Management Control Audit for the Commission for the Blind
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Key Points Of Report

A Management Control Auditof the Texas Commission for the Blind

October 1995

Key Facts And Findings

- The Texas Commission for the Blind furnishes blind and visually impaired Texans with information needed to make informed decisions and access to services which increase their opportunities for employment or self-sufficiency. With 556.11 full-time equivalent employees, the Commission served 23,494 consumers through various programs during fiscal year 1994. Total appropriations for the year were $39,060,851.
- Two agency oversight functions, the Board of Directors and internal audit, were not providing sufficient guidance in Commission policy and providing necessary feedback on its programs and operations.
- Although the Commission recognized the need to improve its automated information systems in its current Information Resources Strategic Plan, the Information Resources division still lacks sufficient experienced staff, management controls, and technology to effectively support the agency's programs and administrative needs.
- The purchasing and contract administration processes are not fully developed. Without established and documented benchmarks and performance standards, the agency does not have adequate means of evaluating its purchasing employees' and contractors' performance.
- Agency staff do not verify the approximately $14 million in sales from the Business Enterprise Program facilities and unmanned vending operations. As a result, there is a continued risk that BEP managers and vending machine companies will underreport the income from their predominantly cash businesses.

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

Executive Summary

The Texas Commission for the Blind generally has a system of management controls in place, and it is demonstrating fulfillment of its mission by providing blind and visually impaired Texans with employment opportunities, both externally and internally. However, management controls over the administrative and program functions at the Commission should be improved to ensure adequate agency oversight, effective management systems, and verification of program income. The Commission's two oversight functions, the Board of Directors and internal audit, are not providing sufficient guidance on agency policy, operations, and programs. The agencywide systems for managing resources, policy, and information need strengthening. Sales of over $14 million from the facilities and unmanned vending machines in the agency's Business Enterprise Program are not verified.

Agency Oversight Functions Are Weak

The Board and its committees did not meet between September 1994 and June 1995, a period of ten months. As a result, the Commission has not received sufficient feedback on executive decisions nor has it received ongoing reviews or discussions of agency policies and issues.

The internal audit plans for fiscal years 1994 and 1995 were not completed. When the number of completed internal audit projects and reports are minimal, important feedback about the Commission's programs and operations is diminished.

The Commission's Management Systems Need Improvement

The Commission's current systems for managing resources, policy, and information need strengthening to ensure achievement of agency goals and objectives.

The Information Resources division lacks sufficient experienced staff, adequate management controls, and efficient technology to effectively support the agency's programs and administrative needs. The Commission recognized the need to improve its automated information systems in its Information Resources Strategic Plan 1995-1999 and has begun to make some changes. However, many users' needs are still not being met.

The Commission has not developed processes to purchase consumer services and equipment, and monitor agency contracts. Without sufficient monitoring, management does not know if quality services are consistently being furnished to its consumers by vendors and service providers. Furthermore, management cannot determine the timeliness of the consumer equipment purchasing process when benchmarks for purchasing employees' performance do not exist.

The majority of the Commission's policy and procedure manuals are out-of-date and in need of revision. Without standardized, documented, and disseminated policies and procedures, management has no assurance that operations are consistent, conform to applicable legislation, and promote the achievement of its goals and objectives.

Information exists throughout the agency, but the process to collect, compile, evaluate, and communicate it has not been consistent.

Without the benefit of such a process, management risks making decisions based upon incomplete information.

The Commission does not budget by region for program operations. Instead, central office staff track expenditures by program to prepare a centralized statewide budget. As a result, regional directors do not make budget decisions and do not know if resources will last for the entire fiscal year.

To demonstrate fulfillment of its mission, the Commission has been aggressive in providing blind and visually impaired Texans with employment opportunities, both externally and internally. During fiscal year 1994, the Commission served 23,494 consumers through its various programs. As of February 1995, 78 blind or visually impaired individuals, which represents almost 14 percent of the entire workforce, were employed by the Commission.

Business Enterprise Program Staff Do Not Verify The Approximately $14 Million In Sales From Facilities And Unmanned Vending Operations

Agency staff do not ensure that the income from the Business Enterprise Program (BEP) cafeterias and snack bars, as well as unmanned vending machines, is being accurately reported or that sales taxes are being paid in a timely manner. Although an internal BEP task force stated that "present accountability controls and internal operating procedures by BEP operators as a group are insufficient to verify program revenues and expenditures" in 1982, the Commission never corrected the problem. Without controls in place to verify income, there is a continued risk that:

- BEP managers and vending machine companies may underreport the income from their predominantly cash businesses.
- The Commission may not be collecting all the set-aside fees which are owed to the BEP.
- Federal matching dollars may not be fully maximized if the Commission does not collect all the set-aside fees or vending income that it is owed.

Summary of Management's Responses

The Commission is proud of its record of outstanding success in the delivery of services to Texans who are blind and severely visually impaired. For over 20 years, the agency has been a national leader in its field. Developing new employment opportunities, using technology to enhance work skills and outlook, and implementing innovative staffing and service patterns to increase and improve the agency's response to Texas consumers are all characteristic of the Texas Commission for the Blind. We appreciate the audit team's recognition of the agency's success in fulfilling its mission by providing employment opportunities to persons who are blind or visually impaired both internally and externally. The agency wholeheartedly encourages and recruits applicants who are blind; however, the agency's primary mission is to help people get worthwhile employment in the larger world.

We take issue with several of the auditor's findings and recommendations. Some of the recommendations will be implemented and helpful. Two recommendations cannot be useful in our work to help people who are blind become employed and productively engaged in Texas.

Summary of Audit Objective and Scope

The objective of this audit was to evaluate the existing management control systems within the Texas Commission for the Blind and to identify strengths and opportunities for improvement.

The scope of the audit included consideration of the Commission's:

- oversight functions
- automated information systems
- purchasing and contracting process
- information management systems
- budgeting process
- human resource management
- income monitoring process of the Business Enterprise Program

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Section 1:
Agency Oversight Functions Are Weak

The Commission has not received the full benefit of two important oversight functions, the Board of Directors and internal audit. The Board did not meet during fiscal year 1995 until June. The internal audit function did not complete its audit plans during fiscal years 1994 and 1995. These oversight functions are needed to guide Commission policy and provide valuable feedback on its programs and operations.

Section 1-A:
The Board Did Not Meet until the Last Quarter of the 1995 Fiscal Year

The Board is not in compliance with its own policies to meet quarterly and have regular committee meetings. Neither the Board nor its committees held a scheduled meeting from September 1994 until June 1995. The Board's annual appointment of the executive director did not occur until the last quarter of fiscal year 1995. Interviews with board members revealed that internal differences of opinion over several issues resulted in the decision not to schedule a meeting until June 28, 1995.

The Board's policy manual states the four dates of the year on which the Board will meet, noting that a two-thirds vote of the membership is required to change the dates. Adopted agency regulations require the Board to meet at least once during a fiscal year. In the absence of regular board meetings, the Commission's program policies and operations were not discussed in an open forum. Recent audit reports had not been discussed, and a list of program and policy items awaited board discussion and approval. This list included policies such as:

- the annual evaluations of the executive director and internal auditor
- an internal ethics policy
- "order of selection" for the Blind and Visually Impaired Children's Program
- hiring guidelines for certain staff
- informing consumers about board meetings

Until the last quarter of the 1995 fiscal year, the Board did not provide evaluation of and feedback on executive decisions; there was no formal review or discussion about Commission policies and issues. Communication with board members was accomplished through quarterly reports and other updates from the executive director. The executive director, who has led the agency for nine years, was not officially reappointed by the Board until June 30, 1995, for the remainder of the year and for fiscal year 1996. Both adopted agency regulations and board policy obligate the Board to annually appoint an executive director. As a result, executive decisions made without board oversight and consensus risked the appearance of being made on a personal or political basis.

Prior to June, the board committees which normally meet before the regularly scheduled board meetings had not convened since August 1994. The Board has five committees: Audit, Policy, Finance and Legislative, Business Enterprise Program, and Public Relations. (See Appendix 2.5.) The Internal Audit section of the Board's policy manual states that "deviations from the audit plan shall be documented and reported to the Audit Committee." Due to project additions and extensions, the director of internal audit completed the revisions of the biennial audit plan in January 1995. However, the Audit Committee had not formally reviewed or approved the revised audit plan because the full committee did not meet until the last quarter of 1995. Without the opportunity to meet and brief Audit Committee members about audit plan changes and results, the internal audit function loses a source of support for its efforts and recommendations to agency management. The internal audit director and the Audit Committee chair did maintain lines of communication during the interim period.

Recommendations:

- The Board of Directors should follow its policies and meet on a regular basis.
- The Audit Committee of the Board should provide direction and guidance to internal audit concerning audit plan revisions.

Management's Response:

Historically, the Board and its committees have met on a regular basis throughout the year. It is clear that the situation resulting in the Board not meeting from mid-August 1994 until the end of June 1995 was an anomalous situation not likely to be repeated, and the Board has every intention of meeting as regularly as it has always done. The Board recognizes the importance of its oversight responsibility and is committed to holding meetings on a regular basis.

Additionally, while the Audit Committee did not conduct a scheduled meeting during this period of time, the Audit Committee Chairman did maintain regular contact with the Internal Audit Director. The Audit Committee recognizes the importance of its oversight responsibility for the Internal Audit function. The Committee is committed to meeting with the Internal Audit Director on a regular basis to provide direction and guidance concerning audit activities and audit plan revisions.

Section 1-B:

Internal Audit Is Not Providing Adequate Review of Commission Operations

The internal audit division did not complete the audits planned for fiscal year 1994 and as of June 1995, 64 percent of planned audits for fiscal year 1995 were not completed. For those projects that are completed, reports are not produced in a timely manner. Additionally, a survey of internal audit report users indicated that 81 percent of the respondents considered internal audit as being “less successful” to “average” in providing timely reports.

Internal audit has been and continues to be diverted from its audit plans by requests to perform special projects for executive and program management. Special projects include compliance reviews, investigations, technical assistance, reviews of other divisions’ manual updates, and assistance with the consumer satisfaction survey and Information Services Steering Committee. (See Section 2-A.) These special projects are added to the audit plan and delay the scheduled audit projects. For the audit staff, special project work amounted to 38 percent of its total audit hours in fiscal year 1994 and 40 percent of total audit hours in the first two quarters of fiscal year 1995. One auditor spends some of his time completing special requests from program managers to retrieve and analyze data because the Commission lacks sufficient staff with this expertise. A review of the hours charged by the auditor to data retrieval and analysis projects revealed that in fiscal year 1994, almost 15 percent of his audit hours were devoted to such projects. During the first half of fiscal year 1995, over 18 percent of his audit hours were devoted to these project requests.

A May 1994 Quality Assurance Review (a peer review conducted by auditors external to the agency) of the internal audit function reported that the scope of internal audit work did not allow for an overall evaluation of the quality of agency performance. It further noted that periods of six and one-half to eight months elapsed between the completion of fieldwork and the issuance of the final report for three compliance audits. This was considered “extraordinarily long.” Internal audit has issued four audit reports since this peer review report. The time elapsed between the end of fieldwork and final report publication was from two to four months.

When the number of completed internal audit projects and reports is decreased, feedback about the Commission’s programs and operations is diminished. Audit reports cannot be produced in a timely manner when the auditors’ attention is continually diverted to special projects, including projects which would traditionally be outside their scope of work. Furthermore, internal audit risks the loss of independence when auditors perform projects in programs or divisions which they may audit in the future.

Recommendations:

- To maintain internal audit's independence, the Commission should re-evaluate the role of internal audit in relation to the special projects completed for other divisions and executive management.

- The Audit Committee and executive management should ensure that adequate resources are allocated to internal audit to support the scope of their work.

- Internal audit should set timely reporting as a top priority.

Management's Response:

As stated in the report, Internal Audit had completed only 64% of its planned reviews through June of SFY 95. This however, does not in and of itself, indicate that the Commission is therefore not receiving an "adequate" review of operations. Some projects conducted in SFY 95, such as the BEP Operational Audit, required more audit effort than expected. In this case, a comprehensive review was conducted, covering multiple agency functions.

Agency management and the Commission continue to believe that special projects and similar assignments are an essential element of Internal Audit's contribution to the agency. Future audit plans developed will continue to include Internal Audit's key role in this area of internal control, based on the resources available.

Internal Audit has focused attention on special projects at the direction of the board, executive management, and program management. The Commission views Internal Audit as its "eyes and ears" and has chosen to focus this resource on reviews of agency operations of immediate and particular interest. Management and Internal Audit are exploring options for additional support to audit BEP activities.

Internal Audit staff, agency management, and the board have addressed the timeliness of reports in establishing a procedure covering audit communications. This procedure, developed after the Quality Assurance Review with management, allows 45 days to respond to draft reports. This accounted for approximately half the interval between the end of field work and the final report in SFY 95. There was a 100% improvement in the timeliness of reports from SFY 93 to SFY 95. Internal Audit will continue its efforts to improve the timeliness of reports and completion of projects.

The Commission’s Management Systems Need Improvement

The Commission’s current systems for managing resources, policy, and information need strengthening to ensure achievement of agency goals and objectives. The automated information infrastructure cannot meet its users’ technological needs. The processes to purchase consumer services and equipment are not fully developed. Most policies and procedures are outdated. Management information is spread throughout the agency but it is not efficiently gathered and evaluated. The centralized budget process is developed by program instead of using regional expenditure data. The current employee evaluation system needs improvement.

Section 2-A:

Automated Information Systems Are Inadequate

The Commission’s Information Resources division lacks sufficient experienced staff, adequate management controls, and efficient technology to effectively support the agency’s programs and administrative needs. For the past several years, executive management focused its fiscal resources on providing direct client services as opposed to funding the automated information systems infrastructure. Some of the division’s most experienced personnel have left the agency in the last few years. In addition, there have been few processes in place to ensure that the Commission’s automated environment and applications were being comprehensively developed, maintained, and protected for use internally, as well as between agencies. Several of these issues have been identified by the agency in its Information Resources Strategic Plan 1995-1999 (IRSP).

Division planning has not been adequate. The Information Resources division has not done sufficient contingency planning. Historically, the agency’s planning for information systems has been driven by federal reporting requirements and legislative demands. A formal system development life cycle or some other kind of system development process for determining needs, planning the systems to meet those needs, and monitoring the system to ensure achievement of planned benchmarks and adherence to policies and procedures did not exist during the Fourth Generation Programming project. Without such processes in place, the Commission risks developing and maintaining systems and policies that are not cost efficient and which are incompatible with future needs.

For example, Phase II of the Fourth Generation Programming project was inefficiently planned. Although recently completed, the programming project began in November 1988 with a re-design module. The Phase I module was implemented in October 1992, and the Phase II module was implemented in August 1994. The estimated cost of this project was $804,338 in 1988. According to the agency’s 1991 Final Operating Plan for Information Resources Management, the project was expected to cost approximately $717,802 through fiscal year 1993. However, in 1992 the project was extended, and a contract for external resources was added which increased the estimated cost to $1,444,658 in 1993.

The Commission recently formed the Information Services Advisory Committee (ISAC) to support the Information Services Steering Committee (ISSC) in its planning and directing of the agency's automation resources. Membership on the ISAC represents all agency users of automated information resources. Its responsibilities include identifying information resource development projects, technical review and recommendation to the ISSC regarding proposed automated information systems or system maintenance, and making recommendations to the ISSC on standard purchased agency software. These committees were addressed in the Information Resources Strategic Plan that includes upgrading the communication ability of the field offices, creating an executive information system, and establishing a client server based application system.

Key personnel in the Information Resources division have left the agency. The division recently lost a senior-level programmer who represented over 16 years of agency analytical skills. From fiscal years 1992 through 1994, the division lost three staff members, who had more than 40 years of combined programming and mainframe experience. During this same time period, significant agency programming resources were required for the Uniform Statewide Accounting System (USAS), the Uniform Statewide Personnel/Payroll system (USPS), and the State Property Accounting System (SPA), as well as the conversion from COBOL to LINC II. This created an undue workload for agency staff. The lost agency programming skill is difficult to replace because LINC II (the fourth generation programming language) is a Unisys proprietary language, which means newly hired programmers who come to the agency require extensive LINC II training.

There is a backlog of software programming work orders for maintenance and enhancements. Although the Commission recently established the Information Services Steering Committee, whose responsibilities include prioritizing development and maintenance work orders, the Information Resources division still has a backlog of over 65 work orders. It is unknown how long it will take the programming staff to complete these requests. The Committee does not have a documented methodology for determining priority of work orders. However, the Committee objectively considers federal and state reporting issues, programs of priority to service delivery staff, and resolution of fiscal reports during its selection of priorities. Work order prioritization is done without consideration of the hours and dollars each work order will require. In addition, assignment of high-priority work orders depends on the skill level of staff available which sometimes causes a work order to be completed out of priority order.

Users' needs and expectations are not being met. For example, the agency does not have the programming support to fully implement its A-1 Service Delivery initiative, which allows consumers to be served earlier in the rehabilitation process and emphasizes independent living for consumers. Information is available to monitor the effect of the project to the extent it has been implemented. However, the request is currently part of the backlog of work orders that the Information Resources division is unable to complete.

Regional offices have lacked sufficient hardware, software, and automated support. The agency does not require counselors to have computers. Some counselors, who have personal computers, have not been trained to use the standard word processing or spreadsheet programs. As a result, rehabilitation assistants spend much of their time entering handwritten material provided by the counselors into computers. Providing access to personal computers and appropriate training to all counselors would enable the rehabilitation assistants to focus on other job responsibilities.

Until recently, the approximately 400 agencywide personal computers were supported by only one person located in the central office. Historically, support for personal computers has been minimal, and regional staff often had to wait several days for assistance. However, the agency's personal computer support has recently been consolidated under the Information Resources division. This unit will support software and hardware upgrades, and actual repairs may be contracted out by the local office to ensure a faster turnaround. Additionally, a second level support group was established in December 1994 to assist regional staff.

The Commission does not have an approved and published disaster recovery plan. The Disaster Recovery Plan has been in draft format since 1991. Although the Department of Information Resources requires all state agencies to have implemented and tested their plans by September 1995, the Commission does not have sufficient personnel to test the plan, nor does the Commission have a written agreement with any agency for equipment sharing in case of a disaster. As a result, the Commission's hardware, software, and operations are vulnerable.

The Information Resources division has not been reviewed by internal audit. An internal audit of the Information Resources division as a whole has never been performed, although limited reviews of some EDP functions have occurred. An Information Resources audit was assigned on February 27, 1995, with an expected draft report date of May 1, 1995. As of May 1, the audit had not begun, and the audit plan had not been written. Internal audit is responsible for conducting independent analyses and reviews of an agency's operations and making recommendations for areas needing improvement. Without an internal review, the Information Resources division is losing an objective resource that can determine if its users' needs are being met.

Recommendations:

The Commission should continue developing and implementing a more thorough planning process that:

- identifies hardware and software needs in relation to the information needs of all parts of the organization (management, administration, central office, and regional programs)
- monitors, tests, and evaluates automation systems

- includes an objective assessment and prioritization of users' needs (work order backlog management)
- contains comprehensive plans for disaster recovery

Management should take steps to ensure that sufficient human resources with appropriate technical skills are available to support the automation needs of all parts of the organization.

Internal audit should plan, conduct, and complete a comprehensive review of the Information Resources division by the end of fiscal year 1996.

Management's Response:

The Commission's information systems are adequate for the timely and accurate reporting of financial, consumer, and management information required for all state and federal reports. However, the agency agrees with the audit team that new technology, both hardware and software, has not been brought on-line at a pace similar to many other agencies. As a result, improvements in management updates, automated support systems, and enhanced end-user tools are deficient as compared to those agencies that have stayed up to date with current technology. As the SAO acknowledged, the Commission has emphasized consumer services before agency technology and other administrative support activities.

The Commission has attempted to comply with the two significant forces driving automation in health and human services. First, increasingly conservative instructions from the legislature have reduced administrative staff and resources. Second, the complexity of automated resources and the networks within health and human services have limited the direction required to make wise purchases in a conservative and cost-conscious climate.

Nevertheless, last year the Commission purchased a larger and faster mainframe computer, installed a local area network in its central office, and began planning a wide area network for statewide implementation in 1996.

Planning for Information Resources has not thoroughly involved all units within the Commission. Recognizing this deficiency, the Commission, in the fall of last year, implemented extensive changes to incorporate all agency managers and information users into long-term planning for agency information resources needs. The Commission has developed a more thorough planning process that now includes input from all agency information resources users. The DIR strategic plan was developed using this planning process and represented the first time that Commission management and staff both had formal input to the planning process.

Planning for individual projects developed during the past few years has been extensive and has used accepted practices. One of the largest recent programming projects was the conversion of the accounting system to the Uniform Statewide Accounting System (USAS). This project was managed by using Superproject *developed by Computer Associates. Gantt and PERT charts were created and time lines were monitored by the programming supervisor. This project was on time and without incident.*

A similar project, the implementation of the Uniform Statewide Payroll System (USPS), could not benefit from such planning because the time lines established for the project were imposed on the Commission and did not allow for adequate agency planning. Both of these projects required extensive amounts of agency resources. Additionally, many of the Commission's planned projects were delayed due to modifications required to tie these systems to the agency's internal accounting system.

The planning process for information resources projects will be enhanced by increasing the use of project management software. Information Resources management will evaluate various automated tools in order to select one that will provide the necessary project planning and management.

The Commission has strived to comply with legislative direction and intent to continually reduce administrative costs. To comply, while at the same time increasing the use of technology necessary to provide more efficient service delivery, has required the Commission to make some difficult choices in the use of resources.

Maintaining sufficient personnel to support information technology as its use expands throughout the agency was compounded by the loss of several key personnel. Some of the turnover was in response to the Commission's reorganization and redirection of the department to improve its responsiveness to management and system users. Commission management is currently evaluating the human resources needs of Information Resources. However, recent legislative actions have restricted both staff growth and salary budgets, making increases in Information Resources staffing difficult.

During the past year, the programming and analysis unit of Information Resources has completed 528 software programming work orders. As of June 30, there were 52 work orders to be completed. This backlog is a significant improvement since the beginning of the year. We anticipate that there will always be a list of projects that need to be worked, as normally occurs in information resources departments.

Regional offices have sufficient hardware, software, and automated support to accurately document services and expenditure data. Recognizing the need to improve desktop PC functionality, the Commission developed and filed with DIR a strategic plan to implement a wide area network. Automated management information and service delivery support systems will enhance service delivery.

Training and support of personal computer operations has been available for all agency staff. However, the Commission recognizes the need for expanding these activities and has included this component as part of the agency's strategic plan.

The Commission does not have an approved and published disaster recovery plan. Arrangements had been made with an agency using compatible hardware and software; however, these plans fell through when that agency changed its direction. The Commission is currently negotiating with another state agency using similar hardware to do processing in a disaster recovery. A memorandum of understanding will be implemented when the negotiations are finalized. This plan should be completed and in the testing phase by August 1996.

Internal Audit has initiated an Information Resources Productivity Audit for completion in early FY 96. In addition, an Information Resources Operational Review of General Controls is scheduled for later in FY 96.

Section 2-B:

Processes to Purchase and Monitor Consumer Services and Equipment Are Not Fully Developed

The Commission has not fully developed and consistently implemented agencywide systems to measure performance of the purchasing and contract administration processes. The Purchasing division has not established benchmarks for evaluating employees' performance. The contracting process lacks essential contract provisions and adequate monitoring tools. As a result, management does not know if it is achieving its desired outcomes of these processes.

The purchasing process does not contain benchmarks, nor is it timely. The Purchasing division has not developed benchmarks for assessing purchasing employees' performance. For example, management has not analyzed and documented what error rates in the processing of requisitions it is willing to accept. Our test of 100 requisitions revealed that it took employees (on average) between 18 and 24 working days from requisition preparation date to order date. However, the division does not have documented standards to determine if these timeframes are reasonable. Without performance benchmarks for purchasing procedures, management lacks the ability to determine the timeliness of the consumer equipment purchasing process.

In addition, the regional counselors' authority to requisition consumer equipment items under $5,000 is not utilized. All requisitions for this adaptive equipment flow through the Purchasing division staff in central office even though the Commission has contracts with the vendors. By requiring the requisitions for this consumer equipment to be handled centrally, not regionally, additional time is added to the purchasing process. As a result, consumers' receipt of their adaptive equipment is delayed.

Contracts do not contain essential provisions and are not being adequately monitored. Essential contract provisions, such as performance standards, modification clauses, and reimbursement of unallowable expenditures, are not consistently contained in agency contracts. For example, none of the contracts reviewed for the various types of contractors (technology trainers, subrecipients, vendors) contained written performance standards and workload measures. Evaluating performance of contractors is done primarily through feedback received from consumers receiving the equipment or service. Modification provisions are not included in the technology trainer contracts. However, subrecipient and vendor contracts allow for modification of contract terms. Additionally, provisions requiring the contractor to reimburse the agency for unallowable expenditures are not included in the contracts with vendors and technology trainers.

Other provisions, such as specific financial reporting requirements or reviews of financial controls once the agency has expended $25,000 or more on a contractor, are also not included in all contracts. Financial monitoring is not consistently performed over subrecipients. This type of monitoring is performed to determine if sound financial controls are in place with the contractor and to ensure that the contractor spends funds appropriately. In our testing of subrecipient contracts, we determined that nine contracts were in excess of $25,000 and required submission of an independent audit report. Only four subrecipients submitted the audit reports. In its *1994 Financial and Compliance Audit Results* report, the State Auditor recommended that the Commission implement a subrecipient monitoring system in accordance with federal regulations.

A 1992 review of equipment purchasing by the internal auditor recommended that performance measures or benchmarks be developed to allow management to monitor the efficiency and effectiveness of all significant purchasing processes (including those performed outside the Purchasing division). However, this recommendation was never implemented. Without outlined and documented performance standards in its contracts, the agency does not have any means of evaluating the contractor's performance.

Recommendations:

The Commission should review and evaluate the individual components of the purchasing process. This will enable management to develop and consistently implement performance monitoring systems and benchmarks that the agency can use to measure internal performance, as well as external performance of contractors. The information generated through the monitoring systems should be used to ensure improvement of the services and equipment being provided to consumers.

To improve the timeliness in which consumers receive their equipment, the Commission should consider distributing contractor lists and pre-numbered requisitions to the administrative technicians in the regions. All contracts the Commission has entered into with vendors for purchases of services and equipment/supplies would be included on the list, which should be updated as contracts are renewed, terminated, or entered into by the Commission.

Since counselors have signature authority on consumer requisitions up to $5,000, they would be able to prepare the requisition and order the goods from a vendor on the approved contractor list on purchases of $5,000 or less. For purchases of items for which there is no existing contract, the requisition paperwork would be required to be submitted to the Purchasing division for processing. However, using the pre-numbered requisition would facilitate tracking the status of the purchase.

The contract administration process should also be reviewed to assess which phases (procurement, management, and management oversight) are not fully developed. Development of these phases should be completed and implemented to address the current deficiencies. Specifically, management should review the phases concerning development of documented performance standards or measures and monitoring of contractors (performance and financial).

Management's Response:

An agency re-engineering task force is currently reviewing the purchasing process. Measures of performance are used extensively in the Purchasing Department. Monthly reports from the Automated Purchasing System give the average turn-around time for significant purchasing processes. Purchasers also produce a monthly report detailing their activities. These reports are used to evaluate purchasing performance and increase efficiency. Given the available resources and staff, current purchasing processes are timely.

The timeliness in which consumers receive their equipment depends on several separate activities. Using work performed by the SAO and followed up by the agency's Internal Audit staff, we determined that the major delays occurred in the evaluation of the consumers and in the installation of the equipment, not in activities performed by Purchasing. A follow-up review of the process of evaluating, purchasing, and installing consumer equipment is underway.

The audit recommendation to purchase consumer equipment at the regional level will be studied in detail by the re-engineering task force mentioned in paragraph one. Some of the concerns we will evaluate are:

- *GSC maintains over 200 statewide term contracts on more than 110,000 items available from an estimated 1,130 vendors. These contracts are only one of the available purchasing methods.*

- *Staying current with contracts, vendors, and products is a difficult full-time job for purchasers. How we will transmit this information to personnel across the state is critical.*

- *Shifting major purchasing functions to the field will impose additional burdens for which they are neither trained nor staffed to handle. Resolving freight claims, invoicing problems, etc., can be complex and require time to resolve.*

- *Since purchasing duties would be a "sideline" for field staff, consumer requisitions may actually end up taking longer to process or would require significant increases in staffing.*

The Commission does exercise extensive control over its contracting process. Potential technology trainers are thoroughly interviewed and tested for proficiency. Contractor performance is reviewed through feedback from the consumers. Contractors are not paid if they do not provide satisfactory services.

The Commission is forming a taskforce to review the contract administration process. The contract administration taskforce will review all phases of contract administration with an emphasis on developing documented performance measures or standards and on improving the financial and performance monitoring of contractors.

As the SAO reported, only 4 of the 9 grant subrecipients required to submit audit reports had done so. The Commission subsequently requested audit reports from all subrecipients. We have received the requested reports and are now in the process of conducting appropriate reviews. We will review and improve the subrecipient monitoring system in accordance with federal regulations.

Section 2-C:

Administrative Policies and Procedures Are Not Promptly and Consistently Updated

Several agency policy and procedure manuals are out of date and in need of revision. One program area, Business Enterprise Program (BEP), has not had a manual for its staff until recently. During the Commission's reorganization in 1994, an agency planning and policy division was developed. This new division's responsibilities include policy and rules coordination, in addition to its strategic planning, public information and consumer affairs coordination, and technical writing. However, the Policy and Rules Coordinator is only responsible for public policy. The agency policy and rules were previously coordinated from the executive director's office, on a part-time basis. Without documented, current policies and procedures, the Commission loses an effective tool for decision-making, problem-solving, and standardization of operations

The current Personnel Manual was extensively revised in 1987. While the manual was complete at that time, several sections are now out of date because of changes in the law. For example, the Commission's maternity leave policy has not been updated to comply with the federal Family and Medical Leave Act. Other areas, such as AIDS awareness and sexual harassment, are not addressed in the manual. The deferred compensation section only addresses one of two plans available to state employees. Currently, this manual is in the process of being revised; however, a date has not been set for completion.

The Commission is also updating several other manuals. The 1982 version of the Administrative Procedures Manual is currently being revised. Procedures in this manual provide guidelines to employees about agency standards such as travel vouchers, payroll, and personnel actions. Accounting procedures need to be updated to reflect conversion from the Financial Accounting and Control for Texas System (FACTS) to USAS and from COBOL to LINC II. The 1987 Independent Living Manual is being revised. The policies and procedures in the 1991 Data Processing Division Standards Manual need to be formally updated. The BEP Manual of Operations, a guide for blind managers, was revised in 1993. However, the manual has not been revised to reflect new policies and procedures that have been issued since that time.

As of March 1995, a policy and procedures manual for the supervising business consultants was still in development. Business consultants are program staff located throughout the State who are responsible for supervising the more than 121 blind cafeteria and snack bar managers. These consultants monitor the managers to ensure compliance with the federal and state regulations governing the program. The risk of operational inconsistencies is high when no standardized and documented policies and procedures exist. Procedures for monitoring and assisting the BEP managers have varied throughout the State because there have not been written guidelines for the staff to follow. This manual was distributed in June 1995.

Recommendations:

The Commission should formalize processes for documenting, monitoring, and updating policies and procedures within the management and personnel areas. These processes should include:

- assignment of responsibility for documenting policies, procedures, and updates to specific staff within each area
- benchmarks in functional areas--measurements of performance such as number of days for completion of a process phase
- communication of policies and procedures to all staff involved in the process or program area
- monitoring, reviewing, and adjusting policies and procedures on a regular basis

The Commission should continue to develop, revise and transmit policies and procedures within the programs area.

Management's Response:

The agency will formalize processes for documenting, monitoring, and updating policies and procedures within the management and personnel areas including:

- *Responsibility for documenting policies, procedures, and updates will be assigned to staff in each administrative area by November 1, 1995.*
- *A system to designate specific monitoring, review, and adjustment practices for policies and procedures will be designed and implemented by January 1, 1996.*

Benchmarks should not be established in functional areas as part of administrative policy or procedure. Rather, the Commission believes that benchmarks, e.g., goals, are better established and more useful as management tools if included in a comprehensive performance evaluation system. As noted later in the response, the Commission is committed to continuing its work on an improved evaluation system. However, we do not agree with the finding as written. We agree that certain manuals need updating; however, the report overstates the severity of the situation.

The administrative policy and procedure manuals are currently in various stages of revision. The Commission will continue to develop, revise, and transmit policies and procedures within programs. The policy and procedures manual for supervising business consultants of the Business Enterprises Program (BEP) was completed in June as noted by the audit. The BEP Manual of Operations is less than two years old. The Commission is also working with other states in the federal region to complete a uniform BEP manual.

A revision of the Administrative Procedures Manual has been completed and is awaiting final approval by the Executive Director. Work on an updated Personnel Manual continues. Only one of the manuals cited, the Data Processing Division Standards Manual, may require substantial work which was not underway before the audit began.

Maintaining administrative manuals has become more difficult as limitations in staffing levels cut into the agency's administrative workforce. The Commission for the Blind has added direct service delivery staff to enhance customer service rather than increase the number of administrative employees. One result has been that the day-to-day management workload has grown in proportion to the increase in the number of Texans who are blind and served by the agency. Continuing to deliver the same level of administrative support to program staff has limited the ability to update manuals. However, as demonstrated by the fact that substantial revisions to key manuals have been underway for most of a year, the agency recognizes the need and will continue its commitment.

Section 2-D:

Some Agencywide Information Is Not Systematically Collected, Compiled, and Communicated

Information exists throughout the agency, but has not been easily accessible or actively monitored to ensure regular analysis and timely communication for determining potential effects on regional planning and staffing needs. Management has to manually retrieve information from various divisions in the agency or retrieve it from the agency's mainframe. Performing data comparisons between regions related to ratios of consumers served to estimated blind and visually impaired population, average counselor caseloads, or ratios of administrative staff to counselors can be cumbersome.

A process to identify, retrieve, organize, and evaluate demographic information is essential to effective management of information. Without the benefit of this process in place, management risks making decisions based upon incomplete information.

The Commission recently acquired a new geographic information system software package and is in the process of making it production-ready. This software will enhance planning and ease caseload balancing by enabling management to identify where the potential blind population exists and organize this data by county. Additionally, acquisition of a new mainframe computer, UNIX computer, and installation of a Local Area Network (LAN) were all made within the past year. These improvements in hardware were required to enhance the operation and expand the scope of the information collection and distribution system. These improvements were recognized as essential for the Commission to have interagency communication and information sharing.

Recommendations:

The Commission should continue to develop its process of identifying, collecting, compiling, analyzing, and communicating various planning data for ongoing effective management of information.

Management's Response:

The Commission will continue to develop its process of identifying, collecting, compiling, analyzing, and communicating various planning data. Certainly, the agency can improve the availability and use of information by all staff. As discussed with the audit team during their work, numerous opportunities exist for enhancing the performance of all the Commission's staff through better, more complete, and targeted use of technology. We appreciate the auditor's recognition of the agency's commitment as demonstrated through the acquisition and efforts to implement a geographical information system.

Over the last decade, when technological revolutions occurred almost monthly, the agency felt obliged to behave conservatively in the information resources area. It listened as members of the legislature challenged state agencies to retain "outdated" technology and to resist the urge to buy the latest device to stay up with the pack. We do not think the report adequately considers the environment in which the agency has worked.

The agency routinely uses a host of demographic data from a variety of sources to manage its programs and evaluate its staff. Consideration is always given to historical performance and consumer distribution statistics when managers prepare budgets, evaluate staff, or propose adjustments to staffing patterns.

We will use the GIS program to portray the actual consumer population in areas of the state based upon the agency's historical data. Use of a geographical representation of the actual database will help management and planners understand actual service delivery patterns to ask better questions of the data. Data on the consumers served will be available to the zip code level. Population estimates will only be available at the county level due to limitations in census data available to the Commission.

Section 2-E:

Management Does Not Budget by Region

The Commission does not have regional budgets for program and administrative operations. Instead, each agency program has a centralized statewide budget which is monitored by the budget director and program management in the central office. Central office staff prepare several monthly reports to track expenditure of program funds. During the following month, regional directors receive these reports which provide statewide budget and expenditures for each program. However, the regional directors do not use the information contained in the reports for decision-making, resource allocation, or regional planning purposes.

It is more difficult to hold regional directors accountable for regional program performance when agency programs are not budgeted regionally. Budgets are a valuable planning tool. Regional budgets would provide regional directors with the necessary planning information to allocate resources for consumer services and equipment based on identified needs.

Regional directors do not know if program funds will last the full year. When central office staff determine that a program's expenditures statewide may potentially exceed the annual budgeted amount, instructions are issued to the regions to ration consumer services. Regional staff must then delay some consumer expenditures, such as evaluations, training, medical services, or adaptive equipment, until the beginning of the next fiscal year. These delays force some consumers to experience a longer waiting period than they would have earlier in the budget cycle.

Historically, some agency staff have opposed budgeting on a regional basis. They feared budgets would be a deterrent in providing all necessary services and equipment to consumers. During our audit, agency management formed a task force to develop regional budgets. The task force's first goal is to provide expenditure data to the regions on client services, travel, and capital equipment. This goal should improve the agency's ability to allocate funds to the regions for these specific categories.

The budget process should provide a basis for coordinating the operating plans of all divisions, programs, and regions of the Commission. The budget should also serve as a basis for evaluating regional directors' performance in their use of program funds.

Recommendations:

Although the agency's centralized budgeting process yields useful information for central office program staff, this process should be expanded to consider other important factors. The Commission should establish a regional budgeting and tracking process as a long-term goal. In the interim, regional budgets should be developed with input from the regions and monitored from the central office. Using the input of regional staff, upgrade automated systems to provide regional management with the budget data necessary to plan and monitor local activities. Obtaining input from regional staff will allow the Commission to address the following concerns:

- usefulness of data, in terms of format and level of detail
- methodology for allocating budgeted amounts among regions
- timeliness of budget and expenditure data
- time and expertise to devote to budget monitoring

If the Commission implements regional budgeting, it needs to ensure that regional directors have the management skills and tools necessary to monitor regional budgets.

Management's Response:

Previous efforts to budget by region gave unsatisfactory results. Managers tended to overcorrect for intermittent fluctuations in expenditure patterns, resulting in interrupted service delivery and inconsistent use of funds. However, as was shared with the audit team, the agency convened key managers to begin addressing the budgeting issue. Starting in FY 96, Information Resources will make monthly expenditure information in key budget areas available to each regional director. This is a first step toward a regional budget system.

Regional budgets will provide these regional administrators with improved fiscal information. However, the agency's current system of monitoring and controlling the budget at the agency level provides agency administration the ability to allocate resources statewide based on demonstrated need. Equitable distribution across the *state helps avoid the perception that areas receive less than their fair share. Any form of regional budgeting will retain this element of central control.*

Regional budget administration will place an additional burden on regional directors. The Commission does not have the administrative resources in the regional offices to assume additional activities. Reclassifying existing service delivery personnel to administrative support functions would limit responsiveness to consumers.

Section 2-F:

Agency Management Should Continue with Plans to Improve its Employee Evaluation System

The agency's employee evaluation system needs improvement. The agency has two performance evaluation systems that are outdated. The Programs division, which represents at least 75 percent of the agency's staff, implemented its system in 1978 and upgraded it in 1983. Personnel in this division are evaluated on their achievement of specific goals which are agreed upon in advance by the employee and supervisor. All other employees are evaluated on a variety of work habits. The system used for these employees has been in place prior to 1979.

Program and administrative staff are not evaluated by the same system. The performance evaluations for administrative staff are not as goal-oriented as the evaluations for the Programs division staff. When evaluation criteria do not relate to an employee's performance goals, there is the risk of inequitable treatment of employees. Agency performance appraisals should be based upon employees' job-related performance objectives. The job duties upon which an employee is evaluated should be linked to the achievement of agency goals.

Currently, agency management is developing a new performance evaluation system. The agency's intent is to create one system which will evaluate all employees on the achievement of goals that are relevant to their job duties.

Recommendation:

Continue with plans to implement a new performance evaluation system. The agency intends for the new system to connect individual job duties to the overall success of the agency. Also, each employee will be evaluated on achievement of specific goals which were agreed upon at the beginning of each evaluation period.

Management's Response:

The system run by the programs division since 1978 has been a key element in why this agency consistently meets and exceeds its goals in helping Texans who are blind into competitive employment. As has been noted, the entire system will be updated *for the entire agency effective September 1, 1996. The Commission is continuing with plans to implement a new performance evaluation system.*

Section 2-G:
Agency's Mission Is Being Demonstrated

The Commission has been aggressive in providing employment opportunities to blind and visually impaired Texans, both externally and internally. The agency's mission is to furnish blind and visually impaired Texans with information needed to make informed decisions and access to services which increase their opportunities for employment or self-sufficiency. In accordance with the guidelines for vocational rehabilitation, the Commission provides its external and internal consumers with the necessary tools that enable these individuals to perform their jobs. During fiscal year 1994, the Commission served 23,494 consumers through its various programs.

By employing many blind and visually impaired individuals, the Commission is demonstrating its commitment to attaining its mission. As of February 1995, the Commission employed 78 blind or visually impaired individuals. This amounts to almost 14 percent of the agency's entire workforce. These individuals serve in positions from regional director and vocational rehabilitation counselor to rehabilitation assistant and administrative technician.

Management's Response:

The Commission did demonstrate its mission by serving 23,494 consumers during fiscal year 1994. However, and more importantly, the Commission in the past few years has consistently met or exceeded its performance goal of helping Texans who are blind into competitive employment.

Section 3:
Business Enterprise Program Staff Do Not Verify the Approximately $14 Million in Sales from Facilities (Cafeterias and Snack Bars) and Unmanned Vending Operations

Agency staff do not ensure that the income from the Business Enterprise Program (BEP; see Appendix 2.6) facilities and unmanned vending operations is being accurately reported or that sales taxes are being paid on time. Prior to March 1995, the program staff did not review monthly income reports or evidence of state sales tax payments. In 1982, an internal BEP task force identified "present accountability controls and internal operating procedures by BEP operators as a group are insufficient to verify program revenues and expenditures." The same problem exists today. Without controls in place to verify income, there is a continued risk for BEP managers and vending machine companies to underreport the income from their predominantly cash businesses.

Supervising business consultants, BEP staff responsible for providing support and monitoring the managers, complained of the Commission's reluctance to audit BEP managers' income and require support documentation of daily sales, i.e., cash register tapes. Furthermore, business consultants claim that the managers do not fear being placed on probation for not supplying evidence of their income because there are no adverse consequences resulting from probation.

A random sample of BEP managers' state sales tax records revealed several delinquent accounts. Thirty-one of the 121 managers' accounts were reviewed for timely payment of state sales taxes. Three of the accounts sampled had outstanding sales tax balances due that ranged from approximately $1,000 to over $10,000; two of these accounts had been delinquent for at least one year. One of the managers was identified in an internal Commission memo dated July 1994 as not having filed a sales tax report 24 times. Three other accounts had balances due that were under $40. Two managers had bond payments due but had not posted the bond. (A bond payment is only required if a taxpayer becomes delinquent in his regular payments.)

Before April 1995, there were no enforced policies or procedures concerning proof of payment of sales taxes or maintenance of income verification records. Although the BEP Manual of Operations states that a copy of the sales tax payment and reporting form must accompany the monthly facility report for the first 12 months of a manager's initial assignment, the manual does not require this proof after the first year, nor does it address the manager who moves to another facility. The recently appointed program director sent a memo, effective for the March 1995 Facility Reports which were due April 1995, to all BEP managers that requires monthly submission of the copy of their sales tax payment and reporting form with each report.

The Commission has never performed spot audits on financial information. In March 1995, a performance measure certification team from the State Auditor's Office reviewed the Commission's measure for "average earnings per BEP consumer employed." The team certified this measure with qualifications because the accuracy of the managers' income reports is not audited and, therefore, cannot be confirmed. Citing the recent State Auditor's report, the program director issued a memo to all BEP managers, stating new policies relating to income. The new policies are:

- The monthly facility report has been amended to require daily sales information.
- The supervising business consultants will periodically perform spot reviews to reconcile the daily income report with monthly income figures.
- BEP managers are required to maintain supporting financial documentation in the event of an audit.

While these policies require additional documentation of income, they stop short of requiring cash register tapes and reports to support the daily sales totals and transactions, or audits by the agency to verify the written income reports.

Section 3-A:

Business Enterprise Program Lacks Controls over Unmanned Vending Operations

The Commission does not verify income from unmanned vending operations. Income from unmanned vending operations is not tracked to determine if the vending companies which service these machines are regularly paying the commissions due to the program. In addition, the program does not have an accurate inventory of all machines for which the State is due commissions. As a result, all commissions may not be reported, and some could go undetected. (State law grants the Commission the authority to operate vending machines on state property.)

Not all the vendors who service unmanned vending machines have contracts with the Commission. Each month, vending income checks from unknown sites come to the Commission without the required monthly vending report to provide documentation.

The BEP has no written policies or procedures for unmanned vending operations. The program does not perform vending machine meter readings to confirm sales. The existing vending contracts are weak, and the reporting requirements are insufficient. The vending contracts which exist for most of the unmanned state vending machine sites do not contain specific financial reporting requirements and controls. Some contracts do not list the vending sites covered by the agreement. Commission staff may not know which vending sites are covered by the vending commission income checks because the monthly vending report which should accompany the check does not require the listing of individual vending sites. Control weaknesses concerning the unmanned vending operations were identified by the Internal Audit division over two years ago, but no action was taken on its recommendations. Recently, the program director formed a committee to review unmanned vending operations.

Section 3-B:

Federal Funding May Not Be Fully Maximized If Income Is Underreported

The Commission may not be collecting all the set-aside fees which are owed to the BEP if income is being underreported. Set-aside fees are paid to the program each month by the managers. These fees represent a percentage of the manager's monthly net income and are based on a sliding scale. Likewise, if unmanned vending income is not accurately tracked and accounted for, the Commission may not be collecting all of the unmanned vending income.

The Commission may not be able to fully maximize its federal matching dollars if it is not collecting all the set-aside fees or vending income that it is owed. Income to the BEP from the monthly set-aside fees amounted to $603,975 in fiscal year 1994; income to the program from unmanned state vending machines amounted to $446,782 for the same period. This income, totaling over $1 million, is used to obtain federal matching dollars at a rate of approximately $3.75 for every state dollar. These matching funds are used in the Business Enterprise and Vocational Rehabilitation programs.

The Commission's Board of Directors' internal policy adopts accounting standards for the BEP that are consistent with generally accepted accounting principles as promulgated by the American Institute of Certified Public Accountants. The policy states that modification of these standards cannot compromise "necessary levels of auditability and verifiability of financial data." The only way to detect omission of sales and related transactions is through a reconciliation of physical activity with recorded dollar amounts. Lack of internal controls makes theft of cash easy and untraceable.

<u>Recommendations</u>:

Collect sales data from both the BEP facilities and unmanned vending sites. Project sales and analyze trends as a basis for risk assessment in monitoring the BEP operations.

Facility income: The Business Enterprise Program should require its managers to maintain complete financial records, including income statements, balance sheets, daily income records, cash register tapes, and transaction reports, for seven years and have them available for review by the program staff.

Business consultants should spot-check the income stated on the daily income report form and reconcile the income to cash register tapes and reports.

BEP managers whose annual net income exceeds $25,000 should be required to submit an annual audited financial statement to the Commission.

The Internal Audit division or an external auditor hired by the Commission should perform periodic audits on a random sample of BEP operations every year to test for compliance with financial reporting standards and verify income reported by BEP facility managers.

Sanctions should be imposed and enforced against the BEP managers who do not provide reliable and accurate financial information.

Unmanned vending income: Determine the location of all vending machines on state property which are subject to the laws governing the Business Enterprise

Program. If the vending companies who operate the sites are not currently under contract, agreements with these companies should be created.

A policies and procedures manual for unmanned vending contracting, reporting, and verifying income should be developed. It should include procedures for periodic meter readings and financial audits.

The Commission should strengthen vending contracts to include:

- a listing of all sites and number of machines
- a performance bond which is related in size to the commissions contracted for
- penalties for late payments and late reports
- separate reports for each location within a single contract
- method for making adjustments for miscalculations or other errors

A monitoring system to track all unmanned vending payments due monthly should be established.

Management's Response:

Agency staff did not completely ensure that income from BEP facilities and unmanned vending was being accurately reported or that sales tax was being paid on time. The State Auditor's Office correctly reflected in its report that, effective in March of 1995, the agency did put into place measures to verify sales tax payments along with each monthly facility report submission. Managers are now required to provide copies of sales tax payments. Concurrently in March 1995, the agency resumed its effort to verify sales. Policies were established to require the monthly facility report to include daily sales information. Supervising Business Consultants are periodically performing spot reviews to reconcile the daily income report with monthly income figures, and the BEP managers are required to maintain supporting financial documentation in the event of an audit. Additional measures and resources are presently being reviewed to verify income reports and vending receipts.

The agency has not performed spot audits on manager financial information. The BEP will issue procedures which require managers to maintain complete financial records, income statements, balance sheets, and daily and transaction reports for seven years and have them available for review by program staff or audit personnel. These procedures will be issued by October 1, 1995.

Management and Internal Audit are researching options available in hiring or contracting for an auditor to perform periodic audits on a random sample basis of BEP managers. Planned implementation for these audits is set for January 1, 1996.

Sanctions are being imposed and enforced against managers who do not provide reliable and accurate financial information. At the present time three managers are on probation for these reasons and one manager has undergone license revocation *for delinquent accounts with the Commission and the Comptroller. The Commission is not reluctant to take these actions.*

There is no justification for requiring audited financial statements when net income exceeds $25,000. The A-133 requirements, which are being raised to $300,000 for audited financial statements every two years, do not require such measures of over-control. The cost of such requirements would greatly outweigh the benefits gained and would cause undue financial hardship on the BEP facility manager. The Comptroller does not require audits for tax purposes. Additionally, all the other corrective measures to be implemented based on these findings will enhance the accuracy of manager reported income.

The agency has not verified income from unmanned vending except in very infrequent cases. The agency has no written policies or procedures for unmanned vending operations nor has it performed machine meter readings to confirm sales. A policy manual and an operating procedures manual will be developed for unmanned vending operations. This action will be completed and in place by January 1, 1996. The agency has employed a specialist to develop and implement controls over unmanned vending. The location of all vending machines on state property will be determined.

Vending contracts are being strengthened to include:

- *a listing of all sites and number of machines*
- *a performance bond which is related in size to the commissions contracted for*
- *penalties for late payments and late reports*
- *separate reports for each location within a single contract and*
- *method for making adjustments for miscalculations or other errors.*

Contract revisions are now undergoing final legal review. As contracts expire or reach a renewal period, whichever comes first, implementation of the contract revisions will be phased in over an approximately twelve-month period, beginning September 1, 1995.

A monitoring system to track all unmanned vending payments due will be established. Presently a system exists on the mainframe computer, but significant programming alterations will be required to meet the needs of both the BEP staff and the accounting staff. An alternative PC-based system will be developed and tested to validate program needs. This process is planned for completion by March 1, 1996.

In response to the audit report's reference to federal matching dollars, federal regulations identify certain types of expenditures which may be made from BEP revenues, but which may not be claimed as match (equipment maintenance, vacation, retirement). The majority of an increase in set aside and vending revenues would go to these purposes and would not generate any additional match.

Sales data collection alternatives are being reviewed for necessary procedural changes and resources for implementation. Expected implementation across the program is January 1, 1996.

Issues for Further Study

Effectiveness of Case Management: During the course of our audit, an analysis performed on caseloads and the allocation of resources to caseloads revealed that, on average, Texas counselors carried larger caseloads than others across the nation. It was discovered that there are no nationwide standards, studies, or industry guidelines regarding average caseloads to refer to when trying to determine propriety of resource allocation. Making the matter more complicated is the fact that numerous variables such as various skills, prevalence of visual impairments, and other disabilities the client may have must be considered in establishing these factors. It does not appear that any standards or guidelines are currently being developed. This represents a lost opportunity for the Commission to determine how it is allocating resources to their caseloads, based on comparisons with national standards or guidelines.

The Commission may not be using standardized guidelines for caseload management. For example, guidelines for screening potential consumers and management of consumers through the various case status levels may not be consistently applied throughout the agency. Regional directors may not consider the experience level of the counselor and difficulty of the case when assigning consumer cases to program staff.

Lack of an Automated Reconciliation Module for the Agency's Accounting System: The internal accounting system has to be manually reconciled monthly to USAS due to the lack of an interface program. This reconciliation process is very cumbersome and labor intensive. As of May 1995, the reconciliation is about three to four months behind. An automated process has been requested by the Accounting division, but other agency programming requests have taken precedence. The person responsible for keeping up with the reconciliation costs the agency in excess of $30,000 per year (including benefits). Resolution of this issue is contingent upon the Commission's response to automation concerns noted in Section 2-A.

Appendix 1:

Objective, Scope, and Methodology

Objective

Our audit objective was to evaluate the existing management control systems within the Texas Commission for the Blind and to identify strengths and opportunities for improvement.

The evaluation addressed the following questions:

- Do the current policies, procedures, and oversight of the Commission for the Blind support efficient decision-making and execution of agency goals and objectives?
- Are the agency's managers getting sufficient and timely information needed to make decisions about the agency's programs?
- Is budget information easily accessible to effectively monitor expenditures? Does the budget process allow for accountability of fund balances by executive and regional managers?
- Do the agency's information systems support the needs of management?
- Do controls over the purchasing function allow for efficient operations and use of resources?
- How is the Commission for the Blind managing its human resources?
- How does the agency monitor the activities of its Business Enterprise Program operations?

Scope

The scope of this audit included consideration of the Commission's organizational structure, management controls over purchasing and contracting, human resources, automation, budget, information management, and selected controls over the Business Enterprise Program.

Consideration of the Commission's organizational structure included a review of:

- role of the Board of Directors
- role of the internal audit function
- operating environment

Consideration of the Commission's management controls over information management included a review of:

- processes used to compile and communicate information to appropriate users
- use of information resources to meet user's needs

Consideration of the Commission's management controls over budget included a review of:

- processes used to allocate funds and monitor expenditures
- plans for a budgeting cycle

Consideration of the Commission's management controls over automation included a review of:

- current agency automation systems
- information resources strategic plan

Consideration of the Commission's management controls over purchasing included a review of:

- current agency procurement policies and procedures
- practices in carrying out the purchasing function
- contracting process and monitoring system for service providers and vendors

Consideration of the Commission's management controls over human resources included a review of:

- human resource management procedures
- agency turnover and caseload sizes
- human resource development system
- employee appraisal system

Consideration of the Commission's management controls over the Business Enterprise Program included a review of:

- current policies and procedures used to operate the program
- procedures to monitor the income and performance of facility managers

Methodology

The methodology used on this audit consisted of collecting information, performing audit tests and procedures, analyzing the information, and evaluating the information against pre-established criteria.

<u>Information collected</u> to accomplish our objectives included the following:

- Interviews with staff, management, advisory committee members, and board members of the Commission for the Blind
- Documentary evidence such as:
  - Commission for the Blind documents and publications (including 1994-1995 Request for Legislative Appropriations, Strategic Plan,

Information Resources Strategic Plan, and audit reports prepared by the Internal Audit division)
    - Various management reports
    - Commission Board Minutes
    - Contracts with subrecipients, technology trainers, and vendors
- Enabling legislation
- Relevant federal laws and regulations

Procedures and tests conducted:

- reviewed various contracts for subrecipients, technology trainers, vendors, and unmanned vending operators and tested for specific attributes
- reviewed purchase requisitions and tested for specific attributes
- reviewed monitoring tools for consumer purchased services
- reviewed income data and sales tax accounts of various Business Enterprise Program operators

Analytical techniques:

- comparative analysis between actual contracts and policy with criteria
- comparative analysis between purchase requisitions and policy with criteria

Criteria used:

- Texas State Auditor's Office *Management Control Methodology*
- Texas State Auditor's Office *Report on Management Controls at the Texas Department of Protective and Regulatory Services* (SAO Report No. 95-003)
- Texas State Auditor's Office *Report on Contract Monitoring of Purchased Services* (SAO Report No. 95-007)
- Standard audit criteria

Other Information

Fieldwork was conducted from March 10, 1995, through May 19, 1995. We did not verify or review the accuracy of the data provided by the Commission for the Blind. Other than this exception, the audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

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

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- Barbara S. Hankins, CPA (Audit Manager)
- Deborah Kerr, Ph.D. (Audit Director)

Appendix 2.1:
Agency Profile

The Texas Commission for the Blind has been providing services to visually disabled Texans for 64 years. Its mission is to provide blind and visually impaired persons with information and access to services so they may make informed choices and increase their opportunities to live as they choose.

The Rehabilitation Act grants the Commission the authority to act as the sole state agency to provide rehabilitative services to visually disabled individuals. The Commission carries this out through the four service programs it offers. Depending on the visually disabled individual's age group, he or she may take part in any of the following programs the Commission offers to its consumers. In fiscal year 1994, the Commission served 23,494 consumers through the various programs noted below.

The Blind and Visually Impaired Children's Program assists blind and visually impaired children in developing potential for independent living and financial self-sufficiency. This is done by emphasis on vision restoration, dependency reduction, and preparation for vocational success.

The Transition Program serves those consumers between the ages of 13 and 22. The focus is on vocational awareness and career planning.

The Vocational Rehabilitation Program is the Commission's largest program and serves the most consumers at the agency. Its objective is to provide adult consumers who have a substantial visual impairment with appropriate services to obtain and maintain employment. The Business Enterprise Program (BEP), authorized under the Randolph-Sheppard Act, is part of this program.

The Independent Living Rehabilitation Program offers services to blind and visually impaired persons who want to live as independently as possible, while reducing or eliminating the need for dependent care.