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An Audit Report on

Performance Measures at the Bond Review Board

April 2009

Report No. 09-029



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Overall Conclusion

The Bond Review Board (Board) reported reliable results for all four key performance measures tested for fiscal year 2008. A performance measure is considered reliable if it is certified or certified with qualification.

All four key performance measures tested were certified with qualification. These included:

- Number of State Bond Issues and Lease-purchase Projects Reviewed.
- Number of Responses to Debt Information Requests.
- Number of Local Government Financings Analyzed.
- Number of Applications Reviewed.

These measures were certified with qualification because the Board lacked policies and procedures for the review of performance measure results. As a result, Board staff did not review the measures' calculations or the results entered into ABEST before they were released into ABEST. In addition, the Board did not segregate the duties of entering and releasing performance measure results into ABEST.

Table 1 on the next page summarizes the certification results of the four key performance measures tested.

Background

Agencies report results for their key measures to the Legislative Budget Board's budget and evaluation system, which is called the Automated Budget and Evaluation System of Texas, or ABEST.

The Bond Review Board's (Board) mission is to ensure that debt financing is used prudently to meet the State's infrastructure needs and other public purposes, to support and enhance the debt issuance and debt management functions of state and local entities, and to administer the State's Private Activity Bond Allocation Program. The Board had 9.5 budgeted full-time equivalent employees in fiscal year 2008.

Key Measures

Key performance measures are:

- Budget drivers that are generally externally focused.
- Closely related to the goals identified in the statewide strategic plan.
- Reflective of the criteria of good performance measures.

Source: *Guide to Performance Measure Management* (State Auditor's Office Report No. 06-329, August 2006).

Table 1

Bond Review Board (Agency 352)				
Related Objective or Strategy, Classification	Description of Measure	Fiscal Year	Results Reported in ABEST	Certification Results ^a
A.1.1., Output	Number of State Bond Issues and Lease-purchase Projects Reviewed	2008	51	Certified with Qualification
A.1.2., Output	Number of Responses to Debt Information Requests	2008	124	Certified with Qualification
B.1.1., Output	Number of Local Government Financings Analyzed	2008	1,576	Certified with Qualification
C.1.1., Output	Number of Applications Reviewed	2008	171	Certified with Qualification

^a A measure is **Certified** if reported performance is accurate within plus or minus 5 percent of actual performance and if it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

A measure is **Certified With Qualification** when reported performance appears accurate, but the controls over data collection and reporting are not adequate to ensure continued accuracy. A measure is also certified with qualification when controls are strong, but source documentation is unavailable for testing. A measure is also certified with qualification if agency calculation of performance deviated from the measure definition but caused less than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

A measure is **Inaccurate** when the actual performance is not within 5 percent of reported performance, or when there is more than a 5 percent error in the sample of documentation tested. A measure is also inaccurate if the agency's calculation deviated from the measure definition and caused more than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

A **Factors Prevented Certification** designation is used if documentation is unavailable and controls are not adequate to ensure accuracy. This designation also will be used when there is a deviation from the measure definition and the auditor cannot determine the correct performance measure result.

Summary of Management's Response

The Board agreed with the findings and recommendations in this report. Its responses to the specific recommendations in this report are presented immediately following each set of recommendations in the Detailed Results section of this report.

Summary of Information Technology Review

Auditors assessed the information technology (IT) controls over databases the Board used to collect and calculate performance measure data. Auditors evaluated general IT controls such as logical access, program changes, physical security, and disaster recovery. Auditors also evaluated application controls such as input controls, process controls, and output controls.

The Board should improve its overall controls over information technology to ensure the integrity and accuracy of performance measure data. Auditors communicated details about these control weaknesses directly to the Board's management.

Summary of Objectives, Scope, and Methodology

The objectives of this audit were to determine whether the Board:

- Accurately reported selected key performance measures to the Automated Budget and Evaluation System of Texas (ABEST).
- Had adequate control systems in place over the collecting, calculating, and reporting of selected key performance measures.

The scope of this audit included the four key performance measures the Board reported for fiscal year 2008. Auditors reviewed controls over the collection, calculation, and submission of data used in reporting performance measures and traced performance measure documentation to the original source when available.

The audit methodology consisted of selecting four key performance measures, auditing reported results for accuracy and adherence to measure definitions, evaluating controls over the performance measures, reviewing the performance measure process, and conducting a high-level review of all information systems that support performance measure data.

Auditors communicated other, less significant issues to the Board separately in writing.

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Detailed Results

Chapter 1

The Board Reported Reliable Results for All Four Performance Measures Tested; However, It Should Improve Its Process for Reviewing Results

The Bond Review Board (Board) should develop and implement policies and procedures for reviewing performance measures' calculations and results before they are reported to ABEST.

For all four key performance measures tested, the Board reported reliable results for fiscal year 2008. The reported results were considered reliable because they were certified with qualification.

The results were certified with qualification because the Board lacked written policies and procedures for reviews of (1) the measures' calculation and supporting documents and (2) the accuracy of the data entered into the Automated Budget and Evaluation System of Texas (ABEST) before the performance measure results were released into ABEST. The Board also lacked adequate separation of duties because the same individual who entered performance measure data into ABEST also released the reported results into ABEST. As a result, Board staff did not review the measures' calculations or the accuracy of data entered into ABEST.

Conducting adequate reviews is an important step to ensuring that reported results are consistent with a measure's definition and methodology in ABEST. In addition, having written policies and procedures could help the Board ensure that performance measures are calculated and reported in a consistent manner by all employees who are responsible for compiling, calculating, reviewing, and reporting performance measure results.

Recommendations

The Board should:

- Develop and implement detailed, written policies and procedures requiring a documented review of performance measure calculations for accuracy before results are reported to the ABEST coordinator.
- Develop and implement policies and procedures requiring documented reviews of data entered into ABEST before the submission of the results is complete.

- Ensure that more than one individual is responsible for the entering of data into ABEST and the releasing of the data into ABEST.

Management’s Response

The BRB agrees with the recommendation that more detailed written policies and procedures be implemented for assuring accuracy of performance measures. The written procedures that were in place for A.1.1, A.1.2, B.1.1 and C.1.1 were updated since the SAO audit and now contain more detailed descriptions of each procedure. Documented cross-checking of performance measure results by another employee will occur prior to submission to the ABEST coordinator. Additionally, two persons are now involved in the ABEST submission, one for entering the data and one for checking and releasing the data in ABEST.

Key Measures

Number of State Bond Issues and Lease-purchase Projects Reviewed

The Board reported accurate fiscal year 2008 results for this measure; however, the measure was certified with qualification because the Board lacked detailed, written policies and procedures for the review of performance measure data and calculated results prior to their release in ABEST.

Results: Certified with Qualification

A measure is Certified with Qualification when reported performance appears accurate, but the controls over data collection and reporting are not adequate to ensure continued accuracy.

Also, the Board did not have adequate written policies and procedures describing the reconciliation of the data used to calculate this measure. The Board tracks the number of state bond issues and lease-purchase projects reviewed in a “State Application Listing” Excel spreadsheet. This information is also entered into the Board’s Bond Database. Board staff said they annually reconcile the spreadsheet and the database to ensure that all state bond issues and lease-purchase projects reviewed were included in performance measure calculations; however, the Board did not have documentation showing that these reconciliations had been conducted.

Recommendations

The Board should:

- Develop detailed, written policies and procedures for the reconciliation of data in the State Application Listing spreadsheet and the Board’s Bond Database.
- Retain documentation of completed reconciliations.

Management's Response

The BRB agrees and has already implemented the recommendation that more detailed written policies and procedures for the reconciliation of the data in the State Application Listing spreadsheet and the BRB's Bond Database be developed, including retention of the documented reconciliations.

Number of Responses to Debt Information Requests

Results: Certified with Qualification

A measure is Certified with Qualification when reported performance appears accurate, but the controls over data collection and reporting are not adequate to ensure continued accuracy.

The Board reported accurate fiscal year 2008 results for this measure; however, the measure was certified with qualification because the Board lacked detailed, written policies and procedures for the review of performance measure data and calculated results prior to their release in ABEST.

In addition, the Board did not have documented policies and procedures for the collection of data used to calculate this performance measure's results. Currently, Board staff either enter debt information requests and responses directly into the Board's Perform Database or they record the information on a manual log and later enter the information into the database. Written policies and procedures explaining how these requests should be documented could help Board staff ensure that all requests are recorded in a timely manner. For example, auditors identified one debt information request that occurred during the fourth quarter of fiscal year 2008 that the Board did not include in the performance measure's calculation.

Recommendation

The Board should develop and implement policies and procedures for documenting debt information requests and responses.

Management's Response

The BRB agrees and has already implemented the recommendation that more detailed written policies and procedures for documenting debt information requests and responses be developed.

Number of Applications Reviewed

The Board reported accurate fiscal year 2008 results for this measure; however, the measure was certified with qualification because the Board lacked detailed, written policies and procedures for the review of performance measure data and calculated results prior to their release in ABEST.

Results: Certified with Qualification

A measure is Certified with Qualification when reported performance appears accurate, but the controls over data collection and reporting are not adequate to ensure continued accuracy.

In addition, the Board did not maintain all documentation supporting this performance measure's calculation. As of March 2009, the Board discarded an application at the end of the calendar year if the applicant withdrew the application before the Board issued a reservation note. However, if the withdrawn application is included in the calculation of Number of Applications Reviewed, the Board should retain the application for the fiscal year reported plus three years, as required by the *Guide to Performance Measure Management* (State Auditor's Office Report No. 06-329, August 2006). Auditors identified one bond application that the Board included in the reported results for the first quarter of fiscal year 2008, but the Board had not retained the hard copy application.

Recommendation

The Board should ensure that all documentation for this measure is retained for the fiscal year reported plus three years.

Management's Response

The BRB is scheduled for recertification of its Records Retention Schedule by Texas State Library and Archives Commission in June 2009. Changes will be submitted at that time to reflect the retention of withdrawn applications for the Private Activity Bond Program for the fiscal year reported plus three years. The financial analyst assigned to administer the Private Activity Bond Program will be responsible for follow-up and implementation of this recommendation.

The Board Lacked Adequate Controls Over Its Information Technology

The Board did not have adequate controls over its information technology (IT) to ensure the security and reliability of its performance measure data. Auditors identified several weaknesses in the Board's controls over its automated systems, applications, and data.

The Board lacked complete password policies and procedures, and its password management controls lacked password constraints. To minimize security risks, auditors communicated details about these weaknesses directly to the Board's management.

The Board did not restrict access to its server room to authorized individuals, and it stored paper files and boxes in the server room, which is considered a fire hazard to the server. The Board also did not store back-up tapes in a locked and secure area.

The Board's disaster recovery plan did not contain an assessment of impact and magnitude of loss statement and did not identify recovery resources, as required by Title 1, Texas Administrative Code, Section 202.24. In addition, the plan did not establish a company or person from whom it could buy or obtain recovery resources. The Board also lacked documentation showing that it updated and tested the plan annually.

Recommendations

The Board should:

- Review and strengthen all IT policies and procedures to ensure that password policies comply with the Department of Information Resources regulations. Specifically, IT policies and procedures should address (1) setting appropriate access levels to user accounts, (2) changing and deleting user accounts, and (3) deleting accounts for inactivity.
- Improve the physical security of IT assets to ensure that (1) the appropriate personnel have access to the server room, (2) the server room is protected against fire hazards, and (3) back-up tapes are stored and locked in a secure area.
- Ensure that its disaster recovery plan contains all elements, as required by Title 1, Texas Administrative Code, Section 202.24.
- Test and update its disaster recovery plan at least annually, as required by Title 1, Texas Administrative Code, Section 202.24.

Management's Response

The BRB agrees with the findings but would like to emphasize that the agency's small size (9.5 FTE) and budgetary constraints prevent the hiring of a dedicated full-time information technology specialist. However, the agency does have an interagency contract with the Texas Public Finance Authority to draw upon the expertise of its Systems Support Specialist on an as-needed basis. The Executive Director is the designated information resources manager and the financial analyst in the private activity bond strategy assists in the day-to-day management of the network system in addition to his other duties.

Although the BRB has an IT policy in place, it will expand the written policies and procedures to strengthen password controls to maintain compliance with DIR regulations, to assure appropriate user account access levels and to specify actions for changing and deleting user accounts.

To improve the physical security of the server room, the BRB recently had the Texas Facilities Commission install a keyed door knob on the server room door. A work order is currently pending with the Texas Department of Public Safety to install the lock. When completed, the BRB will initiate an access policy to authorized individuals. The server room does house one five-drawer lateral file cabinet that contains stored paper files in four of the drawers; the fifth drawer contains laptop computers and other IT equipment. Due to lack of storage space and building fire code restrictions, this file cabinet cannot be moved to any other area of the BRB's offices. Every effort will be made to see that the file drawers containing the paper files are kept closed and that the general area is kept free from other fire hazards. Three of the four rotating back-up tape sets are kept onsite. The fourth set is stored offsite at the Texas State Library and Archives Commission and is rotated weekly. Once the server room lock is installed, all onsite tapes can be locked in the secured server room.

To comply with Title 1, Texas Administrative Code, Section 202.24, the agency will review its disaster recovery plan on an annual basis and make updates as needed, particularly regarding an assessment of the Impact and Magnitude of Loss Statement and the selection of a specific vendor or person from whom it can obtain recovery resources (although all DIR purchasing policies regarding authorized vendors are currently followed). The BRB will also document that it has annually updated and tested the disaster recovery plan.

The Executive Director, Risk Manager, Safety Officer and Financial Analyst (with IT responsibilities), in consultation with the contractual Systems Support Specialist will be responsible for implementation of the above recommendations not yet completed.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine whether the Bond Review Board (Board):

- Accurately reported selected key performance measures to the Automated Budget and Evaluation System of Texas (ABEST).
- Had adequate control systems in place over the collecting, calculating, and reporting of selected key performance measures.

Scope

The scope of this audit included the four key performance measures the Board reported for fiscal year 2008. Auditors reviewed controls over the collection, calculation, and submission of data used in reporting performance measures and traced performance measure documentation to the original source when available.

Methodology

The audit methodology consisted of selecting the four key performance measures. The Board completed questionnaires related to its performance measurement process to help identify preliminary control information.

Procedures and tests conducted included the following:

- Auditing measure calculations for accuracy and to ensure they were consistent with the methodology on which the Board and the Legislative Budget Board agreed.
- Analyzing data flow to evaluate whether proper controls were in place.
- Testing a sample of source documents, when available, to verify the accuracy of reported performance.
- Conducting a high-level review of all information systems that support the Board's performance measure data.
- Certifying performance measure results in one of four categories: (1) certified, (2) certified with qualifications, (3) inaccurate, and (4) factors prevented certification.

Criteria used included the following:

- *Guide to Performance Measure Management* (State Auditor's Office Report No. 06-329, August 2006).
- ABEST measure definitions.
- Title 1, Texas Administrative Code, Section 202.24.
- Board policies and procedures.

Project Information

Audit fieldwork was conducted from February 2009 through March 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- Cesar Saldivar, CGAP, CICA (Project Manager)
- John Boyd (Team Leader)
- Ishani Baxi
- Anton Dutchover
- Barrett Sundberg, MPA, CIA
- Leslie P. Ashton, CPA (Quality Control Reviewer)
- Nicole M. Guerrero, MBA, CIA, CGAP, CICA (Audit Manager)

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The Honorable Rene Oliveira, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Bond Review Board

The Honorable Susan Combs, Comptroller of Public Accounts
Mr. Bob Kline, Executive Director



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