An Audit Report on

Legislative Information Review of the Texas Department of Public Safety

Office of the State Auditor
Lawrence F. Alwin, CPA

October 1994

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Members of the Legislative Audit Committee:

We have reviewed the budgeting and monitoring control system, vehicle fleet management, and automation system development at the Department of Public Safety. This review indicated that:

- The Department should improve its budgeting and forecasting procedures. The Department's operating budget was $255,313,196 in fiscal year 1994.

- The Department has a system in place to ensure that the vehicle fleet is managed effectively.

- The methods used by the Department in planning and dedicating resources for automated system development need to be improved. The mainframe computer purchased in August 1994, costing approximately $4.2 million, was not budgeted.

- There will continue to be 50-100 vacant trooper positions at the Department even when the next academy graduates troopers in December. The Department loses approximately 40 troopers a year due to attrition.

This review was requested by Representative Keith Oakley, Chair, House Committee on Public Safety. We appreciate the courtesy and cooperation of management and staff during the course of this review.

Sincerely,

Lawrence F. Alwin

Lawrence F. Alwin, CPA
State Auditor

LFA/rmn/enclosure

Key Points of Report

Legislative Information Review of the Texas Department of Public Safety

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Key Facts And Findings

- The Department should improve its financial budgeting and forecasting procedures. The Department's operating budget was $255,313,196 in fiscal year 1994.
- The Department has a system in place to ensure that the vehicle fleet is managed effectively.
- The methods used by the Department in planning and dedicating resources for automated system development need to be improved. The mainframe computer purchased in August 1994, costing approximately $4.2 million, was not budgeted.
- There will continue to be 50-100 vacant trooper positions at the Department even when the next academy graduates troopers in December. The Department continues to lose approximately 40 troopers per year due to attrition.

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This legislative information review was conducted under the authority of Government Code, Sections 321.0131 and 321.0135, and was requested by Rep. Keith Oakley, Chair, House Committee on Public Safety.

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Section 1:

The Financial Budgeting, Forecasting, And Cost Accounting Procedures Used At The Department Need To Be Improved

The Department of Public Safety should improve its financial budgeting and forecasting procedures. The Department has a system in place now for determining its financial status. Monthly reports are prepared that delineate budgeted amounts and expenditures by division and budgetary elements within the divisions of the Department. Projections are made at the end of each month about the estimated budget surplus expected by the Department. We feel that the accuracy of fiscal requirements for the Department could be improved and that the method of allocating resources should be more formal and better documented.

Management's Response:

The department believes that any system in state government, including those systems used at DPS, can be improved. We are continually challenging our way of doing things and striving to improve our work methods. Over the last several years, we have developed a budget forecasting system to project anticipated year end balances. We created a new position of "Budget Analyst" to help monitor expenditures. Large budgetary units, such as Data Processing, have been divided into smaller budgetary units for better control. Recently, a large bureau in the Driver & Vehicle Records Division was divided into two sections, also for better budgetary control.

We agree that budgetary controls always need to be improved. We do have philosophical differences with the audit report on how these systems can be improved.

Section 1-A:

The Budgets For Certain Elements Within The Department's Operating Budget Do Not Reflect Fiscal Resource Requirements For The Year

Management of the Department establishes the budgets for the divisions, and budgetary elements within the divisions, at the level of appropriation. Management is aware that the level of funding necessary for the fiscal year for certain budgetary elements is insufficient. At the time of this review, the polygraph and data processing sections appeared to be insufficiently funded due to the purchase of a computer system.

Budgets that are known to be insufficient are maintained at those budgeted amounts until the element exhausts all of its budgeted funds. At that point in time, the division chief for the budgetary element will notify executive management verbally of the additional financial resources needed to continue operations for the next month or for the remainder of the fiscal year. Management then verbally surveys their respective divisions to identify where funds must be transferred to meet this fiscal need.

We believe that annual resource requirements should be assessed at the beginning of the fiscal year, or during the fiscal year when the need becomes evident, and included in the operating budget. Using this approach, the monthly budget and expenditure reports will more accurately reflect the expected surplus or deficit at the end of the fiscal year.

<u>*Management's Response*</u>:

The issue here is a philosophical one. At what point in time is a money transfer necessary to support an internal operating budget? The audit report accurately points out that the Polygraph Service budget is knowingly under funded at the beginning of each fiscal year. The mainframe computer caused the Data Processing budget to become under funded in fiscal year 1994.

Regarding the Polygraph Service budget mentioned in the audit report, we would point out that the department maintains approximately 175 internal operating budgets, of which Polygraph is one. The department has 6,293 budgeted positions and an annual budget of $255,313,196 (fiscal year 1994). The Polygraph Service budget has fifteen (15) positions with annual expenditures of $645,170, which is only .0025 percent of the overall department budget. Irregardless of when funds are transferred into the Polygraph Service budget, we do not believe that this budget has a significant impact on monthly budgetary control or on the forecasting of our annual anticipated surplus or deficit.

The mainframe computer purchase caused Data Processing to be under funded in fiscal year 1994. The issue seems to be at what point should the new mainframe computer be encumbered and funds transferred from other budgets to supplement the Data Processing budget. At the audit exit conference, State Auditor's Office personnel indicated that the mainframe computer should have been budgeted at the time "the need becomes evident" (September, 1993) or at the time adequate funds appeared to be available (May, 1994). In fact, the department encumbered funds for the computer in late August, 1994 when the purchase order was issued, just as we do when any purchase is made.

The audit report philosophy of budgeting "at the beginning of the fiscal year, or during the fiscal year when need becomes evident," will theoretically work. However, funds must come from other budgets. We believe that transferring up to $3.6 million from other budgets at the beginning of the year for a computer tends to penalize the law enforcement services until lapsed salary funds can restore these budget reductions. Transferring money from law enforcement services during the year tends to penalize the budget manager who saved money, changes the budget base he is trying to manage, and sends the message "spend it or lose it." The department chose the philosophy of allowing lapsed salary funds to accumulate in all budgets. Forecasts or projections were made monthly and monitored closely. The agency chose a conservative approach. We would not budget or purchase a computer until funding was absolutely available after all other spending obligations were met. Unforeseen contingencies were informally reserved, e.g., major hurricanes and Branch Davidian situations, which can consume millions of dollars. The Chief of Finance monitored lapsed salaries and projected expenditures on a monthly basis. Funds were certified to be available on or about August 1, 1994, only after we were 100 percent certain that the actual, not forecasted, unexpended cash balance would be available.

In summary, we believe we proceeded prudently, cautiously and conservatively to acquire a mainframe computer without additional appropriations from the legislature.

Section 1-B:

Using Current Procedures, the Fiscal Year End Budget Projections Are Not Accurate on the Budget Tracking Documents

In our meeting with management of the Department in September 1994, the Department estimated an unused budget surplus of between $4 and $6 million for fiscal year 1994. Information provided to us subsequently by the Department indicates that the actual unexpended balance was approximately $10 million after approximately $3.6 million was expended for the purchase of a new computer system. Payment of encumbrances after the fiscal year are estimated to lower the balance by approximately $3 million.

Although the Department places heavy reliance on verbal notification of the financial status of each division by their division chiefs, we believe that this methodology can and should be improved. The Department's monthly financial report should include the estimated cost of expenditures for each division for the year and the cost of major acquisitions identified by the division during the fiscal year. This would provide a more comprehensive and timely identification of potential financial problem areas within the Department as a whole, based on financial indicators.

Management's Response:

We disagree with this assessment. At the auditor's entrance conference we stated that, based on our forecasts, there would be between $4 to $6 million unexpended in fiscal year 1994. This still appears to be an accurate forecast as fiscal year 1994 expenses continue to be processed.

The audit report indicates that the "monthly financial report should include the cost of major acquisitions identified during the fiscal year." We disagree with the word "identified." We identified the need for a computer in September 1993. However, we did not "assume" that funding would be available. We proceeded through the year cautiously, making monthly "forecasts" which projected year end surpluses. The Chief of Finance verbally contacted major division chiefs each month to determine anticipated law enforcement needs. Funding was not certified available until all other obligations were met, possibilities of major contingencies decreased, and actual cash balances were available. Only then did the department encumber funds.

Section 1-C:

Cost Accounting Systems Are Not In Place Within The Department

Cost accounting systems are not in place to provide additional financial controls over operations; this is particularly true for data processing system projects. The Department produces no specific reports comparing budget to actual figures for user and data services personnel, capital expenditures, or recurring expenditures. Instead, verbal status reports are used to transmit information from the data processing project teams to management. The Department has not budgeted the total hours required for the development effort for specific data processing system projects.

The Department historically has not tracked or budgeted data processing or user personnel for specific system development efforts. Management has not required such data to be collected or reported to account for the cost of personnel in the development of particular information systems. Because this information is not available, it may impede the Department in effectively monitoring the performance of these data processing development projects.

We recommend that the Department budget hours for tasks, phases, and/or milestones and monitor the actual hours needed for completion. Additionally, the Department's project management procedures should more closely monitor the use of personnel, expenditures, project milestones, and produce regular written status reports for upper management.

Management's Response:

The audit report addresses cost accounting needs for data processing projects. Resources to implement a department wide cost accounting system are not currently available; therefore, we have not performed a detailed cost analysis of implementing such a system. Without the benefit of a detailed cost study, we would estimate the cost of establishing a cost accounting system for data processing to be a minimum of $132,000. We would estimate the cost of implementing a department wide cost accounting system to be no less than $400,000. The above cost estimates would include personnel, benefits, operating, and capital expenditures, including software. The estimated recurring costs are $65,000 for data processing cost accounting and $283,000 for department wide cost accounting.

Section 2:

The Department's Vehicle Fleet Is Managed Effectively

The Department has a system in place to ensure that the vehicle fleet is managed effectively. Specifically, vehicles are purchased in a manner that is economical to the State; vehicles are assigned to personnel required to travel as part of their duties; and the parts inventory is effectively managed.

Section 2-A:

Vehicles Are Purchased In A Manner That Is Economical To The State

The Department has a system to ensure that vehicles are purchased in manner that is economical to the State. Planning for replacement of vehicles is the responsibility of the applicable divisions. Based on past experience, the Department instituted a policy to replace their vehicles after 80,000 miles. At this mileage, it becomes economical to replace the vehicle. Each vehicle's mileage is monitored monthly.

The Department uses a bidding process to select vendors. As a result of buying in large quantities, vehicles are obtained at significantly lower prices. For example, a vehicle that is sold for $19,000 may be purchased for about $13,000 by the Department when purchased in large quantities.

Section 2-B:

According To Department Policy, Vehicles Are Assigned To Personnel Who Are Required To Travel As Part Of Their Duties

The Department instituted a policy to assign vehicles to all commissioned officers and some administrators. There are controls to ensure that the individuals' responsibilities require the assignment of vehicles. Before an assignment of a vehicle is made, the individual's job description is usually reviewed by the Chief of the division. To monitor the use of vehicles, each individual is required is fill out a mileage log sheet after each trip. This sheet is reviewed by the Chief of the division at least weekly. This ensures that vehicles are used solely for business purposes.

Section 2-C:
The Fleet Parts Inventory Is Effectively Managed

There has been an improvement in procedures used to manage fleet parts inventory since our audit in 1991. Vehicles used by the Department are customized and require special parts, often times communication accessories. Fleet operation shops coordinate their purchases to ensure that all the parts needed are ordered when vehicles are ordered. There is an automated inventory system in place to identify parts that are low. This helps to establish a reorder point for parts as well as to help determine the inventory cycle. The automated inventory system prepares inventory reports daily for review by the managers. As a result of the controls and improvements in parts tracking instituted by the Department, the dollar amount of parts inventory has been declining over the past two years.

Section 2-D:
The Lengthy Time Required For Vehicles To Be Sold Affects The Value Of The Assets

According to the Department, the time to sell a vehicle is approximately 150 days. This time lag can affect the assets of the Department in two ways: reduce the resale value of the vehicles and tie up the capital invested in those vehicles from being reapplied within the Department.

We recommend that the Department work with the General Services Commission and other agencies to identify methods to reduce this time lag.

Section 3:
The Department Should Improve Its Method For Planning And Employing Resources Dedicated To Automated System Development

The methods used in planning and dedicating resources for automated system development needs to be improved. Specifically, the system used to calculate central processing unit (CPU) utilization and requirements should be improved, projections made in the Biennial Operating Plan amendment do not appear to be accurate, and the computer purchase was not budgeted.

Section 3-A:
The System Used To Calculate CPU Utilization And Requirements Should Be Improved

One full-time person is used to monitor computer system performance. The Department uses several tools to project and monitor automated system utilization. However, results of the monitoring are not correlated with application resource requirement projections.

Internal documents of the Department indicate a need to replace its current computer in September 1993. During the period September 1993 through August 1994, the Department did not seek nor receive a capacity assessment from potential vendors or an independent source to determine the computing resource requirements for current and future applications. This information would have provided additional information to assess and validate the size and timing of a new computer system.

On September 21, 1994, the Department noted a utilization difference of approximately 20 percent from the previously calculated rate. This difference in utilization is a factor that has the potential of causing the current computer system accelerated performance degradation. After further investigation, the Department identified the source of the miscalculation as the oversight of an incorrect variable used to calculate total CPU utilization.

Management's Response:

The software that had variable change was installed in late 1993, after the estimations had been made for the Biennial Operating Plan. The estimations were accurate when they were made. Utilization estimates are made by application, for existing applications and applications under development.

The continuous monitoring of the system led to the discovery of the error and prevented degradation to the current system. Since the discovery was so recent, September 21, 1994, there has not been time to update the Biennial Operating Plan.

Section 3-B:

Projections Made In The Biennial Operating Plan Amendment May Not Be Correct

In August 1994, an amendment to the Biennial Operating Plan was submitted to the Department of Information Resources for approval. The amendment was approved. The amendment was initiated because a computer system upgrade or purchase was deemed necessary by the Department based upon projections made by software monitoring tools used to calculate CPU utilization. As stated above, in September 1994, it was noted that the variable used to calculate CPU utilization was incorrect. At the current time, the Department has not determined the impact of this error on previous projections made in the amendment or whether an upgrade will now be required during the next biennium. We were informed by the Department that their Request for Legislative Appropriations does not request an upgrade.

Management's Response:

It is possible that usage estimates for the new CPU have been effected by the discovery of the error on September 21. Since we are so close to installation of the new machine, scheduled for November 6, we prefer to base new estimates on the actual utilization data that will be available. This should make the estimates much more accurate. The Biennial Operating Plan will be updated as quickly as possible.

Section 3-C:

Major Automated System Purchases Should Be Budgeted Earlier And Biennial Operating Plans Amended Promptly

In August 1994, the Department ordered a new computer system that was estimated to cost $4.2 million, including maintenance costs. The money used to purchase the mainframe was obtained from lapsed salaries. Some of the lapsed salary funds stemmed from the effects of Senate Bill 81, the early retirement incentive bill.

Although the Department was aware as early as September 1993 of their intention to buy a new computer system, the procurement was not budgeted for. Additionally, it was not included in the Biennial Operating Plan submitted to the Department of Information Resources for approval. Sources of funds known or anticipated to be available and salaries were not encumbered. An amendment to the Biennial Operating Plan was not submitted to the Department of Information Resources until August 1994.

Management's Response:

This section is generally the same as Section 1-A. Refer to our detailed response in that section. To summarize a response to this section, we would restate our budget philosophy, regarding major purchases not appropriated.

1. Do not budget based on need alone.

2. Proceed slowly and allow funds to accumulate.

3. Plan on contingencies and do not over obligate based on forecasts or projections.

4. Do not encumber funds until they can be actually certified as being available.

This is the conservative path the department adopted before issuing a purchase order for the computer.

Section 4:

Vacant Trooper Positions Will Continue To Exist For The Foreseeable Future

In fiscal year 1994, 350 positions became vacant. The majority of these positions were as a result of the Senate Bill 81, the early retirement incentive bill. Of these vacant positions, 229 were commissioned officers and troopers. In June 1994, the Department graduated 129 troopers. The Department continues to lose troopers due to attrition, approximately 40 per year, and as a result has frozen promotions of troopers. Another trooper academy is scheduled to start in December 1994. The number of graduates of that academy is estimated to be 105 troopers. Even with these two academies, the Department will continue to be short of troopers. The accounting and budgeting division has hired employees, but vacancies remain.

The Department asserts that they have not run additional academies to meet their staffing needs because funds were not appropriated during fiscal year 1994 to run another academy. The Department estimates that the cost to run an academy class is approximately $1.5 million. Additionally, management feels that if they brought additional troopers into the Department, they would not have the funds to pay for them during fiscal year 1995.

Summary Of Management's Responses

The department maintains a budget control philosophy that differs with the philosophy in the audit report. We believe that both philosophies have strengths and weaknesses and we believe that both methods will work. The audit report takes the approach that each individual budget should reflect a positive balance. If a budget is under funded at the beginning of the year or overspent during the year, funds should be transferred in from other budgets.

The department prefers to control budgets at a much higher level. Each of the four major divisions are administered by a major division chief. This administrator is responsible for all the individual budgetary units under his command. The major division chief is accountable for the effective and efficient budget management of the overall division's operation. He also ensures that the overall bottom line expenditure does not exceed appropriated funds.

We see several weaknesses with the audit report approach. First, by transferring funds from other budgets, the manager, who is efficiently operating under budget is penalized and the manager who is over budget is rewarded. Second, a message is sent to all budget managers to spend as quickly as they can, otherwise they may lose their funding through transfer. The audit suggests that budget control should be at the individual budget level and all budgets should have positive balances at all times, i.e., no over spent budgets.

As the audit points out, the major division chief must also verbally contact the director's office and advise the Chief of Finance as to what budgets will have sufficient funds at year end to transfer into the budgets that are overspent. The Chief of Finance controls budgets at the four major division levels. We believe that this method works. Irregardless of the method used, there is no effect on forecasting or projecting the surplus or deficit at the major division level or the department level. Continual fluctuation in operating costs coupled with unpredictable events such as floods, hurricanes, civil disorders, etc. mandates caution before utilizing funds that may be available. As the year progresses, a more reliable projection can be made prior to authorizing an expenditure of a major magnitude.

Regarding the budgetary methods used to purchase the new computer, the department and audit report have the same basic difference in philosophy. The audit recommends that funds should have been transferred from other budgets when the "need" was recognized or at least to budget when funds were "anticipated" to be available. We chose to proceed on a more conservative path. We did not budget this major expenditure based on "need," nor did we budget based on "anticipated" funds available. We proceeded through the year prudently and cautiously, analyzing the build up of lapsed salary monies each month. We made monthly forecasts of year end surpluses, planned for major contingencies, accounted for expenditures after year end close and verbally consulted with the four major division chiefs each month. We did not certify funds available based on projections, in fact, we certified funds and made the purchase <u>only</u> when cash was actually available. We encumbered the funds in our accounting system only when a purchase order was issued, just as we do <u>all</u> purchases. The end result, accomplished by what we believe was sound budget management and meticulous analysis and forecasting, was that a major capital purchase was made without requesting additional appropriations from the legislature or curtailing any law enforcement or support function.

Objective, Scope, and Methodology

This review of the budgeting and monitoring control system, vehicle fleet management, and automation system development at the Department of Public Safety was requested by Representative Keith Oakley, Chair, House Public Safety Committee. The objective was to determine how the Department of Public Safety controls and monitors its resources. A review of management controls was included, with specific emphasis on budgeting controls and the monitoring system, vehicle fleet management, and automation system development.

During this review, we obtained an understanding of the Department's operations. We interviewed upper management, fiscal division, automated systems division, fleet management division, and other employees, as necessary. We reviewed policies and procedures relating to automated systems development, evaluated the efficiency of the fleet operations, and reviewed budgeting controls and the monitoring system.

The review was performed during September and October 1994 by the following members of the State Auditor's staff:

- Monday Rufus, CPA (Project Manager)
- Eddie Longoria
- Kenneth O. Dike
- Paul Garner, CSP (Audit Manager)
- Deborah Kerr, Ph.D. (Director)

Copies of this report have been distributed to the following:

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