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1999 Small Agency Management Control Audit

March 1999

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Key Points of Report

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Overall Conclusion

Generally, we found that the seven agencies were accomplishing their goals and objectives and that management controls were in place over key areas. However, we found wide-ranging problems in controls over agencies' management information systems (MIS). The State commits significant resources to MIS (approximately \$1.2 billion in fiscal year 1998) and relies on that technology for many of the critical services it provides. Smaller agencies as a whole may not have developed strategies to protect these resources adequately.

The agencies accurately reported performance in the majority (76 percent) of the 50 performance measures we reviewed. Of the 12 measures we could not certify, half of them were incorrect because of minor or easily correctable issues. The other half were inaccurate because the agencies had not developed adequate systems to accurately collect, track, and calculate their performance.

At five agencies where we followed up on previous audit recommendations, 79 percent of the recommendations were either implemented or underway.

Key Facts and Findings

- The State could save approximately \$2 million each biennium by moving responsibility for primary elections from political parties to county governments.
- Changes to the State Office of Risk Management's workers' compensation allocation program statute are needed to fulfill the program's intent. The program is intended to control costs and provide incentives to reduce losses. However, the program has not yet been implemented because of complications discovered during attempts to develop and implement the program.

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This audit was conducted in accordance with Government Code, Section 321.013(c).

Executive Summary

Generally, we found that the seven agencies were accomplishing their goals and objectives and that they had effective processes in place over key areas. (See Table 1 for agencies audited and appropriations.) We noted a trend of weaknesses in controls over management information systems across the small agencies audited this year. Their management information systems are often directly linked to the accomplishment of their statutory responsibilities. Problems or risks the agencies and the State face because of these weaknesses include:

- Being unprepared for a timely resumption of business in case of disasters or computer failures

- Loss of knowledge due to staff turnover resulting in inefficient use of automated resources
- Wasted time and money on inappropriately developed applications
- Continued inefficiency due to not fully using the benefits of automation

Agencies accurately reported performance in the majority (76 percent) of the 50 performance measures reviewed. Of the 12 measures we could not certify, half of them were incorrect because of a minor problem (data entry errors, differences in calculation methodology, misinterpretations of the definition). The other half were inaccurate because the agencies had not developed adequate systems to accurately collect, track, and calculate their performance.

At the five agencies where we followed up on previous audit recommendations, 79 percent of them were either implemented or underway. The agencies where we found previous recommendations not implemented have pledged to ensure timely implementation of those recommendations. Two issues require legislative attention. First, the State could save approximately \$2 million each biennium by moving responsibility for primary elections from political parties to county governments. In addition, changes to the statute for the

Table 1

Agencies Receiving Full Audits/Appropriations		
Agency	FY 98 Appropriations	FTEs
Adjutant General's Department	\$ 24,684,444	526
	In addition, the agency takes in over \$249 million in federal funds for the National Guard.	
Texas Military Facilities Commission	\$ 35,348,542	36
	80% federal funds	
Secretary of State	\$ 22,450,626	242.5
	(includes approximately \$11 million in primary election funds) FY 99 (non-election year) appropriations are \$10.1 million.	
State Office of Administrative Hearings	\$ 5,308,168	122
Research and Oversight Council on Workers' Compensation	\$ 660,000	14
Texas State Board of Accountancy	\$ 3,071,926	43
State Office of Risk Management	\$ 5,148,140	106
	In addition, \$71,265,484 was appropriated to pay for state workers' compensation claims over which the agency has oversight.	

Source: General Appropriations Act, 75th Legislature, Regular Session

Executive Summary

State Office of Risk Management's workers' compensation allocation program (House Bill 2133, 75th Legislative Session) are needed to fulfill the program's intent. The program is intended to control costs and provide incentives to reduce losses. However, the program has not yet been implemented because of complications discovered during attempts to develop and implement the program.

During our audit work we identified opportunities for agency management to improve controls and operations. We have communicated our recommendations to the agencies in individual management letters. Copies of these letters can be requested by calling 479-4740. See Appendix 2 for a summary of the findings.

Summary of Managements' Responses

At all of the agencies we visited, management generally agreed with the findings and recommendations in this report as well as the individual letters submitted to each agency. Those

letters include the agencies' responses.

Summary of Objective, Scope, and Methodology

The overall objective of this audit was to assess the critical processes that support the agencies' accomplishment of their individual key responsibilities. In addition, we reviewed selected key performance measures in order to certify accurate reporting and tested compliance with the Historically Underutilized Business (HUB) program. The results of HUB testing will be communicated in another report.

The scope of each audit was determined by an individual risk assessment of the agencies' operations. In follow-up reviews, we verified implementation of recommendations from previous Small Agency Management Control Audits. For performance measure certification, we examined the most recent measure data available at the time of the audit. Fieldwork was conducted between July 1998 and February 1999.

Two Issues at Small Agencies Require Legislative Attention

Two issues require legislative attention. First, the State could save approximately \$2 million each biennium by changing the way primary elections are held. To achieve these savings, the Legislature would need to change the Election Code to move the responsibility for holding primary elections from political parties to county governments. In addition, changes or clarifications to the statute relating to the State Office of Risk Management's workers' compensation allocation program are needed to fulfill the program's intent. The intent of the allocation program is to control costs and provide incentives to reduce losses.

Section 1-A:

The State Could Save Approximately \$2 Million Each Biennium by Changing the Primary Election Process

The administrative costs of primary elections can be reduced by approximately \$2 million each biennium. The change would require legislation moving responsibility for holding primary elections from county political party chairs to county governments. In addition, contracting directly with counties would streamline the processing and funding functions of the Secretary of State.

County chairpersons spent \$2.8 million in 1996 for administrative costs above the actual costs of the primary or runoff election. In 1996 approximately one-fifth of the party chairs contracted with their local county governments to hold these elections. Bypassing the middleman could save the State most of that current administrative cost. Under current law, counties that are contracted to hold these elections are limited to receiving 10 percent of the election costs to cover administration. Actual election costs were approximately \$8 million in 1996. If the process were changed, administrative costs paid to counties would have been approximately \$800,000. Thus the State could save approximately \$2 million in administrative costs per biennium.

In addition to cost savings, giving the primary election responsibilities to county governments would help to improve the accountability of the primary election funds. There are weaknesses in the system of funding primary elections through county political party chairs. Historically, some local county and state party chairpersons have not complied with provisions of the Election Code or Administrative Rules. Audits by the Secretary of State have routinely uncovered unallowable expenditures of election funds. Although the Secretary of State is fulfilling its responsibilities in administering the program, the agency has little authority to impose sanctions or penalties in instances of noncompliance.

Because county governments are more experienced with running elections and have permanent professional staff, the accountability and control over these funds would improve, and the amount of training provided by the Secretary of State's Elections Division would decrease. According to the Elections Division at the Secretary of State, Texas is one of only two states (the other being Mississippi) where political parties are responsible for holding primary elections.

Recommendation:

The Legislature should consider moving responsibility for holding primary elections from political parties to county governments. The Secretary of State would be responsible for contracting with counties to hold these elections. This action would require changes to the Election Code (Chapter 173). The Secretary of State is neutral on this issue, as it is a legislative policy decision.

Section 1-B:

Changes to the Statute Relating to the State Office of Risk Management's Workers' Compensation Allocation Program Are Needed to Fulfill the Program's Intent

The statute (House Bill 2133, 75th Legislature) creating a state workers' compensation allocation program needs to be clarified. This program has not yet been implemented because of complications discovered during attempts to develop and implement the program. The intent of the allocation program is to control costs and provide incentives to reduce losses. The State Office of Risk Management (Office) proposed an administrative rule to enact this program that met with significant public comment from affected state agencies.

The issues needing clarification include:

- Authority to Disperse Funds - An integral part of the allocation program is giving a portion of any savings realized to the agencies. The Office presently does not have authority to disperse funds to agencies from the claim fund.
- Disputed Reimbursement Costs - Agencies with claims funded by non-general revenue sources already reimburse the State 100 percent of the cost of a claim: 75 percent to unappropriated general revenue and 25 percent to the workers' compensation claim fund. However, the allocation program requires those agencies to reimburse the workers' compensation claim fund for all costs (100 percent) in excess of the agency's allocated amount. Affected agencies have objected that this interpretation will cause them to reimburse 175 percent of costs for injured employees if their allocation is exceeded.
- Performance Measurement - The use of Dollars Paid Within a Fiscal Period is not an accurate measurement of current performance. Most expenditures within a given fiscal period are for injuries from prior fiscal periods.
- Funding for Reimbursements - As a biennial program under the current statute, all negative financial impact to an agency would occur in the second year of the biennium, and agencies may not have funding to reimburse the required amounts.

During its December board meeting, the Office referred the allocation program to the Legislature for clarification. The Office is working with the Research and Oversight Council on Workers' Compensation to determine the best methodology for implementation and to identify any necessary legislative changes.

Recommendation:

To meet the intent of House Bill 2133, both the State Office of Risk Management and the affected agencies need clarification to ensure everyone understands how the program is to operate.

Section 2:

Weaknesses in Controls Over Management Information Systems Were Consistently Identified Across the Small Agencies

We found wide-ranging problems in the control systems over management information systems (MIS). The agencies' MIS are often directly linked to the accomplishment of their statutory responsibilities. We noted control weaknesses regarding:

- Disaster recovery/business resumption plans
- Operations policies and procedures
- Physical and access security
- Backing up critical data
- Year 2000 readiness
- Software development
- Staffing issues

State Agencies Face the Following Risks or Problems Due to Weak MIS Controls:

- Being unprepared for a timely resumption of business in case of disasters or computer failures
- Loss of knowledge due to staff turnover resulting in inefficient use of automated resources
- Wasted time and money on inappropriately developed applications
- Continued inefficiency due to not fully utilizing the benefits of automation

Agency management must ensure that controls, policies, and procedures for computer operations are as comprehensive as for any other mission-critical function within the agency. The Department of Information Resources has developed the *Information Resources Security and Risk Management Policy, Standards, and Guidelines*. This publication guides state agencies in developing a comprehensive control environment over computer operations. This document is currently being updated with a July 1999 target for the updated publication.

There May Be Multiple Causes for Weak MIS Controls, Including:

- Limited knowledge and use of MIS standards
- Lack of a broad band of expertise due to MIS staff that is small in number
- Difficulty in recruiting and retaining MIS staff due to salary and budget constraints
- Limited oversight and understanding by agency management of the needs and risks associated with the MIS function

In the spring of 1999 the State Auditor's Office will offer a self-assessment guide that agencies can use to evaluate their own automated control environment.

These resources can be used by all state agencies to begin the development of their own systems to help ensure the effective and efficient operation of their computer operations as well as to protect the significant investments made in this area.

Section 3:

Follow-Up Audits at Most Small Agencies Revealed Substantial Progress

Most of the agencies we visited for follow-up audits had made substantial progress in implementing or developing plans to address opportunities for improvement noted in previous audits. The agencies where we found previous recommendations not implemented have pledged to ensure timely implementation of those recommendations.

Table 2

Findings Status for Follow-Up Audits			
Agency	Implemented/ Underway	Not Implemented	Not Applicable ^a
Board of Barber Examiners	12	2	1
Bond Review Board	10	1	0
Funeral Service Commission	4	0	0
Historical Commission	6	6	0
Veterans Commission	6	0	0
Total	38	9	1
Percentage	79%	19%	2%

^a Changes in circumstances make the audit recommendation no longer valid.

Source: Individual agency management letters resulting from this audit

Section 4:

Small Agencies Accurately Reported Performance in the Majority of Measures Reviewed

Agencies accurately reported performance in the majority (76 percent) of the 50 measures we reviewed at the 12 agencies. Of the 12 measures we could not certify, half of them were incorrect because of a minor problem (data entry error, differences in calculation methodology, misinterpretation of the definition). The other half were inaccurate because the agencies had not developed adequate systems to accurately collect, track, and calculate their performance.

Table 3

Summary of Key Performance Measures Reviewed				
Agency	Certified	Certified With Qualifications	Inaccurate	Factors Prevent Certification
Board of Public Accountancy	3			
Adjutant General's Department	1	3		
Board of Barber Examiners				5
Bond Review Board		2	1	1
Funeral Service Commission	5		2	
Historical Commission	4			
Research and Oversight Council on Workers' Compensation		3		
State Office of Administrative Hearings		2	1	
State Office of Risk Management	4		1	
Secretary of State	4		1	
Texas Military Facilities Commission	1	2		
Veterans Commission	4			
Total	26	12	6	6
Percentage	52%	24%	12%	12%

Source: Individual agency management letters resulting from this audit

Objective, Scope, and Methodology

Objective

The objective of this audit was to identify and evaluate management controls at seven agencies. We reviewed controls that are most critical in supporting the accomplishment of the legislative mandates for these agencies.

We also followed up on prior recommendations at five agencies to determine progress made on those recommendations.

In addition, we examined selected key performance measures to certify that agencies accurately reported performance and to determine compliance with the State's Historically Underutilized Business (HUB) program requirements.

Scope

We conducted a risk assessment of each of the agencies to identify the particular management controls governing their mission-critical functions. The areas we examined at each agency varied, but may have included:

- Financial Management
- Licensing and Enforcement
- Management Information Systems
- Human Resources
- Statutory Functions
- Organizational Structure

Additional work was done to determine:

- Compliance with the state requirements for using historically underutilized businesses (HUBs)
- The accuracy of certain performance measures selected by the Legislative Budget Board

Methodology

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

Information collected:

- Interviews with management and staff
- Documentary evidence, including:
 - State and federal statutes, regulations, and rules
 - Agency documents, plans, policies, procedures, manuals, reports, memoranda, and other written communication
 - Data collected for completing performance measures
 - Various audit and management reports from both internal and external sources
 - Agency-generated financial data and reports

Tests performed:

We conducted a wide variety of procedures and tests to gain an understanding of management processes and to verify their efficient and effective completion.

Criteria used:

- Statutory requirements
- General and specific criteria developed by the State Auditor's Office Inventory of Accountability Systems Project
- Process criteria from the Comptroller of Public Accounts, the Department of Information Resources, and the General Services Commission

Other Information

Fieldwork was conducted from July 1998 through February 1999. All reviews were conducted in accordance with generally accepted government auditing standards.

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

- Philip Kirk (Project Manager)
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- Alexandra Munyon, MPAff
- Dennis O'Neal, CIA (Quality Control Reviewer)
- Kelli Dan, CCP, PHR (Audit Manager)
- Craig Kinton, CPA (Audit Director)

Findings Summary

Table 4

Agency Name	Findings Summary
State Board of Public Accountancy	No findings
State Office of Risk Management (Office)	<ul style="list-style-type: none"> • The Office needs to develop a disaster recovery plan for thousands of hard copy claim files located on site. • The Office should revise its inspection procedures to ensure that it uses the optimal mix of the four different types of safety inspections to cover as much risk as possible. Current performance measures dictate, with little flexibility, a certain number of each type of inspection.
State Office of Administrative Hearings	<ul style="list-style-type: none"> • A systematic, thoroughly documented planning and development process is needed to ensure the success of the integrated case management system. • Improvement is needed in the performance appraisal process for the Administrative Law Judges.
Research and Oversight Council on Workers' Compensation (Council)	<ul style="list-style-type: none"> • The Council should develop and document policies and procedures for the key activities it must complete to fulfill its mission. • The Council should develop a business resumption plan and improve back-up procedures. • The Council should make additions or modifications to its current performance measures to better assess the agency performance. • The Council needs to create an employee performance appraisal process based on job-specific criteria. • The Council should improve the manner in which it contracts for and monitors services.
Adjutant General's Department (Department)	<ul style="list-style-type: none"> • The Adjutant General's Department needs to document policies and procedures for key processes and activities related to management information systems. • The Department is lacking a fully developed disaster recovery program. • The Department needs to create and distribute policies and procedures for the handling of fixed assets.
Texas Military Facilities Commission (Commission)	<ul style="list-style-type: none"> • The Commission should develop and document policies and procedures for management information systems that reflect current practices. • The Commission needs to complete the development and testing of a disaster recovery program in compliance with Department of Information Resources guidelines.

Agency Name	Findings Summary
Secretary of State (Secretary's Office)	<ul style="list-style-type: none"> • The important nature of the information maintained by the agency makes it essential that the Secretary of State develop and test a disaster recovery and business resumption plan for its information systems. Without such a plan, there is no assurance that the Secretary's Office could respond quickly and efficiently to potential emergencies or significant disruptions to computer processing. • The Secretary of State should improve its revenue collection procedure controls. • Procedures for distributing funding for voter registration efforts should be streamlined in order to increase efficiency and reduce costs.