> (Report No. 03-006, October 2002).				
^b The percentage of unqualified certifications is presented because it is used in determining an entity's eligibility for performance rewards as established in the General Appropriations Act [77th Legislature, Article IX, Sec. 6.31(d)(2)].				

Category	Definition
Certified	Reported performance is accurate within +/-5 percent, and controls appear adequate to ensure accurate collection and reporting of performance data.
Certified with Qualification	Reported performance is within +/-5 percent, but the controls over data collection and reporting are not adequate to ensure the continued accuracy of performance data.
Factors Prevent Certification	Actual performance cannot be determined because of inadequate controls and insufficient documentation.
Inaccurate	Reported performance is not within +/-5 percent of actual performance, or there is an error rate of at least 5 percent in the supporting documentation.
Not Applicable	A justifiable reason exists for not reporting performance.

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Quality Assurance Team Reviews

Conducted by the Legislative Budget Board and State Auditor's Office

Completed Projects

Quality Assurance Team Annual Report – January 2003

The Texas Workforce Commission (Agency) completed the Direct Access Storage Device Management and Growth project at a cost of \$450,000 on November 7, 2001. The initial budget was \$1,585,000, and the initial completion date was August 31, 2003.

The Agency completed the UNIX Server Replacement project at a cost of \$370,000 on August 31, 2002. The initial budget was \$1,630,000, and the initial completion date was August 31, 2003.

The Agency completed the Voice Response Unit Replacement project at a cost of \$499,584 on August 31, 2002. The initial budget was \$1,622,967, and the initial completion date was August 31, 2001.

Completed Projects

Quality Assurance Team Annual Report – January 2002

The Agency completed the following projects at the total costs noted:

- Client/Server Human Resources and Finance: \$15,001,066
- Enterprise Development Projects – Data Warehouse: \$2,142,412
- Enterprise Imaging Solution: \$2,855,314
- Enterprise Server Storage Replacement: \$2,498,482
- The Workforce Information System of Texas Expansion: \$7,834,305

Canceled Projects

Quality Assurance Team Annual Report – January 2003

The Agency canceled the Voice Response Unit System Software Replacement Project at a total cost of \$0.

Disaster Preparedness

We gathered information from the Texas Workforce Commission (Agency) on plans in place to provide continued operations and services in the event of a disaster. Standard audit criteria for disaster preparedness have not been established; therefore, we are not evaluating the Agency's plans. Our objective was only to provide the information reported by the Agency.

The Agency has a detailed Business Continuity Plan for resuming operations at its main office in a timely manner and minimizing loss in the event of a disaster. The Agency also has an Information Technology Disaster Recovery Plan, which it updated in May 2002, that addresses all of the Agency's automated systems.

In addition to the Business Continuity Plan, the Agency has a high-level strategy document that analyzes resources needed, resources available, costs, and an overall strategy for disaster preparedness. The plan itself is more specific in that it defines the actions that departments (and often specific employees) will take in response to specific triggers. The plan defines a disaster in terms of inaccessibility of the building and/or loss of information technology services for specified lengths of time. The two documents work together to address the Agency's disaster preparedness.

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Not all of the Agency's field offices have business continuity plans in place. Management believes that the loss of a field office will not prevent the Agency from continuing its operations in the event of a disaster. The Agency classifies this type of loss as an emergency, rather than a disaster, as it could perform field operations from other field offices.

Information System Vulnerability Assessments

The State Auditor's Office (SAO) and/or the Department of Information Resources performed one or more information system vulnerability assessments at the Texas Workforce Commission between January 2000 and November 2002. Detailed results of this work are confidential under Texas Government Code, Section 2054.077(c). The SAO's Legislative Summary Document titled "Information System Vulnerability Assessments" provides general information about the results of information system vulnerability assessments.

Travel Expenditures

Travel Expenditures by Appropriation Year (unaudited)			
	2000	2001	2002
In-State Travel	\$ 1,674,869	\$ 1,801,562	\$ 1,759,409
Out-of-State Travel	328,221	343,118	249,481
Foreign Travel	0	0	0
Other Travel Costs	(2,117)	2,928	1,755
Total Travel Expenditures	\$ 2,000,974	\$ 2,147,608	\$ 2,010,645
Limit on Travel Expenditures (Cap)	2,508,522	2,508,522	328,221 ^a
Expenditures in Excess of Cap	\$ 0	\$ 0	\$ 0

^a Caps apply to total travel in appropriation years 2000 and 2001, but caps apply only to out-of-state travel and foreign travel in appropriation year 2002. Caps, calculated by the Comptroller of Public Accounts, have been adjusted for any increases requested by the Agency and approved by the Legislative Budget Board in accordance with the General Appropriations Act.

Source: Uniform Statewide Accounting System (USAS) as of November 30, 2002. Amounts are subject to change as agencies continue to record additional expenditures or adjustments.