# Table of Contents

# Table of Contents, Concluded

# Key Points of Report

## An Audit Report on the Department of Economic Development

January 2000

### Overall Conclusion

Gross fiscal mismanagement of the Smart Jobs program prevents the Department of Economic Development (Department) from meeting its objectives and using state funds appropriately. The Department does not provide adequate fiscal and administrative oversight of Smart Jobs contracts or keep accurate financial records of the $201 million Smart Jobs fund balance. These problems place state funds at great risk of waste and abuse by employers who receive contracts to train employees. Smart Jobs is the Department's largest program, representing approximately 57 percent of the Department's budget for the 1998-1999 biennium.

The Department acknowledges the seriousness of these issues and has taken immediate actions intended to correct the problems, as outlined in its response.

### Key Facts and Findings

- To meet its objectives, the Department must effectively manage Smart Jobs contracts awarded to Texas employers. However, serious problems hamper all critical elements of the Department's contract management practices. These problems include loopholes in the contract provisions and significant weaknesses in the practices the Department uses to select contractors, establish contract rates, and monitor contractor performance.

- The Department owes the Texas Workforce Commission's Unemployment Compensation Fund as much as $63 million because it has not complied with state laws or kept accurate financial records of the $201 million balance in the Smart Jobs Fund. The Department's failure to transfer the excess funds could increase future unemployment taxes assessed against Texas employers.

- State resources have been wasted and abused in other agency operations. The Department paid a contractor nearly $540,000 to develop a database that it never received. Also, a former employee appears to have been able to use a donated airline ticket for personal business.

### Contact

Cynthia L. Reed, CPA, Audit Manager, (512) 479-4700

Office of the State Auditor

Lawrence F. Alwin, CPA

*This audit was conducted in accordance with Government Code, Section 481.008.*

# Executive Summary

Gross fiscal mismanagement of the Smart Jobs program prevents the Department of Economic Development (Department) from ensuring that program objectives are met and that state funds are used appropriately. The Department does not provide adequate fiscal and administrative oversight of Smart Jobs contracts or keep accurate financial records of the $201 million fund balance. These problems place state funds at great risk of waste and abuse by employers who receive contracts to train employees.

**According to state law, gross fiscal mismanagement includes:**

- Failure to keep adequate fiscal records
- Failure to maintain proper control over assets
- Failure to discharge fiscal obligations in a timely manner
- Misuse of state funds

Source: Government Code, Chapter 2104

With appropriated authority to spend approximately $108 million, Smart Jobs is the Department's largest program, representing approximately 57 percent of the Department's budget for the 1998-1999 biennium. The Smart Jobs program is funded by an assessment that Texas employers pay in conjunction with unemployment taxes. The Department distributes Smart Jobs funds by contracting with Texas employers to train employees to fill new job vacancies or retrain existing employees by upgrading their skills.

Because the Department depends on employers to accomplish the program objectives established by the Legislature, its success at meeting the objectives is dependent upon its ability to:

- Select qualified employers.
- Write contracts that hold the employers accountable for meeting program requirements.
- Monitor employer performance to ensure that contract requirements are accomplished.
- Establish fair rates for the services.

The Department suffers from serious problems in each of these critical elements of contract management. Additionally, the Department does not have the right information to measure the success of the Smart Jobs program because information obtained from various databases is inaccurate.

## Inadequate Fiscal and Administrative Oversight of Smart Jobs Contracts Limits the Department's Ability to Meet Program Objectives and Ensure That State Funds Are Used Appropriately

The Department cannot adequately protect state funds from waste or abuse and ensure that employers meet program requirements for training, retaining, and increasing employee wages because:

- Contractors (employers) are not selected competitively. Factors such as an applicant's financial history and appropriateness of proposed training are not fully considered, limiting the Department's ability to select the most qualified applicant.

- Loopholes in contract provisions allow employers to be paid for training employees who have not met all of the program requirements. This allows the effective cost per trainee to escalate significantly over the term of the contract.

- Oversight of contractor performance does not hold employers accountable for meeting the terms of the contracts. Significant weaknesses were identified in the practices the Department uses to perform monitoring visits, reimburse employers, and close out contracts.

- Rates paid to contractors are not based on benchmarks or other objective criteria.

### The Department Has Not Appropriately Managed the $201 Million Smart Jobs Fund Balance

The Department currently owes the Texas Workforce Commission's Unemployment Compensation Fund as much as $63 million because it has not complied with a state law that caps the balance of the Smart Jobs Fund. The balance in the Smart Jobs Fund has exceeded the statutory cap since at least September 1997, but the Department never calculated the excess or monitored compliance with the statute prior to this audit.

The balance in the Smart Jobs Fund exceeded the statutory cap by as much as $93 million as of September 30, 1999. After the State Auditor's Office brought the issue to management's attention, the Department transferred $29.6 million to the Texas Workforce Commission on November 18, 1999. However, the Department disagrees with the State Auditor's calculation and has not transferred the additional $63 million in excess funds to the Texas Workforce Commission as of the date of this report.

The Texas Workforce Commission was able to avoid assessing a deficit tax against Texas employers for calendar year 2000 only because the Department transferred the $29.6 million in November 1999. The Department's failure to transfer the remaining excess funds has the potential to increase future unemployment taxes assessed against Texas employers.

Additionally, incorrect accounting practices make it difficult for the Department to determine the amount of Smart Jobs funds available for new contracts. The amount of funds available for new contracts were understated by at least $13 million (34 percent) for fiscal years 1998 and 1999 combined because employers used only two-thirds of the funds projected during the application phase.

### The Department Does Not Collect Accurate and Meaningful Data to Measure and Report the Success of the Smart Jobs Program

The success of the Smart Jobs program is difficult to measure because of problems with the usefulness and accuracy of information collected and reported by the Department. Key performance measures are inaccurate and not directly related to program objectives. Additionally, information obtained from various databases is inaccurate and cannot be relied upon to make decisions.

### Poor Business Practices Allowed State Resources to Be Wasted and Abused in Other Department Operations

The Department's poor contract administration practices and lax oversight of donated airline vouchers allowed state resources to be wasted and abused. Specifically:

- The Department paid nearly $540,000 for a project tracking system it never received because it agreed to contract amendments that deleted a critical provision requiring the vendor to provide a completed tracking system. The Department finalized contracting policies on October 1, 1999, to prevent this situation from recurring.

- The lack of appropriate safeguards allowed a former employee to maintain sole custody of vouchers donated by a major airline, and possibly use one of the vouchers for personal travel. This matter has been referred to the Travis County District Attorney's Office for further investigation.

# Executive Summary

## Summary of Management's Response

The Department's response indicates that it agrees with the majority of the findings in the report. However, the Department does not agree with the recommendation that it should transfer $63 million to the Unemployment Compensation Fund at the Texas Workforce Commission.

Specific responses, which outline corrective actions taken by the Department, are included at the end of each section of the report. The Department's summary response is included immediately following Section 4 of this report.

## Objective, Scope, and Methodology

The objective of this project was to audit the Department's financial transactions in accordance with the requirements of Government Code, Section 481.008 and analyze and assess the key management control systems related to the Smart Jobs program.

The audit covered Department operations during fiscal years 1998 and 1999. Fieldwork was conducted between March and November 1999.

The scope of our audit included review of the contract administration and financial practices associated with the Smart Jobs programs along with selected financial transactions of other Department operations.

This page intentionally left blank.

Section 1:

# Inadequate Fiscal and Administrative Oversight of Smart Jobs Contracts Limits the Department's Ability to Meet Program Objectives and Ensure That State Funds Are Used Appropriately

The Department does not provide adequate fiscal and administrative oversight of Smart Jobs contracts. The Department distributes Smart Jobs funds by contracting with Texas employers to train employees to fill new job vacancies or retrain existing employees by upgrading their skills. With appropriated authority to spend approximately $108 million for the 1998-1999 biennium, the Smart Jobs program is the largest program managed by the Department.

To meet its program objectives and ensure that state funds are used appropriately, the Department must effectively manage the Smart Jobs contracts awarded to Texas employers. However, we found serious problems with the Department's ability to:

- Select qualified employers.
- Write contracts that hold the employers accountable for meeting program requirements.
- Monitor employer performance to ensure that contract requirements are met.
- Establish fair rates for the services.

Section 1-A:

## The Department's Selection Process Does Not Ensure That the Most Qualified Applicants Receive Smart Jobs Grants and Is Not Timely

The process the Department uses to award Smart Jobs grants does not ensure that relevant factors such as an applicant's financial history and the appropriateness of proposed training are fully considered. As a result, the Department may not be selecting applicants who are the most qualified to make the best use of state funds. The examples cited throughout Section 1 of this report discuss a number of employers who are unable or unwilling to meet all of the contract requirements. Additionally, the Department's application and contracting process is not timely, which affects an employer's ability to schedule and implement training on a timely basis.

Employers who receive Smart Jobs grants are not selected competitively. While the Department assigns points based on an employer's reported ability to meet statutory requirements, the scores are not used to rank or identify the most qualified applicants. The Department has primarily focused its selection process on meeting statutorily defined requirements.

However, inadequate consideration of factors such as an employer's financial status and appropriateness of the training may prevent the Department from ensuring that Smart Jobs funds are put to the best use. For example, an employer received a $30,000 contract despite the fact that the Department had documented the employer's deteriorating financial position and expressed concerns that the employer was a high risk based on information received from an external credit reporting service. The Department has reimbursed this employer $3,000 to train the employer's office manager in carpentry skills. The employer has not been able to prove that it has actually trained the employees for which it has requested subsequent reimbursements.

The Department does not process applications and finalize contracts within a reasonable time frame. Based on the Department's calculations, it took an average of 119 and 57 days to process applications during fiscal years 1998 and 1999, respectively. Moreover, the Department averaged an additional 84 and 159 days, respectively, to negotiate the final contract once an application was approved. The Department was not in compliance with a state law requiring contract application approval within a 30-day time frame during fiscal years 1998 and 1999. Although the statutory requirement was deleted for fiscal year 2000, the Department still needs to ensure that applications are processed and that contracts are finalized within a reasonable time frame.

Recommendation:

- To help ensure that employers will achieve program objectives, the Department should implement a ranking system that selects applicants on a competitive basis. The ranking system should identify and define the criteria needed to successfully achieve program objectives and make the best use of state funds. All procedures should be directed toward ensuring that contracts are awarded to qualified employers for training that meets program requirements.

- To ensure that applications are processed and contracts are finalized in a timely manner, the Department should analyze its current practices and eliminate unnecessary administrative procedures in the application and contract award process.

*Management's Response*:

- *The Department agrees with the recommendation. The Department developed a multi-step ranking system whereby statutory priorities are first met, then additional criteria such as training objectives and budget are considered. An application assessment seeks to eliminate high-risk candidates and guarantees a competitive process by: analyzing contract amounts, measuring percentage of on-the-job training vs. total contracted hours, attendance at a Smart Jobs workshop, first-time grantee status, and number of years in business. Additionally, the Department also considers the financial stability of the organization by reviewing documents such as the Dun & Bradstreet Report, financial statements, and confirmation of state tax payments.*

- *The Department agrees with the recommendation and, in November 1999, implemented a revised application review and evaluation process that* *eliminates unnecessary administrative procedures. The application was simplified and reduced from 16 pages to eight pages which will help improve the accuracy of applications and ensure the reduction of processing and evaluation times. Applications will now be accepted and reviewed on a daily, rather than a quarterly, basis. Staffing was restructured to operate more efficiently. These changes are now incorporated into the* ***Smart Jobs Policies and Procedures Manual.***

Section 1-B:

## Contract Provisions Allow Employers to Receive Payment for Training Employees Who Have Not Met Program Requirements

The Department pays employers for training employees who have not met the training, wage, and retention objectives of the program. Contract terms allow employers to receive payment for 15 percent of the employees projected to receive training, even if all program requirements are not met. Additionally, employers are sometimes paid the full rates approved in initial contracts despite the fact that a trainee has not completed the number of training hours required by the contract. This is because the contract terms do not set minimum training requirements.

The following examples highlight how these loopholes in the contract provisions allow the cost per trainee to increase significantly over the amount approved in an initial contract award:

- One employer signed a contract to train 64 employees at $4,079 per employee. Only three employees were trained and retained in accordance with program objectives. However, based on the Department's contract terms, the employer was paid $52,115 as if 13 employees had met the program objectives. This occurred because the Department's contract terms allowed payment for 15 percent of the 64 projected trainees (10) in addition to the 3 who actually met the requirements. As a result, the actual cost of training three participants rose from $4,079 to $17,372 each.

- One employer signed a contract to train 75 employees for 100 hours each at a cost of $2,500 per employee. Only eight of the employees received 90 or more hours of the training required by the contract. However, the employer was paid approximately $41,000 for training those 8 as well as 44 other employees who did not meet the contract requirements. Twenty-two of the 44 other employees received less than 10 hours of training. Paying for services that did not meet the contract terms increased the effective cost per trainee from $2,500 to $5,125 for the eight employees who actually met the contract requirements.

Recommendation:

The Department needs to make the following changes in its contract terms to ensure that it only pays for training that achieves program objectives:

- Base the allowable attrition rate on the actual number of trainees that receive a minimum amount of training.

- Establish a standard for the minimum number of hours that must be provided before an employer may count a trainee toward meeting its program objectives.

*Management's Response*:

- *The Department agrees with the recommendation and revised Part IV, General Provisions, of the Smart Jobs contract that calculates the allowable attrition rate based on actual number of employees who are trained and received a minimum number of training hours. In November 1999, the Department identified the contract weakness that allowed reimbursement based on projected—rather than actual—trainees, and drafted rule changes to correct the problem. The rule changes were incorporated into the contracts on December 20, 1999. These rules will be adopted by the governing board in February 2000.*

- *The Department agrees with the recommendation and revised Smart Jobs policies and procedures to require Smart Jobs staff to verify that all trainees must achieve at least seventy-five percent (75%) of the training hours to meet the minimum contract requirements. These changes were incorporated into contracts executed after December 20, 1999, and are scheduled to be approved by the Governing Board in February 2000.*

Section 1-C:

## The Department's Oversight of Employers Provides Little Assurance That State Funds Are Used Appropriately and That Contract Requirements Are Met

Because of pervasive weaknesses in the way the Department oversees contracts, employers are being paid when there is little proof that they have trained and retained their employees in accordance with contract requirements and Smart Job program objectives. Significant weaknesses were identified in the practices used by the Department to conduct monitoring visits, reimburse employers, and close out contracts.

Inadequate oversight has decreased accountability and increased the risk of waste and abuse of state funds. Over 65 percent of the contract files reviewed included at least one deficiency. The contracts awarded to these employers totaled approximately $7 million. Specific weaknesses are outlined in the remainder of this section.

**On-site monitoring does not ensure that contract requirements are met.** On-site monitoring does not hold contractors accountable for meeting contract requirements because (1) the visits sometimes take place before training services are provided, (2) established monitoring procedures are not consistently used, and

(3) the Department does not follow up on known problems. Department policy requires that each contractor receive an on-site monitoring visit. However, weaknesses in the nature, timing, and extent of the monitoring visits limit their usefulness. The following are specific examples:

- Approximately 10 percent of the employers sampled (5 of 44) received monitoring visits before any employees had been trained. Although the purpose of these visits was to provide technical assistance, the Department counted them as monitoring visits. Because it was not possible to interview any trainees or review supporting documentation, these visits did not provide any assurance that contract requirements were met. Furthermore, none of these employers received a follow-up monitoring visit after training began. The Program Director stated that a travel cap limited the Department's ability to conduct follow-up visits. However, two of the five employers were located in Austin.

  The Department is trying to collect approximately $122,000 from one of these five employers who did not fulfill the contract terms, but the contractor has not responded to the Department's repeated telephone calls or written requests for documents.

- Smart Jobs contract administrators do not consistently follow monitoring procedures. Interview questionnaires directed at management, trainers, and trainees are not always used. It is difficult to determine if the employer is meeting program objectives if such tools are not used and results are not appropriately documented. Each monitor also works independently to monitor assigned contracts, adding to the inconsistencies between the visits and the contract risk assessments.

  For example, during one monitoring visit the Department's monitor did not follow procedures requiring trainee interviews because the employer could not produce a list of trainees at the time of the monitoring visit. The Department had previously designated this employer as a high risk because it had not appropriately tracked training hours. The employer has been reimbursed approximately $230,000 despite the Department's own concerns over the employer's tracking system and inability to produce a list of trainees. The Department has not performed any additional monitoring visits.

- There is a lack of follow-up and implementation of corrective actions by the Department's contract monitors even when problems are identified during monitoring visits. In one instance, the Department continued to reimburse the employer at the full contract rate despite a request from the employer for a contract amendment and reduction of the award amount. The Department never made the requested contract amendment, and the employer was reimbursed 75 percent of the original contract amount ($96,867) even though it only completed 38 percent of the training required by the contract.

  In another instance, the Department identified concerns regarding an employer's ability to accurately track training hours during a monitoring visit. Although the monitor recommended an additional visit to interview trainees, none has taken place. The employer has been reimbursed $23,000 to date, despite the fact it still does not have a verified method in place to track training hours.

**The reimbursement process does not ensure that the Department pays only for allowable training and administrative costs.** Employers are required to submit supporting documentation to the Department to receive payment. However, the Department's review of the supporting documentation does not ensure that employers are only paid for the costs allowed by statute and Department rules. Problems noted include:

- Of the employers tested, the Department paid several even though vendor invoices or payroll records for internal instructor wages did not support reimbursement requests. For example, one employer was reimbursed $212,503 for training supplies and internal instructor hours. The only supporting documentation submitted to the Department was a letter from the employer stating that the funds had been spent on supplies and internal instructor wages and benefits. The employer was also paid $17,000 for consulting fees--again with no supporting documentation.

- One employer from the sample was reimbursed for expenses that were not allowable training costs according to Government Code, Section 481.159(b). The employer was reimbursed $1,500 for tax preparation software that provided the ability to prepare an unlimited number of tax returns. The training manuals included in the purchase of the tax software are considered reimbursable. However, the tax software, which the employer may use in its operations, is not a direct training cost and should not have been reimbursed.

- The reimbursement process does not comply with Government Code, Section 481.159 (c), which requires the Department to withhold 25 percent of the allowable reimbursements for 90 days after the date of completion of the contract. Employers are routinely paid for all expenses requested until the reimbursements total 75 percent of the original contract award. However, employers typically use only two-thirds of the original contract award, so the employers are often reimbursed for 100 percent of actual expenditures. Thus contracts are often closed out before the expenditures reach the 75 percent threshold.

**The contract closeout process does not ensure that employers get paid only for trainees that have successfully met the training, wage, and retention requirements.** Employers report the names of the trainees, the amount of training they received, and their wages before and after training. However, the Department does not typically verify this information against payroll records. Therefore, the Department's closeout process does not ensure that workers were actually trained and retained in accordance with contract requirements.

Recommendation:

- The Department needs to develop a risk assessment tool for the Smart Jobs program and use it to direct monitoring resources to the employers with the highest risk of noncompliance. The risk assessment should include factors such as dollar amount of award, contractor type, past experience, percentage of new to existing employees, and the results of any monitoring visits. The risk assessment should help determine the nature, timing, and extent of monitoring visits.

- To ensure that employers achieve program objectives, monitoring visits should include interviews with management, trainers, and trainees; a review of how the employer tracks training; verification of a sample of trainees and internal instructors to payroll journals; and continued communication with the employer on contract requirements. The results of the visits should be used to determine the level of subsequent monitoring for the employer.

- The Department should ensure that employers submit adequate supporting documents that agree to their reimbursement requests. For example, invoice copies should be submitted for all material, supplies, and services provided by third parties. Copies of payroll journals should also support internal instructor wages.

- To provide additional assurance that employers comply with contract terms, the Department should only pay 75 percent of the reimbursement requested, instead of 75 percent of the total grant amount. The remaining 25 percent should be reimbursed once the Department determines that employees received the required training and were retained through the 90-day retention period.

- Finally, during the closeout process, the Department should consistently compare the Final Report of Workers Trained to payroll records to support the 90-day retention and wage requirements. Also, only employees that meet contract requirements should be counted in determining the allowable and actual attrition rates.

*Management's Response*:

- *The Department agrees with the recommendation and developed and implemented a monitor assessment mechanism into the* ***Smart Jobs Policies and Procedures Manual****, effective February 1, 2000. This mechanism will rate contractor performance and determine the risk of non-compliance and the frequency of monitoring visits throughout the term of the contract.*

- *The Department agrees with the recommendation and incorporated the mandatory use of a previously developed, on-site monitoring questionnaire into the* ***Smart Jobs Policies and Procedures Manual****, effective December 1999. This questionnaire includes interviews, reviews of employee training,* *and tracking mechanisms, and reconciles internal instructors to payroll journals.*

- *The Department agrees with the recommendation and has developed procedures as of December 10, 1999, to be followed by case monitors/payables staff to verify that adequate documentation is submitted for reimbursement. The Smart Jobs program is reorganized to include additional case monitors/payables staff to provide adequate review of all required reimbursement documentation, effective February 1, 2000.*

- *The Department agrees with the recommendation and has revised Part IV, General Provisions, of the Smart Jobs contract and rules to provide that the program will withhold twenty-five percent of each approved voucher amount during the training project period. These general provisions will be included in all Fiscal Year 2000 contracts. The revised rules are scheduled to be approved by the Governing Board in February 2000.*

- *The Department agrees with the recommendation and has implemented a revised close-out process that directs case monitors/payables staff to verify 90-day retention and wage requirements through actual payroll records. This new policy was implemented December 10, 1999, and is now incorporated into the* ***Smart Jobs Policies and Procedures Manual****.*

Section 1-D:

## Practices Used to Establish Contract Awards Do Not Provide Adequate Assurance That the State Pays a Fair and Reasonable Price for Training Services

Smart Jobs program personnel did not consistently use benchmarks or other objective criteria to determine the amounts of contract awards during fiscal years 1998 and 1999. The Department has not developed policies that establish reasonable ranges for similar training programs such as basic computer skills and software packages. As a result, the Department may be paying more than necessary for same or similar training provided by different employers. Additionally, as previously discussed in Section 1-B, weaknesses in contract provisions allow the cost per trainee to increase significantly over the term of the contract. Any assessment of rates performed during the contract award process is essentially disregarded. As long as the maximum contract amount has not been reached, the employer is reimbursed for actual costs, regardless of the cost per trainee.

The rates paid to employers during fiscal years 1998 and 1999 were based on averages of previous grant awards and program personnel’s subjective judgment. During fiscal years 1999 and 2000, the Department began to compare the costs paid to employers for providing internal training to cost information obtained from external vendors through the Internet or from trade publications.

Employers are sometimes paid the full rates approved in the initial contracts despite the fact that the participant has not completed the number of training hours required by the contract or met the training, wage, and retention objectives of the program.

This in turn causes the cost per trainee to increase significantly over the costs initially approved by the Department. In the examples cited previously in Section 1-B, the cost per trainee rose from $4,079 to $17,372 and from $2,500 to $5,125 over the term of the contract.

Recommendation:

To ensure that the State pays a fair and reasonable price for training services provided by employers, the Department should:

- Develop defined criteria to use in establishing the award amounts. The Department should establish benchmarks to determine the reasonableness of employers' internal training costs as compared to training available on the open market. When training is readily available on the open market, the Department should consider requiring employers to provide a cost-benefit comparison of providing the training internally versus externally.

- Establish policies that prevent the cost per trainee from escalating over the term of the contract.

*Management's Response*:

- *The Department agrees with the recommendation and established a database/research position (filled January 11, 2000). The database/research specialist will establish benchmarks to determine the reasonableness of employers' internal training costs compared to training available on the open market. These steps are now incorporated into the* ***Smart Jobs Policies and Procedures Manual****.*

- *The Department agrees with the recommendation and reorganized the program to include a database/research specialist who will develop a cost-benefit analysis database by March 1, 2000. This process is now incorporated into the* ***Smart Jobs Policies and Procedures Manual****. Employers may be asked to provide a cost comparison between training provided internally, and training classes available on the open market.*

- *The Department agrees with the recommendation and revised the terms of the contract, Part IV, General Provisions, to pay only for the actual number of employees trained in accordance with contract terms. By March 2000, this measure will be implemented to prevent the cost per trainee from escalating over the life of the contract.*

Section 2:

# The Department Has Not Appropriately Managed the $201 Million Smart Jobs Fund Balance

The Department owed the Unemployment Compensation Fund of the Texas Workforce Commission as much as $93 million as of September 30, 1999, because it failed to monitor the fund balance or comply with statutory requirements that cap the balance of the Smart Jobs Fund. Additionally, incorrect accounting practices make it difficult to determine the true available balance in the Smart Jobs Fund.

Section 2-A:

## The Department Owes the Unemployment Compensation Fund as Much as $63 Million Because the Balance in the Smart Jobs Fund Exceeds the Maximum Allowed by State Law

The Department currently owes the Texas Workforce Commission's Unemployment Compensation Fund as much as $63 million because it has not complied with a state law that caps the balance of the Smart Jobs Fund. The Department's failure to transfer excess funds has the potential to increase future unemployment tax assessments made on Texas employers.

If the Department transferred the $63 million excess, the remaining fund balance would be $108 million, as of September 30, 1999. Based on the Department's records, the $108 million would cover outstanding commitments to employers, leaving a minimum of $45 million to cover new contracts for the 2000-2001 biennium.

The balance in the Smart Jobs Fund exceeded the statutory cap by as much as $93 million as of September 30,1999. After the State Auditor's Office brought the issue to management's attention, the Department transferred $29.6 million to the Texas Workforce Commission on November 18, 1999. Although the balance in the Smart Jobs Fund still exceeds the statutory cap by as much as $63 million, the Department disagrees with the Auditor's calculation and has not transferred the excess funds to the Texas Workforce Commission as of the date of this report.

**Statutory Cap on Smart Jobs Fund Balance**

Government Code Section 481.154 (i) states that if during any three consecutive months, the balance in the Smart Jobs Fund exceeds 0.15 percent of the total taxable wages for the four calendar quarters ending the preceding June 30, as computed under Section 204.062 (c), Labor Code, the executive director shall immediately transfer the excess to the Unemployment Compensation Fund created under Section 203.021, Labor Code.

The Smart Jobs Fund is a special trust fund used to administer the Department's Smart Jobs program. The program is funded through a percentage of unemployment contributions paid by employers and does not receive any general revenue funds. Government Code, Section 481.154(i), establishes a cap on the amount that the Department is allowed to accumulate in the fund and requires that any excess be transferred to the Unemployment Compensation Fund at the Texas Workforce Commission (see text box).

The Department's failure to transfer excess Smart Jobs funds to the Unemployment Compensation Fund has the potential to cause an assessment of deficit taxes against Texas employers. Such a deficit tax was nearly assessed for calendar year 2000 because the balance in the Unemployment Compensation Fund fell to approximately $24.5 million below the minimum level required by statute (as of September 30, 1999). The Texas Workforce Commission was able to avoid assessing the deficit tax because the Department transferred $29.6 million in excess Smart Jobs funds to the Texas Workforce Commission on November 18, 1999.

If the balance in the Unemployment Compensation Fund falls below its statutory minimum again during fiscal year 2000, failure to transfer the remaining $63 million in excess Smart Jobs funds to the Texas Workforce Commission could increase the amount of future deficit tax assessments made on Texas employers. For the first four months of fiscal year 2000, the balance in the Unemployment Compensation Fund was below the fiscal year 1999 statutory minimum.

The balance in the Smart Jobs Fund has exceeded its statutorily mandated cap for the last two fiscal years. Our analysis indicates that the fund balance exceeded the cap every month during fiscal years 1998 and 1999. We calculate that the excess fund balance ranged from a low of $38 million in July 1998 to a high of $107 million in September 1998. During this period, the Department did not track or monitor its compliance with the statute. The Department did not begin calculating the statutory cap and comparing it to the balance in the fund until November 1999, after the State Auditor's Office raised the issue.

The Department disagrees with the methodology used by the State Auditor's Office to calculate the excess fund balance owed to the Unemployment Compensation Fund. In November 1999, the Department issued a memo stating that based on its own calculation, the Smart Jobs Fund balance had never exceeded the statutory cap, and thus no transfer of excess funds was necessary. The Department subsequently changed its position and calculated the excess fund balance to be $29.6 million, approximately $63 million less than the $93 million excess calculated by the State Auditor's Office. It is important to note that even using the Department's methodology, the fund balance exceeded the statutory cap eight months during fiscal year 1998 and every month during fiscal year 1999.

**How does the definition of fund balance affect the amount subject to the cap?**

| | **GAAP Definition** | | **Department Interpretation** |
|---|---|---|---|
| | Cash Balance | | Cash Balance |
| | - <u>Payables (liabilities)</u> | | - <u>Payables (liabilities)</u> |
| Amount subject to cap: | **Fund Balance** | | **Fund Balance** |
| | | | - <u>Reserved For Encumbrances</u> |
| | | Amount subject to cap: | **Unreserved Fund Balance** |

The difference between the State Auditor's calculation and the Department's calculation is that the Department believes that encumbrances should not be included in the calculation of the fund balance that is subject to the cap.

The statute applies the cap to the "balance in the Smart Jobs Fund . . . ", but the term balance is not defined in the statute. Because "balance" is an accounting term, the

State Auditor's Office looked to how "balance" is defined by generally accepted accounting principles (GAAP) and other accounting literature. These authorities uniformly hold that funds reserved for encumbrances are to be included in the calculation of the fund balance. Encumbrances are defined as "commitments to expend resources." They are considered a component of the fund balance and are not considered liabilities.

However, the Department asserts that the statutory cap should be applied to the unreserved fund balance in the Smart Jobs Fund; that is, the balance remaining after the encumbrances are subtracted (see text box on previous page).

In addition to putting Texas employers at risk of paying more taxes, the Department's failure to transfer the excess Smart Jobs funds resulted in a material misstatement of the fund balance in the fiscal year 1998 and 1999 annual financial reports. The Smart Jobs Fund balances reported for the fiscal years ending August 31, 1998, and August 31, 1999, are overstated by approximately $106 million and $93 million respectively.

<u>Recommendation</u>:

The Department should transfer the remaining $63 million in excess funds to the Unemployment Compensation Fund at the Texas Workforce Commission. If the Department continues to disagree with the use of the generally accepted accounting principle definition of fund balance, it should request an Attorney General's Opinion to resolve the statutory definition of fund balance.

The Department should monitor its compliance with the statutory cap on a monthly basis and return any excess funds to the Unemployment Compensation Fund in a timely manner as required by statute.

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

*Upon interpretation of the statute, the Department will immediately transfer the necessary funds to the Unemployment Compensation Fund. Government Code, Section 481.154(i), does not define the "balance of the Smart Jobs fund" or specify how it is to be calculated. The Department relied on Government Code, Chapter 311, the Code Construction Act, to determine the balance of the fund.*

*The Department is currently seeking a decision regarding the interpretation of the statute which may include asking the advice of the Attorney General. Additionally, the Department will seek legislative clarification next session on the use of the term "balance" for the purpose of transferring funds to the Unemployment Compensation Fund. While the Department maintains that the balance of the fund should take encumbrances and could take commitments against the fund into account, the Department has also consistently recognized that there may be more than one way to calculate the balance of the fund.*

*The Department agrees with the recommendation that the balance of the fund be monitored and funds transferred in a timely manner. Since December 1999, expenditures, encumbrances, and contract amendments have been monitored on a daily basis. In December 1999, the Department reconstructed the balance of the fund, and in January, the Department hired an independent accountant to review the balance of the fund (as of August 31, 1999) and verify its accuracy. Formal monitoring and reporting procedures will be developed and implemented in February 2000. The Department will immediately transfer additional funds to the Unemployment Compensation Fund if excess funds are identified.*

<u>Auditor Follow-Up Comment</u>:

As stated in our recommendations, the Department should either immediately return the $63 million in excess funds to the Unemployment Compensation Fund at the Texas Workforce Commission or seek a ruling on the interpretation of the law from the Office of the Attorney General.

Section 2-B:

## Incorrect Accounting Practices Make It Difficult to Accurately Determine the Amount of Smart Jobs Funds Available for New Contracts

The amount of Smart Jobs funds available for new contract awards is difficult to determine because the Department uses incorrect accounting practices to encumber funds. Encumbrances reduce the amount of funds available for new contract awards by “reserving” funds for contracts that have already been awarded. Smart Jobs encumbrances totaled approximately $77 million as of August 31, 1999. However, the accuracy of this figure is questionable due to the following factors:

- <u>Funds available for new contracts were understated by at least $13 million for fiscal years 1998 and 1999 combined because the Department based encumbrances on projections the employers made during the application process.</u> Although the Department is aware that the employers often use less than the original encumbered amount, it has not analyzed the trends and developed strategies to establish and track encumbrances more accurately.

  Analysis of all contracts awarded and completed during fiscal years 1998 and 1999 combined indicated that employers only use two-thirds of the projected dollars. For contracts completed during this time frame, the Department encumbered funds totaling $38 million, but only $25 million was actually used by the employers who received the contracts. The $13 million difference was unavailable for new contract awards throughout fiscal years 1998 and 1999 because it was officially encumbered.

- <u>Funds have been encumbered prior to the execution of a signed contract, contrary to the Comptroller of Public Accounts’ published reporting requirements.</u> Approximately 13 percent (28 of 209) of the files tested were incorrectly encumbered before the contracts were fully executed. The encumbrances for these files totaled $4.8 million, which was incorrectly reported as encumbered for the fiscal year ending August 31, 1998. Additionally, the Department could not produce an executed contract to support the encumbrance amounts for two of the files tested. In one case, Smart Jobs personnel sent a contract copy back to the contractor for a signature when the executed copy could not be found. For the other file, a contract could not be found in the contracting database or in the program files to support the encumbrance amount. The contract administrator indicated that the contract had never been executed.

- Funds are not deobligated (made available for new contract awards) in a timely manner even when the Department knows that the encumbered amounts have changed. The Department took an average of 208 days to deobligate funds for the files included in our sample.

  Five of the contracts tested that totaled over $500,000 were still encumbered as of November 30, 1999, even though there had been no activity since the funds were originally encumbered on August 31, 1998.

Recommendation:

To more accurately track and account for Smart Jobs program encumbrances, the Department should:

- Perform a thorough review of all existing Smart Job contract files to identify an accurate encumbrance figure for the fiscal year beginning September 1, 1999. All encumbered funds related to contracts closed or completed prior to September 1, 1999, should be deobligated and the encumbrance total adjusted accordingly.

- Continue to perform regular reviews of encumbered funds to identify active contracts and determine appropriateness of encumbered funds (for example, is there sufficient support for the encumbrance amount?). Program and accounting staff should coordinate efforts in determining the appropriateness of encumbered amounts.

- Develop a mechanism to account for Smart Jobs funds that are reserved or committed prior to the contract award. (This would allow the Department to set aside funds for potential uses without actually encumbering the funds prior to the execution of a contract.)

- Encumber funds for grant awards only when the Department has a fully executed contract.

*Management's Response*:

- *The Department agrees with the recommendation and, in January 2000, contracted with an independent accountant to verify the accurate* *encumbrance figure (as of August 31, 1999). This work is expected to be completed by February 15, 2000. In December 1999, the Department prepared a reconciled balance between Accounting and the Smart Jobs program area. If necessary, adjustments will be made based on the findings of the independent accountant and guidance provided from other authorities.*

- *The Department agrees with the recommendation. Beginning January 2000, Accounting began adjusting the encumbered balance upon receipt of executed contract amendments and/or contract close-out documentation.*

- *The Department agrees with the recommendation and, on December 10, 1999, began monitoring funds for pending applications and contracts to account for Smart Jobs funds that are reserved or committed prior to the contract award.*

- *The Department agrees with the recommendation. Beginning with the FY 2000 contracts, Accounting will encumber funds upon receipt of a contract signed by both parties.*

Section 3:

## The Department Does Not Collect Accurate and Meaningful Data to Measure and Report the Success of the Smart Jobs Program

The success of the Smart Jobs program is difficult to measure because of problems with both the usefulness and accuracy of the information collected and reported by the Department. Key performance measures are inaccurate and not directly related to program objectives. Information obtained from various databases is inaccurate and cannot be relied upon to make decisions. The following specific weaknesses were identified:

- Despite the fact that the Smart Jobs program is the Department's largest program, the Department does not have an outcome measure to gauge the program's success at meeting stated objectives. Data from the Smart Jobs program is not included in the agencywide outcome measure Number of Actual Jobs Created by Businesses that Receive TDED Assistance. Additionally, creation of jobs is only one of the objectives of the Smart Jobs program. The outcome measure does not include other program objectives such as upgrading employee skills.

- The Department is over-reporting the number of participants who receive training and the amount of funds spent on training. Reported information is based on projections made at the time of the contract award, not the actual number of workers trained and the amount of funds spent, which can only be calculated once the contract has been completed. This affects the accuracy and usefulness of the Department's output measure Number of Smart Job Participants Trained for New Jobs.

- The data reported to the Legislative Budget Board for both Number of Actual Jobs Created by Businesses that Receive TDED Assistance (30 percent error rate) and Number of Smart Job Participants Trained for New Jobs (10 percent error rate) are inaccurate. Individuals who collect the performance data for the first measure are not familiar with the performance measures, nor do they have a clear understanding of how the measures relate to the Department's strategic goals.

- Numerous technical problems have corrupted the Smart Jobs database to the point that the information is unreliable for reporting purposes. The Smart Jobs database and the Contracting database do not interface, which creates discrepancies arising from errors in data input. Any changes to data must be made twice, once in each database. Testing identified numerous discrepancies between the source documents and the two databases. For example, in some cases there were different dates in each of the databases and the source document. Inaccurate information results in the Department not being able to accurately assess the program's performance in addition to reporting incorrect information to oversight agencies.

<u>Recommendation</u>:

The Department should:

- Identify information needed to measure the success of the Smart Jobs program in meeting its objectives. Once the information has been identified, work with the Legislative Budget Board to develop outcome and output measures that are useful in assessing the program's success.

- Restructure and integrate the Smart Jobs database with the Contracting database and reconcile the differences between the databases and source documentation.

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

- *The Department agrees with the recommendation and has begun to identify information needed to measure program success. The automated grant management system will be developed by May 2000, and will capture the program's performance measures and report meaningful data in assessing the program's success. The Department is currently entering the phase of the biennial strategic planning and budgeting process where all agency measures are reviewed, and revisions to those measures are proposed to the Legislative Budget Board and the Governor's Office of Budget and Planning for inclusion in the Department's budget structure for FY 2002-2003.*

- *The Department agrees with the recommendation and has organized program staffing to include a database/research specialist who is integrating and reconciling the Smart Jobs applications and contracting databases. The specialist is restructuring and validating all old database information. The Information Services Division is developing a database program that will be implemented before February 1, 2000.*

Section 4:

# Poor Business Practices Allowed State Resources to Be Wasted and Abused in Other Department Operations

The Department's poor contract administration practices and lax oversight of donated airline vouchers have resulted in questionable uses of state resources.

Section 4-A:

## Poor Contracting Procedures Allowed the Department to Pay Nearly $540,000 for a Database That Was Never Completed

The Department paid approximately $540,000 during fiscal years 1997 and 1998 for a functional project tracking system it never received. In its eagerness to obtain the system, the Department agreed to contract amendments that appeared to benefit the vendor. A critical contract provision defining and requiring a contract deliverable (the tracking system) was deleted, effectively changing the nature of the contract to a time and effort contract. The billing structure was also changed to pay the vendor for hours worked, along with an agreement that the vendor would provide programming services as time permitted.

In January 1998 the Department realized its error and dismissed the vendor from the project, but only after it had paid the vendor nearly $540,000. The Department did receive documentation identifying requirements for the project tracking system's design for the initial purchase order of $249,720. However, the documentation has been of little use to the Department in completing the system. The Department has committed its own resources to finishing the development of the tracking system, but it has encountered difficulties with budgetary constraints and inadequate work by the vendor.

The Department considered contacting the Attorney General's Office to determine if it had any options for recourse under the contract. However, primarily because of the contract amendments, the Department felt it had no recourse in requiring the vendor to deliver a completed tracking system.

Weaknesses in the Department's contract administration practices at the time the tracking system was procured allowed the above situation to occur. The following specific weaknesses were noted:

- Contracting procedures, rules, and regulations were missing or inadequate.
- The Legal Division did not always review all contracts and/or amendments.
- Project management practices were inadequate.
- Duties for the various contracting functions were not always properly separated.
- Executed contracts were not adequately monitored.

The Department has made progress in improving its contracting practices. The individuals responsible for allowing the contract amendments are no longer employed at the Department. Additionally, the Legal Division now reviews all contracts prior to execution or amendment. Contract procedures for consulting services, training, all professional services, and any procurement of a service for which contractual terms and conditions are attached were finalized on October 1, 1999. The Purchasing Section has also developed draft comprehensive policies and procedures for the procurement actions under the General Services Commission's regulations.

Recommendation:

The importance of establishing and adhering to comprehensive policies, procedures, and regulations for contracting must be emphasized to all management and employees. The procedures should be sufficient to ensure that the Department receives the goods or services for which the original contracts were written. Specifically, management should:

- Continue to implement comprehensive policies and procedures throughout the Department.
- Continue to involve the Legal Division in the review and approval of new contracts and any amendments to existing contracts.
- Ensure that the proper personnel manage the contracts, including overseeing vendors' adherence to contract provisions.
- Maintain proper segregation of duties during the contract term for areas such as contract negotiations and reimbursement/payment processing.
- Provide adequate and timely monitoring of the contractors to ensure that amendments, payments, and closeout processes are supported completely by vendor documentation.

*Management's Response*:

- *The Department agrees with the recommendation. The Department will continue to revise and implement the formal written contracting procedures adopted October 1, 1999. For example, the Department is currently revising the policy to require Governing Board approval for all contracts for goods and services that are anticipated to exceed $100,000.00.*

- *The Department agrees with the recommendation. The written contracting procedures, adopted October 1, 1999, require legal review and approval of all new contracts and amendments.*

- *The Department agrees with the recommendation. The program areas are primarily responsible for contract management. The Department will continue to develop standardized monitoring procedures for the program areas, to be completed by March 2000.*

- *The Department agrees with the recommendation. In a previous administration, the contracting function was structured so that development of specifications or requests for proposals, contract negotiations, contract drafting, contract award, and contract monitoring could be carried out by one division within the Department. The lack of checks and balances was identified early in Fiscal Year 1998 and corrected through office reorganization by the succeeding administration. In March 1998, functions previously consolidated in the contracting division were returned to purchasing, legal, accounting, and program areas.*

- *The Department agrees with the recommendation. The Department's written contracting procedures, effective October 1, 1999, require contracts to be performance-based, where applicable, rather than being based on time and materials.*

Section 4-B:

## The Department Has Not Adequately Safeguarded Assets Donated to the State

The Department lacks policies for the proper handling of complimentary airline vouchers. The lack of appropriate safeguards allowed a former employee to maintain sole custody of vouchers donated by a major airline, and possibly use one of the vouchers for personal travel. Major airlines provide vouchers so that the Department can reduce its expenditures while carrying out various functions, including organizing international industry conferences. However, the Department cannot ensure that these vouchers will be properly safeguarded, accounted for, and used only for state business.

For example, the Department was issued 26 vouchers to use for official business travel. A Donation Agreement, as prescribed by the Department's own rules, was not executed for these vouchers. Also, the Department's Accounting Department did not maintain custody of the vouchers or even keep a list of the voucher numbers to monitor their use. The lack of appropriate safeguards allowed a former employee to maintain sole custody of the 26 donated vouchers. Evidence suggests that this individual used one of the vouchers to fly first class outside the country for personal business. The State Auditor's Office Special Investigations Unit has referred this matter to the Travis County District Attorney's Office for further investigation.

The need for better internal controls has been brought to the Department's attention in the past. In 1991, (when the agency was named the Department of Commerce) the Comptroller of Public Accounts recommended that "better internal controls should be established at TDOC [Texas Department of Commerce] for keeping any free tickets in the future . . . somebody in Accounting should maintain the actual tickets and documentation of how they are used and by whom." Although a process was established to safeguard the tickets on hand at the time, formal policies were never adopted agencywide to safeguard future complimentary vouchers.

Recommendation:

The Department should establish policies and procedures that ensure that donated assets, such as complimentary airline vouchers, will be properly safeguarded, accounted for, and used only for state business.

*Management's Response*:

*The Department agrees with the recommendation. In February 2000, the Department will formally revise its existing travel and donations policies to specifically address handling of donated airline tickets. Effective immediately, all donated travel vouchers or tickets must be turned in to the Accounting Division for tracking and safekeeping.*

*The Department notes that the employee who may have misused the airline ticket was aware of state law prohibiting the use of state property for personal purposes. The alleged abuse was detected by the Accounting Division during its routine post-project review of travel reimbursement requests. The findings were reported to the Department's Internal Auditor, who in turn referred the findings to the State Auditor for further investigation.*

## Management's Summary Response

STATE OF TEXAS
DEPARTMENT OF ECONOMIC DEVELOPMENT

Monday, 24 January 2000

**Mr. Lawrence F. Alwin**
*State Auditor*
Two Commodore Plaza
206 East Ninth Street, Suite 1900
Austin, Texas 78701

Dear Mr. Alwin:

The Texas Department of Economic Development intends to embrace the recommendations your office makes in the State Auditor's Office January 25 audit of our agency. Certainly this is a sobering report and we are taking it very seriously.

During the process of my being interviewed for this position, I asked the selection committee if an audit of the agency could be conducted in advance of my employment. After having served almost 9 years as County Judge of Denton County, my request was based on using audits as a tool for implementing changes to improve government.

I believed it would be important to use that tool should I be hired. The selection committee responded that, not only could they agree to my request, but that in fact your audit team had already been at the agency for one month!

The Governing Board knew there were issues needing to be addressed with the Smart Jobs program when I was brought on board. Neither they nor I realized the magnitude or depth of the problems with the system. It also has become very clear that internally the agency's structure was not adequate to reveal these problems.

By going back to 1997 this audit, in my opinion, accurately reflects an agency in transition attempting to manage a problem that has rapidly achieved high levels of success. The Smart Jobs program simply grew extremely fast and the agency's system was not in place to support that growth.

Post Office Box 12728 · Austin, Texas 78711-2728 · 512/936-0100
TDD: 512/936-0555 · Relay Texas: 800/735-2988

*Mr. Lawrence F. Alwin*
*Page 2*

Today, thanks to your audit, we now have a clear path to fix what has not been performing efficiently. Sound management principles are now in place to direct Smart Jobs, and these are embodied in a working document titled Smart Jobs Fund Program Policies and Procedures.

As you will see by our Management Response, we not only accept your recommendations but we also are providing you with solid, immediate action steps that will specifically and measurably meet each of your recommendations.

You have my pledge to do all I can to rapidly incorporate your recommendations and in doing so, achieve the Legislature's goal of helping make Texas more globally competitive.

Very truly,

Jeff A. Moseley

**Jeff A. Moseley**
*Executive Director*

*P.S. Please pass along my personal commendation to Cindy Reed and her team for service above and beyond the call of duty. They were extremely tough, thorough and above all, fair. We pledge to continue our strong working relationship as we move into the Phase II audit of Smart Jobs.*

m2

Appendix:
# Objective, Scope, and Methodology

## Objective

Our audit objective was to examine fiscal year 1998 and 1999 financial transactions and analyze and assess key management control systems of the Smart Jobs program at the Department of Economic Development. The work was done to ensure that systems are in place and that operations are working toward enabling the Department to achieve its mission and goals in an efficient and effective manner.

The evaluation primarily focused on answering the following questions:

- Has the Department implemented controls to ensure that funds are safeguarded and correctly reported?
- Has the Department implemented controls to ensure that rules and regulations are complied with?
- Does the Department have a system to measure the efficiency, quality, and outcomes of its programs?
- Does the Department have information systems that provide useful information to decision makers?
- Has the Smart Jobs program fulfilled its statutory requirements?

## Scope

The scope of this audit included consideration of the Department's financial transactions for fiscal years 1998 and 1999. We also examined different functions that would provide insight into the Department's overall management control systems.

The majority of our work focused on the Smart Jobs program. All phases of the Department's contract administration practices were reviewed, including contractor selection, rate-setting, monitoring activities, and final closeout of the contracts, in addition to any applicable statutes and rules governing program operations. The review was performed using documentation primarily from fiscal years 1998 and 1999.

## Methodology

Information collected to accomplish our objective included the following:

- Interviews with acting Department management, division management, division personnel, Smart Jobs program management, and Smart Jobs personnel

- Documentary evidence such as Department strategic plans, goals, budgets, memoranda, policies and procedures, and performance measurement information
- Smart Jobs program-generated data on application time frames, contract terms, reimbursements to participating employers, monitoring activities, and closeout results
- State statutes and Smart Jobs program rules
- Minutes from the Governing Board meetings
- Employee personnel files, job descriptions, and job postings
- General Appropriations Act, 1998-1999, 75th Legislature
- Third-party information on the Unemployment Compensation Fund

Procedures and tests conducted:

- Testing of Smart Jobs contract files, including contract application files and the processes used to select contractors, reimburse contractors, monitor contract compliance, and close out contracts
- Financial analysis of the Department's expenditures related to the Smart Jobs program
- Walk-through and direct observation of processes
- Review of documentation related to Department operations
- Review and testing of performance measures, including certification of key performance measures
- Compliance with applicable state statutes and rules
- Examination of selected expenditure vouchers

Analysis techniques used:

- Financial analysis
- Comparative analysis

Criteria used:

- General Appropriations Act, 1998-1999 Biennium, 75th Legislature
- Texas Government Code, Section 481
- Texas Administrative Code, Title 10, Part V, Chapter 186, Smart Jobs Fund Program
- State Auditor's Office Contract Administration Model

## Other Information

Fieldwork was conducted from March 1999 through November 1999. The audit was conducted in accordance with generally accepted government auditing standards. There were no significant instances of noncompliance with these standards.

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

- Carlos Contreras, CIA (Project Manager)
- Nick L. Villalpando, CPA (Assistant Project Manager)
- Arthur Arispe
- Michael R. Burris
- Mary L. Goehring, CIA, CFE
- Gerard C. Higgins
- Clint B. Loeser, CPA
- Barbette J. Mays
- Dennis O'Neal, CIA, Quality Control Reviewer
- Cynthia L. Reed, CPA, Audit Manager
- Craig D. Kinton, CPA, Audit Director

This page intentionally left blank.