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Key Points of Report

An Audit Report on the
Telecommunications Infrastructure Fund Board

February 2000

Overall Conclusion

The Telecommunications Infrastructure Fund Board (Agency) may spend $1.5 billion without developing "a world class telecommunications infrastructure that benefits all Texas" as charged by the 76th Legislature. The Agency has distributed approximately 25 percent ($382 million) of its fund without adequately identifying Texas' telecommunication needs, effectively collaborating with other agencies, or developing written procedures for its day-to-day operations. To provide a vital and sustainable infrastructure that connects the citizens of the State, the Agency will need to broaden its focus from funding basic connections to funding more of the advanced projects allowed by its enabling legislation.

While it is essential, equipment alone does not create an effective telecommunications system. By effectively collaborating with other state agencies and assessing needs, the Agency could identify which other elements are needed for Texans to fully utilize the equipment, such as training, software, technical support, and plans for long-term sustainability. The Agency has responded by stating its current and future actions to address the issues and by providing more information on certain points.

Key Facts and Findings

To develop a telecommunication infrastructure that benefits all Texans, the Agency must:

- Develop a strategic plan and related processes that (1) identify Texas' telecommunication needs, (2) determine and track measurable objectives, (3) specify inter-agency collaboration, and (4) report information that more fully conveys the Agency's progress.

- Strengthen board governance by developing bylaws, policies, and procedures that ensure effective board operation and full communication between the board and the agency.

- Develop policies and procedures for all aspects of day-to-day operations, including grants administration, to ensure that the agency functions as management intends.

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This audit was conducted in accordance with Government Code, Sections 321.0132 and 0133.

Executive Summary

The Telecommunications Infrastructure Fund Board (Agency) may spend $1.5 billion without developing "a world-class telecommunications infrastructure that benefits all Texas" as charged by the 76th Legislature. So far, the Agency has distributed approximately 25 percent ($382 million) of its fund without adequately identifying Texas' telecommunication needs, effectively collaborating with other agencies, or developing written procedures for its day-to-day operations. The Agency currently emphasizes basic connectivity, which creates the risk that the money spent may not provide a vital and sustainable infrastructure that connects the citizens of the State.

While it is essential, equipment alone does not create an effective telecommunication system. By effectively collaborating with other state agencies and assessing needs, the Agency could identify which other elements are needed for Texans to fully utilize the equipment. According to the Agency's enabling legislation, such elements could include "new ways to acquire and use information through telecommunications; more efficient or effective learning than through conventional teaching; or improved effectiveness and efficiency of health care delivery."

The Agency is mandated to deliver $1.5 billion in telecommunication funding. These funds promise to offer education, information, and health telecommunication resources to all citizens, regardless of their geographic, economic, or disability status.

As a start-up agency, the Agency has faced many challenges in its quest to build an advanced telecommunication network to connect all Texans. We commend the Agency's accomplishments, but we advise it to address the issues we observed promptly to strengthen compliance, efficiency, and effectiveness, and to allow public assessment of its accomplishments to date.

Clarify, Strengthen, and Document Board Governance Policies

The Agency's governing board lacks published policies and procedures and approved revised bylaws. This absence limits communication between the governing board and the agency. The Agency does not receive timely and complete communication of board intent, guidance, or standards for managing its operations and the distribution of grant funds. The board does not regularly receive the planning and performance information it needs to make decisions about the development of Texas' telecommunication infrastructure.

Improve Strategic Planning to Help Meet Texas' Telecommunication Needs

The Agency's governing board is revisiting its enabling legislation, mission, goals, objectives, and performance measures. This process affords an opportunity to address the concern that it has not effectively developed a shared vision for, or planned its role in, Texas telecommunications. It can also align its strategic plan with the development of bylaws and policies and procedures noted above. Its strategic plan should include goals and measurable objectives, include a comprehensive needs assessment, ensure adequate consultation and collaboration with other state agencies, more fully address the project and group priorities specified in the enabling legislation, and require regular reporting on compliance and grant performance.

Improve Assessment of Texas' Telecommunication Needs

The Agency's governing board must have adequate and appropriate information on the needs of its four legislatively mandated constituencies (public schools, higher education institutions, libraries, and public

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non-profit health care facilities). It will need to design and implement a formal, ongoing, documented needs assessment process. Should the Agency decide to continue using professional advisory working groups from its constituencies to assist in this work, it needs to develop and enforce policies and procedures that will ensure that the board and staff consistently and effectively use those working groups.

Increase Collaboration with Other Agencies

To better serve its mission and goals in a progressively complex environment, the Agency should implement policies and procedures to ensure adequate consultation and collaboration with other state agencies. Doing so will allow the Agency and its constituencies to realize material benefits such as improved efficiencies, optimal leveraging of funds from all sources, more effective needs assessment and grant planning, interfaced databases and analyses, and combined public outreach and education for telecommunications.

Demonstrate Grant Performance Through More Deliberate Targeting and Informative Reporting

The Agency has reached low-income and rural schools through targeted grant programs, but it has not yet designed grants that adequately target other priority groups and telecommunication projects specified by its enabling legislation. A result of non-targeted grants has also been less precise grant distribution measurement, which has at times resulted in the reporting of ambiguous information to the board and the Legislature on coverage of public schools.

Develop Policies and Procedures For All Aspects of Agency Operations, Including Grant Administration

The absence of administrative policies and procedures increases the risk that staff will not perform as intended by board, management, or professional standards; that key processes and program management will become and remain fragmented and inconsistent; and that institutional knowledge and practice will not be adequately maintained and supported. Staff members currently work without benefit of consistently enforced guidance, supervision, management, or support in principle administrative areas. To correct weaknesses and close gaps in agency administration, the Agency must develop policies and procedures to govern all internal operations.

The Agency lacks documented policies and procedures for administration of the grants to its constituencies. There are weaknesses, inconsistencies, and gaps in all stages of grant administration, from planning through grant program evaluation. Without written grant administration procedures in place for Agency staff, the Agency cannot evaluate the administration or performance of its grant programs. Nor can it provide the accountability necessary for adequate reporting to the Legislature and the public.

Summary of Management's Responses

Management has responded by stating its current and future actions to address the issues and by providing more information on certain points.

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Summary of Objectives and Scope

The objectives of this audit were to:

- Identify and analyze significant issues and recommendations noted in various studies performed by consultants and other state agencies.

- Assess the nature, scope, and quality of board governance, strategic planning, agency management, and related processes.

- Determine the type and level of collaboration between the Agency and other related state agencies.

- Determine the extent to which the Agency services its legislatively specified priority groups and projects.

- Assess the agency's grants administration process.

The scope of this audit included consideration of overall agency management and planning and administration of its grants, through which telecommunication funds are distributed. We reviewed the agency's enabling legislation and then gathered documentation and testimony and performed analyses to determine if programs had been implemented as prescribed by the Legislature. We evaluated results against established criteria to determine the adequacy of operations and to identify opportunities for improvement.

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Clarify, Strengthen, and Document Board Governance Policies

The Telecommunications Infrastructure Fund Board's (Agency) governing board lacks published policies and procedures and approved revised bylaws. This absence limits communication between the governing board and the Agency. The Agency does not receive timely and complete communication of governing board intent, guidance, or standards for managing its operations and the distribution of grant funds. The governing board does not regularly receive the planning and performance information its needs to make decisions about the development of Texas' telecommunications infrastructure.

Recommendations:

To enhance its capacity to govern, the Agency's governing board should develop and implement:

- Updated bylaws that reflect and support the Agency's mission

  Management's Response:

  The TIFB's governing board at the inception of the agency formed the Bylaws Committee. The bylaws developed in November 1995 have recently been included in the full review of Texas Administrative Code, Chapter 471, §471.1 to §471.100. The TIFB Counsel at the Office of the Attorney General has assisted with the revisions. The Bylaws Committee will complete the revisions and submit the updated rules to the Board for approval.

- Policies and processes for regularly assessing and revising the Master Plan (a five-year plan for infrastructure development) to make it more specific, useful, and enforceable as a guide (1) for serving the Agency's mandates and mission and (2) for the development of related policies and procedures in the agency (discussed further in Section 2)

  Management's Response:

  TIFB's governing board has initiated a comprehensive review of policies, procedures and operations to guide the agency's future direction in the next millennium. The agency will conduct a needs assessment, which will facilitate the review. The review will consider the recommendations of the State Auditor's Office and previous comments from Deloitte and Touche. The first expected deliverable is a comprehensive agency strategic business plan to direct future grant administration by the summer of 2000. Additional expectations include the supporting agency-related policies and procedures for a regular review of the business plan.

- Means to oversee development of policies and procedures for agency operation and administration (discussed further in Sections 2 and 3)

  Management's Response:

  As part of the strategic business planning initiative, it will be imperative to develop a process by which the board can oversee and approve policies related to administration and operation. It is envisioned that relevant agency policy will be communicated formally to the board for their consideration.

- Board meeting agendas and minutes structured to provide the information the board needs to effectively govern board decisions, intentions, timelines, and actions

  Management's Response:

  TIFB will modify the structure of Board agendas to specifically include a standing item for public comment on the agenda. The public may find the updated structure of the Board agenda and meeting minutes on the TIFB web page, as well as publication in the Texas Register.

- Policies and procedures for the executive director's annual performance review

  Management's Response:

  Policy and procedures related to the Executive Director's annual performance review will be developed and implemented. The Board has conducted one performance review and is currently developing the Executive Director's 1999 review.

Section 2:
Improve Strategic Planning to Help Meet Texas' Telecommunication Needs

The Agency's governing board is revisiting its enabling legislation, mission, goals, objectives, and performance measures. This process offers the Agency an opportunity to address the concern that it has not effectively developed a shared vision for, or planned its role in, Texas telecommunications. The Agency can more precisely define its future strategic direction and strengthen planning processes, policies, and procedures, particularly if they are aligned with the development of bylaws and policies and procedures noted in Section 1.

Recommendations:

To ensure its progress toward meeting Texas' telecommunication needs, the Agency's revised strategic plan should:

• Include goals and measurable objectives tied to performance indicators for agency and grant administration and grant programs.

Management's Response:

The strategic business planning process will include the identification of meaningful goals and objectives, comparative benchmarks, the design of the collection, reporting and evaluation system, documenting the system and period evaluation of the system and its outputs,

• Include a more comprehensive constituency needs assessment process.

Management's Response:

The strategic business planning process will include a comprehensive needs assessment that will drive the strategic planning effort by systematically appraising the status of the technological infrastructure in Texas, as well as the needs of identified constituents.

The needs assessment will allow the TIFB to:

1.   collect data regarding the current accomplishments of telecommunications in Texas related to TIFB constituents,
2.   assess the current telecommunication needs,
3.   identify future telecommunications needs, and
4.   identify required actions to meet future infrastructure needs.

• Ensure adequate consultation and collaboration with other state agencies involved in telecommunications.

Management's Response:

We support statewide agency cooperation and collaboration. Consultation and collaboration with other state agencies involved in telecommunications will be examined as a strategic plan goal.

- More fully address targeting the priority programs and groups noted in the enabling legislation (see text box) and require regular reporting on compliance with that legislation and other aspects of grant performance.

It is particularly important that the Agency develop and implement strong strategic and operational planning at this stage because grant programs are increasing in number and complexity. These concerns were also mentioned in a prior consultant's report.

Management's Response:

TIFB will include wording in the strategic plan to address this concern.

Section 2-A:
Improve Assessment of Texas' Telecommunication Needs

To ensure that the Agency's resources focus on meeting Texas' most relevant telecommunications needs, the governing board must have adequate and appropriate information on the needs of its four legislatively mandated constituencies (public schools, higher education institutions, libraries, and public non-profit health care facilities). However, gaps in the Agency's needs assessment process limit the availability of this information.

Governing board and agency staff members rely on working groups made up of high-level telecommunication professionals, related association representatives, and knowledgeable academicians. However, neither a state agency working group nor higher education working group is currently active. Moreover, information from the present working groups is not consistently gathered, documented, reported, or fully integrated into the strategic planning and grant design processes. Thus, the Agency is not taking full advantage of the professional expertise and information required for needs assessment; strategic and operational planning; and grant program development, implementation, and evaluation. These actions result in potentially less effective grant programs designed without adequate input from the constituencies.

Recommendations:

- The Agency's governing board must develop policies and procedures for statewide technology and constituency needs assessment.

Which projects and groups should receive priority from the Agency?

Projects and proposals that:

- Represent collaborative efforts involving multiple schools, universities, or libraries.
- Contribute matching funds from other sources.
- Show promise of becoming self-sustaining.
- Help users of information learn new ways to acquire and use information through telecommunications.
- Extend specific educational information and knowledge services to groups not previously served, especially those in rural and remote areas.
- Result in more efficient or effective learning than conventional teaching.
- Improve the effectiveness and efficiency of health care delivery.
- Take advantage of distance learning opportunities in rural and urban school districts with disproportionate numbers of at-risk youths or with high dropout rates.
- Recognize the unique needs of rural communities.

In addition, when distributing funds to public schools, the board shall "take into account the relative property wealth per student of the recipient school districts."

Source: Vernon's Texas Code Annotated, Utilities Code, Title 2. Public Utilities Regulatory Act, Subtitle C. Telecommunications Utilities, Chapter 57, Subchapter C. Telecommunications Infrastructure Fund, Section 57.047 Grant and Loan Program (c) (1) through (8) and (d).

Management's Response:

TIFB management generally concurs with recommendations.

As mentioned in the above response, the development of policies and procedures for statewide technology and constituency needs is an expectation of the strategic planning process.

- Should they continue, the working groups should receive formal and documented charges from the governing board.

Management's Response:

TIFB's governing board intends to review the effectiveness of the current working groups, the current procedures, and address the work group membership. The Board is exploring methods to attract membership in order to maintain quality individuals who will assist in achieving the TIFB mission.

- Also needed are policies and procedures that ensure:

  − The governing board receives regular, formal working group reports on statewide constituency needs and grant program recommendations.

  − Working groups provide necessary information to staff for designing requests for proposals (RFP) and administering and evaluating grant programs.

  − Staff members provide adequate support and financial information to working groups so that the working groups can accomplish their charges.

  − Differences between working groups and staff are resolved in a consistent, timely, and equitable manner.

Management's Response:

If sufficient membership can be attracted, TIFB will ensure that sufficient policies and procedures will be developed to facilitate open communication to all appropriate working group and TIFB staff. Fiscal availability and management, as well as conflict resolution will be included in the policy development. Additionally, a documented reporting structure regarding communication to the board will be developed.

- The higher education and library constituencies currently lack voting representation. Filling board vacancies with or adding such representatives would expand information on constituency needs, strengthen related planning,

and enhance feedback on grant program effectiveness. The Agency could provide information to the Legislature and the Governor's Office to help ensure that all key constituencies have adequate board representation.

Management's Response:

TIFB management believes all key constituencies should have adequate board representation. Unfortunately, neither TIFB nor its governing board members have the authority to select or appoint board representatives. However, TIFB has informally provided factual information to leadership regarding the current board representation.

Section 2-B:
Increase Collaboration With Other Agencies

The Agency's grants sometimes compete with or reiterate other federal or state telecommunication funds. While such collaboration is not entirely within the Agency's control—it depends in part on the collaborative commitment of other agencies—its absence causes the Agency and other agencies to miss opportunities to structure grants that support cross-constituency networking among schools, libraries, colleges, and health facilities.

In addition, not coordinating application and reporting processes for public schools causes grantee schools to encounter many different applications and reporting requirements. The Agency's willingness to consider funding Educational Service Centers (ESC) so they may serve as fiscal agents for all the grantees in their regions would remove previous burdens on schools with limited resources. Now that a funding barrier has been removed at the Agency's request, the Agency's willingness to consider funding ESC delivery of TIFTech training to schoolteachers will create a more positive and productive environment for progress in education telecommunications. (Required TIFTech training is provided by ESCs in addition to that budgeted and funded by the Texas Education Agency for its long-range technology plan.)

Staff-to-staff collaboration between the Agency, the Texas Education Agency, the General Services Commission, the Department of Health, the Department of Mental Health and Mental Retardation, the Library and Archives Commission, the Higher Education Coordinating Council and other stakeholder agencies could produce the following material benefits:

- Improved efficiencies

- Agency grants that complement one another and make best use of federal, state, local, and private telecommunication dollars

- Better grant planning based on more comprehensive needs assessment

- Improved grant performance reporting arising from more consistent definitions of data elements and client categories

- More efficient public outreach and education

<u>Recommendations</u>:

- To better serve its mission and goals in a progressively complex environment, the Agency should implement policies and procedures to mandate and direct consultation and cooperative collaboration with other state agencies. These policies should address the nature and scope of ongoing communications among the collaborating agency boards and integration of their strategic planning and day-to-day interaction.

  Management's Response:

  TIFB management generally concurs with the audit recommendations. TIFB utilizes resources to ensure that grants complement each other. TIFB also works with other state agencies to integrate planning, information sharing and commonalties in programs. Some of the projects which TIFB has contributed resources include:

  1.   A telehealth planning project headed by Texas Tech University,

  2.   A grant for the Texas Education Agency's data warehouse and PEIMS system,

  3.   A grant to the Texas Library and Archives Commission for the initial stages of a digital library,

  4.   Participation in reciprocal grant reviews between other state agencies and TIFB, and

  5.   Texan2000 state backbone and the "Last Mile" Report.

- Commit board and agency resources to integrated planning, information sharing, performance measurement, and reporting to ensure that grants complement one another.

  Management's Response:

  TIFB will continue to collaborate with other state agencies to leverage funds in support of technology for the benefit of Texas citizens. In the area of information sharing and reporting, TIFB has funded a TIFBase, a system designed to support a variety of information needs.

- Consult with other agencies on matters of common concern, such as grant program design, service delivery, and data definitions.

Management's Response:

Interagency initiatives such as the Education Technology Coordinating Council (ETCC,) Texas Education Agency's Public Access Initiative, and the General Services Commission's TEXAN2000 will continue to be key for the agency. Additionally, TIFB must look for additional opportunities to coordinate various grant programs with our "sister" agencies (i.e., Texas Education Agency, Higher Education Coordinating Board.) It is envisioned that the TIFB Strategic Business Plan will be synchronized with the ETCC Master Plan to ensure continuity of planning initiatives.

- Require regular agency reporting to the governing board on the status and substantive results of collaboration.

  Management's Response:

  Accomplishments of collaboration will be reported to the appropriate authorities. Currently, the Education Technology Coordinating Council (ETCC) has been formed to develop a state master plan to address a variety of needs. The ETCC is comprised of the Telecommunications Infrastructure Fund Board, the Texas Education Agency, the Department of Information Resources, the General Services Commission, the State Board of Educator Certification, the State Library and Archives Commission and the Higher Education Coordinating Board. TIFB's Executive Director will serve as the Vice-Chairman and a member of the steering committee. ETCC, along with other key interagency initiatives, will be added to the monthly board agenda.

- Include state agency representation in the Agency's working groups.

  Management's Response:

  Proper representation of our constituents within the working groups is a very important issue. The following is a sample of the current representation within working groups. The Education Service Centers, Texas Education Agency, Texas Association of School Administrators, and the Texas Association of School Board Administrators are involved with the Education and Training Working Groups. The Texas Department of Health is a part of the Telehealth Working Group. The Texas State Library Association has a presence in the Library Working Group. In addition, TIFB intends to formulate a Higher Education Working Group and seek membership from the Higher Education Coordinating Board.

- Discuss possibilities for collaboration with other boards.

  Management's Response:

  As previously mentioned, collaboration with a variety of key organizations is fundamental to the success of the TIFB. It is envisioned that our Strategic Business Plan will address all possibilities for collaboration with other boards.

- Provide information on the accomplishments of collaboration to the governing board, the Legislature, the Governor, and the media.

  Management's Response:

  As previously mentioned, the accomplishments of collaboration will be reported as appropriate to the leadership, constituency, and the media.

- Provide information about ex-officio or formal representation of other agencies on the Agency's governing board to the Legislature and the Governor's Office.

  Management's Response:

  TIB welcomes ex-officio or formal representation from other agencies on TIFB's governing board. However, as previously mentioned neither TIFB or its governing board have the authority to select or appoint its members. Therefore, only the demographic characteristics can be informally communicated to leadership.

- Coordinate public information and outreach efforts.

  Management's Response:

  TIFB has disseminated information via the TIFB website, TIFBits newsletter, TIFB brochure and daily interaction. An example of such an outreach effort include a set of white papers that may be accessed on the TIF website. The white papers cover issues such as:

  - *Project management techniques,*
  - *The roles of grant officials and implementation team members,*
  - *Accounting practices,*
  - *Obsolete equipment replacement strategies,*
  - *Acceptable use policy guidelines,*
  - *Information security policies and procedures,*

- *Disaster recovery planning guidelines,*
- *Interlocal collaborative agreements,*
- *Contracting guidelines for information technology products and services,*
- *Service level agreements, and*
- *Wiring diagrams.*

Auditor Follow-up Comment:

This response concerns technical papers the Agency has prepared and made available to its grantees. It does not address our recommendation that TIF develop collaborative approaches with other agencies for communication, education, and outreach regarding telecommunications in order to develop a statewide level of understanding, capability, and expectation regarding potential benefits.

- Conform grant application and reporting processes across agencies.

Management's Response:

TIFB has diverse constituents with diverse goals and objectives. Customizing handbooks and reporting requirements for each constituent (higher education, health care, public schools and libraries) is a difficult task. TIFB will continue to standardize the reporting process to the extent possible on the current efforts via ETCC and other interagency efforts.

- Consider allowing ESCs to serve as fiscal agents for the grantees in their regions and reimbursing ESCs for delivery of TIFTech training to school teachers.

Management's Response:

TIFB has appreciated the close relationship the agency has maintained with individuals at the Education Service Centers. ESC and TIFB staffs collaborate to ensure the public schools are complying with TIFB policy and school personnel are informed of new opportunities. Although much of the public school grantee technology training was conducted at the ESCs, the 75th Legislature attached a rider that limited the use of TIFB funds for ESC core training. TIFB allowable funding covered network management training, travel, and stipends to monetarily assist grantees using ESC training. The 76th Legislature removed the rider upon TIFB initiation. TIFB will continue to work with the ESCs to ensure grantees receive technology-training funds.

- Coordinate technical operations with those of other agencies. For example, designing grants to support use of TEXAN (the State's system of

telecommunication services for all state agencies, schools, universities, and political subdivisions) and coordinating a statewide application for participation in the E rate program (a federal discount program for telecommunication services for public schools and libraries).
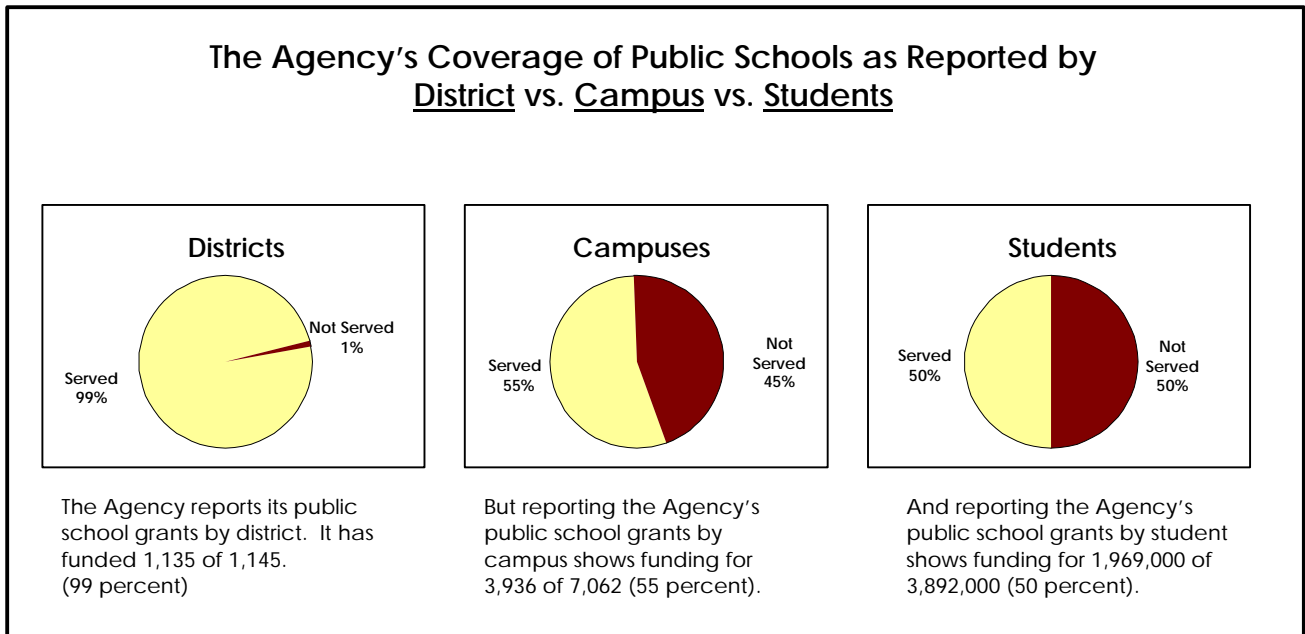
Management's Response:

As previously mentioned, TIFB will continue to coordinate technical operations with other agencies to leverage funds to support technology for Texas citizens. TIFB has currently granted $12.5 million for the General Services Commission for the deployment of the statewide network (TEXAN2000 and the "Last Mile" Report.) Also, TIFB, has currently granted $10.1 million for the Texas Education Agency, and has collaborated with the Department of Information Resources and the General Services Commission on the application for E-rate. Lastly, TIFB worked with the Department of Information Services to develop minimum technical specifications for distance learning equipment and leverage the purchasing power of TIFB's constituents.

Section 2-C:
Demonstrate Grant Performance Through More Deliberate Targeting and More Informative Reporting

Given its lack of plans, policies, and procedures for targeting legislatively mandated priority programs (see the text box on page 8), the Agency is not consistently complying with legislative intent. The Agency has reached low-income and rural schools through targeted grant programs, but it has not yet designed grants that adequately target other priority groups. Also, funding has focused on wiring and

Figure 1

The Agency's Coverage of Public Schools as Reported by District vs. Campus vs. Students

Districts
Served 99%
Not Served 1%

The Agency reports its public school grants by district. It has funded 1,135 of 1,145. (99 percent)

Campuses
Served 55%
Not Served 45%

But reporting the Agency's public school grants by campus shows funding for 3,936 of 7,062 (55 percent).

Students
Served 50%
Not Served 50%

And reporting the Agency's public school grants by student shows funding for 1,969,000 of 3,892,000 (50 percent).

equipment and has often bypassed the more complex projects noted in the legislation. A result of non-targeted grants has also been less than precise grant distribution measurement, which has at times caused the Agency to present ambiguous information on coverage of public schools and priority groups in reports to the board and the Legislature.

For example, in the case of public schools, the Agency gathers grant performance data primarily at the district level rather than at the campus or student level. Thus, the Agency reports that an entire district is served if any campus(es) in the district receives a grant, even if the grant benefits only a fraction of the students in the district. Reporting from district-level data, the Agency appears to cover all but 10 of Texas' 1,145 districts. But reporting at the campus level shows that the Agency has yet to serve 45 percent of the state's campuses and 50 percent of its students.
(See Figure 1.)

When the Agency has gathered campus-level data, it has not consistently included the Texas Education Agency campus number in its record, nor has it consistently recorded other demographic data for its grantees. This complicates the linking of priority group characteristics (such as at-risk and dropout students) to the campuses served. This is an example of the Agency's failure to develop category definitions and gather data for reporting on the extent to which it is complying with the project and group priorities required by the enabling legislation.

The Agency also needs to develop grant performance assessment systems, as noted in consultant reports by McKinsey & Company (April 1997) and Deloitte & Touche (April 1999):

> Current TIF [Telecommunications Infrastructure Fund] performance measures do not fully demonstrate agency performance or grant program effects to key stakeholders. In general, these measures focus on TIF's workloads and grant approval rates, rather than on grant program outcomes. As a result, progress toward mandated goals is not fully communicated to internal or external parties.

Recommendations:

To address the above issues, the Agency needs to:

• Include in its strategic plan measurable objectives for giving priority to all projects, proposals, and groups specified in its enabling legislation.

Management's Response:

Management generally concurs with the audit recommendations.

As mentioned in Section 2, the strategic planning process will include the identification of meaningful goals and objectives. TIFB considers the prioritization of all mission-driven activities and concerns inherent to the strategic planning process.

- Establish clear written policies, procedures, standards, and schedules for assessing and reporting agency progress toward these objectives.

  Management's Response:

  As mentioned in Section 2, an additional expectation of the strategic process includes the supporting agency-related policies and procedures. This expectation is inclusive of a system to collect, evaluate and report TIFB performance results toward target achievement. Also, policies and procedures will encompass direction for periodic review of the results, making needed adjustments and recording the impact of external factors.

- Work with the Legislative Budget Board, collaborating agencies, other appropriate stakeholder representatives, and, as needed, consultants to establish useful statewide constituency technology performance measures and related data categorization, collection, and reporting procedures.

  Management's Response:

  In order to better serve our constituents, TIFB worked with the Legislative Budget Board to produce the initial and subsequent performance measures. However, in an effort to better represent all facets of the constituent base, TIFB will examine performance measures more representative of its evolving goals and objectives. Under specific consideration is the "number of campuses served" as TIFB continues to award public school grants to individual campuses within school districts. The results of the examination will be inclusive of the strategic planning process outputs.

- Ensure that constituency performance measures are integrated into grantee reporting requirements to facilitate tracking grant program progress.

  Management's Response:

  The new performance measures (mentioned in the prior response,) as well as the retained performance measures will be tracked in the new data collection instrument, TIFBase. Additionally, TIFB has recently implemented a quality assurance system, which will greatly enhance the agency's ability to capture and report information.

- Serve priority groups through more active outreach, consultation on needs and program development, and additional technical assistance and support in project design and application processes. Staff should identify and implement the types of educational and consultation support best suited for each of the Agency's four constituencies and the sub-groups that have not been served, or show the most need for technical assistance and support.

Management's Response:

TIFB has taken a proactive stance regarding constituent education. TIFB has:

- *Conducted presentations at Education Service Centers, institutions of higher education, conferences, communities and libraries,*

- *Conducted teleconferences with numerous grantees,*

- *Conducted site visits in collaboration with our Quality Assurance Program,*

- *Participated in road show presentations hosted by Southwestern Bell, IBM, and Apple,*

- *Hosted the first and second annual Community Network Conference,*

- *Coordinated several TSTAR broadcasts at the Texas Education Agency,*

- *Incorporated standards and specifications into TIFB's Request for Proposals,*

- *Developed standards for LAN/WAN wireless and distance learning standards,*

- *Partnered with the General Services Commission to define the necessary telecommunications connection that originates at the user premise and terminates at the nearest access point to the Texan2000 backbone, and*

- *As mentioned in Section 2-B, TIFB has provided information to its constituents through a variety of mediums.*

TIFB has future outreach efforts planned to provide technical assistance to grantees throughout the lifecycle of the grant (i.e., From application through implementation.)

Auditor Follow-up Comment:

We are aware of the outreach efforts TIF has made to its grantees. We are recommending that TIF now identify the education and outreach needs of those members of its constituencies it has not yet served. TIF should implement new approaches to assist those groups in participating in a statewide telecommunications network.

Develop Policies and Procedures for All Aspects of Agency Operations, Including Grant Administration

The Agency lacks documented policies and procedures for agency and grant administration. Without this essential management component in place, the Agency cannot ensure the efficiency or effectiveness of its operations or of its grant programs. Nor can it provide the accountability necessary for adequate reporting to the Legislature and the public.

Section 3-A:

Develop, Publish, and Enforce Board-Approved Policies and Procedures for Agency Administration

The absence of administrative policies and procedures increases the risk that staff will not perform as intended by board, management, or professional standards; that key processes and program management will become and remain fragmented and inconsistent; and that institutional knowledge and practice will not be adequately maintained and supported. Staff members currently work without benefit of consistently enforced guidance, supervision, management, or support in principle administrative areas.

Recommendations:

To correct weaknesses and close gaps in agency administration, the Agency will need to ensure that it accomplishes the following specific improvements:

- Develop policies and procedures to govern all internal operations.

    Management's Response:

    TIFB management generally concurs with the audit recommendation. Below are responses to the detailed recommendations.

    Two written documents will facilitate correcting the identified weaknesses within agency administration. First, TIFB is in the preliminary development of a comprehensive agency administrative policy manual, TIFB's Administrative Guide. The completed manual will capture institutional knowledge and provide guidance applicable to all staff. Second, TIFB has begun to edit the Grant Management Handbook to include resolve for identified issues and trends, as well as legislative changes.

- Retain in-house responsibility for and knowledge of core business functions when subcontracting agency business processes.

Management's Response:

Although TIFB agrees that the knowledge and responsibility for progress and final outcomes related to core business functions should be retained in-house, TIFB does not wish to appear as impeding the intent of competitive government. The decision to outsource core business functions was made due to operating budget limitations and staffing restrictions. TIFB is aware of the current status regarding project completion from all current contractors. However, TIFB will work with contractors to ensure that knowledge transfer occurs on all mission critical activities.

- Improve internal communication by holding regular division and inter-division staff meetings to discuss operations, improvements, and problems.

Management's Response:

TIFB currently convenes agency and program staff meetings. The meetings provide a forum to discuss the status of operations including suggested improvements and problem resolution. Agendas for both meetings will immediately include outstanding audit recommendations resolutions.

- Strengthen human resources by preparing and implementing effective job descriptions and publishing and enforcing a hiring and advancement system.

Management's Response:

As mentioned above, the development of TIFB's Administrative Guide will provide guidance applicable to all staff. The Human Resources responsibilities are inherently inclusive of such a document. It is notable that hiring and career development are recognized as only two of the many functions provided by human resources offices.

- Develop a technology specialist function to oversee internal and external technology needs.

Management's Response:

As of December 20, 1999, TIFB posted a position for an Information Specialist whose responsibilities include serving as the Information Resource Manager. This position is expected to be interdependent on the filled position of the Network Specialist and the open position of the Telecommunications Specialist.

- Develop and consistently enforce agency contract management procedures that ensure both qualified providers and accountability for the delivery of timely, quality services or products, with enforced sanctions for failure to meet contract criteria.

  Management's Response:

  As mentioned above, the development of TIFB's Administrative Guide will provide instruction to applicable staff. This includes the agency's philosophy and procedures related to contract management administration. TIFB recognizes the need to ensure accountability of qualified vendors in meeting agency and constituent needs, as well as communicating expectations, encouraging good business relations, and providing provisions when needs are not met.

- Develop and retain adequate working papers and other applicable kinds of documentation to support reports to the board and to the Legislature.

  Management's Response:

  TIFB, in its development of the Administrative Guide, will include the agency's philosophy and definition of supporting documentation. Supporting documentation expectations will be inclusive of the specific internal and external reports and communiqués.

Section 3-B:
Develop, Publish, and Enforce Board-Approved Policies and Procedures for Grant Administration

Despite hard-working, committed, and productive staff, the absence of published and consistently enforced policies and procedures has caused weaknesses, inconsistencies, and gaps in all stages of the Agency's grant administration, from planning through grant program evaluation. Although there is a *Grant Management Handbook* for the grantees, there are no published grant administration procedures for the Agency's staff. With no guidance or standards, it is impossible to evaluate grant administration performance or the disbursement of funds except in terms of numbers and types of grants and entities funded. This means that the Agency and the Legislature do not yet receive the agency or grant performance information they need to effectively plan for the future.

Recommendations:

- Develop and publish the policies and procedures necessary to achieve a consistently enforced, formalized grant administration process from request for proposal (RFP) design through final grant program reporting.

Management's Response:

TIFB management generally concurs with the audit recommendation. Below are responses to the detailed recommendations.

As mentioned above, the development of TIFB's Administrative Guide will capture institutional knowledge and provide guidance applicable to all staff. This document will include all components of the contract management administration process. Specific inclusions are:

- *Gathering information related to constituent needs,*

- *Developing and issuing request for proposals,*

- *Selecting qualified vendors for the agency and its grantees,*

- *Communicating expectations to grantees and vendors,*

- *Encouraging good business relations,*

- *Monitoring processes on a continual basis (primarily through TIFBase at its completion,)*

- *Documenting and reporting monitoring results,*

- *Documenting and reporting interaction between TIFB, its grantees and vendors,*

- *Providing provisions when needs are not met,*

- *Defining reporting requirements, and*

- *Reviewing policies and procedures on a methodical basis to ensure applicability and efficiency.*

- Develop accountability measures for each grant program that clearly relate to the Agency's strategic plan, goals, objectives, and performance measures. Publish and enforce these accountability measures and procedures in RFP and grantee guidelines.

Management's Response:

TIFB will ensure future Request for Proposals include clearly defined accountability measures. The resource for the measures will be based on statutory requirements, best business practices, identified issues and trends, as well as daily interaction with grantees. The majority of the resource data collection and monitoring will be through TIFBase. Additional resource information will be supplemented through TIFB's Quality Assurance Program.

- Implement sound management principles for the oversight of program and fiscal grant administration, including consistently enforced policies, effective staff communication, and regular staff reporting on progress and problems encountered.

Management's Response:

As mentioned above, the development of TIFB's Administrative Guide will capture institutional knowledge and provide guidance applicable to all staff. This document will include balanced management principles related to program and fiscal grant management oversight. Practices will be included which specifically:

- *Ensure goals are achieved,*
- *Facilitate grantees' needs by providing and monitoring daily support,*
- *Facilitate interdepartmental staff communication,*
- *Provide accountability which minimizes fiscal impact to the agency and its grantees,*
- *Provide problem resolution, and*
- *Provide for board oversight and policy approval.*

- Achieve an effective working integration of in-house grant administration with subcontracted components of grant administration, including:

  − Clear delineation of responsibilities and lines of authority
  − Procedures and requirements for agency staff and subcontractor staff
  − Information sharing and document review
  − Conflict resolution procedures

Management's Response:

TIFB recognizes the need to support the agency and its grantees through working union with its subcontractors. Currently, the Quality Assurance Program is being analyzed to determine roles and responsibilities (including the delineation of responsibilities,) accountability for deliverables and lines of authority. Documented procedures and requirements related to information sharing and a conflict resolution process will be formalized. These expectations will be continuously documented in future contract engagements.

- Develop a coherent and integrated data collection system tied to the relevant performance measures in the Agency's strategic plan.

Management's Response:

TIFB is pleased to report the data-warehousing project, TIFBase, is in its implementation phase. As mentioned previously, TIFB looks to the project, as a solution for many of its data collection and reporting needs, such as accountability measures, needs assessments, performance measures, key performance indicators, constituent deployment, and compliance risk assessments.

- Develop and implement a comprehensive, effective, and accountable grantee support and monitoring system, including:

− Adequate regional outreach for RFP publicity and grant program information

− Adequate and consistent technical support for applicants and grantees during the grant cycle in program, fiscal, and technology areas and in quality assurance

− Development and use of a centralized grant administration database for agency staff and subcontractor staff use in tracking grantee programs, for risk assessment, quality assurance, grant reporting, grant planning, and RFP design

− Determination of sufficient in-house grant data analysis and reporting needs for effective grant administration and provision of adequate software and hardware to accomplish those tasks

− Consistent and complete enforcement of the Agency's grant policies and procedures for grantees, with less agency override

− Correction of risk-assessment, document review, and reporting weaknesses in the quality assurance program

− Timely communication and reporting to grantees with effective follow-up

− Timely and comprehensive quality assurance reports to the Agency's governing board

Management's Response:

TIFB recognizes the need to provide continuous improvement related to grantee support and monitoring. TIFB will soon transition from a Lotus Notes database to the above-mentioned TIFBase. TIFBase will include grant tracking, risk assessment for quality assurance, and reporting for future program design and planning. TIFBase will provide a web-accessible, user-friendly tool to gather information regarding analysis and reporting needs that will integrate with in-house systems through adequate hardware and software.

• Develop information and procedures to ensure timely and useful grant program reporting to staff, working groups, and the governing board on:

− Achievement of grant program objectives, lessons learned, and recommendations for future programs

− Extent of compliance with the enabling legislation

− Grant program progress toward achievement of the Agency's strategic objectives

Management's Response:

TIFB also recognizes the educational benefit to its staff, constituents, and leadership through periodic informative reporting of mission achievement. TIFB will diligently work to enhance future communication efforts to include:

- *Objective achievement,*
- *Identified issues and trends,*
- *Suggestions related to the implementation of proactive components,*
- *Problem resolution methods, as well as compliance levels.*

Summary of Management's Responses

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Telecommunications Infrastructure Fund Board

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http://www.tifb.state.tx.us

February 9, 2000

Texas State Auditor's Office
Attn: Tim Dasso
Two Commodore Plaza
206 E. 9th Street, Suite 1900
Austin, Texas 78701

Re: TIF Management Responses to SAO Report No. 00-010

Dear Mr. Dasso:

As requested on February 3, 2000, please find the enclosed TIF Board management's revised response to the draft audit report. As you will see in our responses, we look forward to developing implementation plans to satisfy many of your documented concerns, and we anticipate a cooperative relationship with your office as we evolve as an agency. It should be noted that we have already formed an internal Audit Implementation Team, comprised of key TIF Board staff, to plan, prioritize, and carry out all approved audit implementation activities. A standing item on the monthly TIF Board Finance and Audit Committee meeting agenda will provide progress on audit implementation.

On behalf of management and the Board, we want to thank you for your thoughts and observations resulting from your examination of our agency's operations. We assure you every diligent effort will be made to consider each item, and the TIF Board will have an opportunity to fully review your comments, as well as management's responses.

While we make comments on your specific recommendations, we feel it is important to note the constraints and limitations within which we operated. First, we are a new agency with the initial Board having taken office in late 1995. After a major search, the Executive Director was hired in June 1996, and the first hire was not made until October, 1996.

As a state agency, we are very conscientious when observing the Legislative requirements on travel and full-time employee (FTE) budgets. Our travel and FTE budgets have been calculated based upon our agency's startup numbers. The utilization of TIFBase and our Quality Assurance Program will also enable TIFB to transcend some of the limitations in order to fully realize the potential of such a small agency. We also look forward to being able to completely document the differences our agency is making in Texas public schools, public libraries, not-for-profit healthcare facilities, and institutions of higher education.

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We appreciate the commendation of the agency's efforts and assure you that we will develop and implement a plan to address the issues you observed. The plan will address compliance, efficiency, and effectiveness. We are an agency that works very closely with constituents and we welcome public assessment of our accomplishments to date.

Again, thank you for your diligent research, hard work, and commitment to making TIFB a stronger Texas state agency.

Sincerely,

Arnold Viramontes
Executive Director

Attachments

Objectives, Scope, and Methodology

Objectives

Our audit objectives were to:

- Identify and analyze significant issues and recommendations noted in various reports and studies conducted by consultants or other state agencies.

- Assess the general nature, scope, and quality of board governance, strategic planning, agency management, administration, and related processes.

- Determine the type and level of collaboration between the Agency and other state agencies involved in telecommunications.

- Determine the extent to which the Agency serves legislatively mandated priority groups.

- Assess the Agency's grant administration process.

Scope

The scope of this audit included consideration of overall agency management and planning and administration of its grants, through which telecommunication funds are distributed.

Methodology

The audit methodology consisted of gaining an understanding of the Agency's enabling legislation, (the Public Utilities Regulatory Act of 1995), and the legislative mandates for the agency. We then gathered relevant documentary information and testimony and performed analyses to determine if programs had been implemented as prescribed in the Act. Finally, we evaluated results against established criteria to determine the programs' adequacy and identify opportunities for improvement.

This audit was conducted in accordance with generally accepted government auditing standards.

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

- Greg Carlson (Systems Analyst)
- Virginia Carmichael, Ph.D., (Assistant Project Manager)
- Bruce Truitt, MPAff (Quality Control Reviewer)
- Tim Dasso, ARM (Project Manager)
- Carol A. Smith, CPA (Audit Manager)
- Craig Kinton, CPA (Audit Director)