April 7, 1997

Members of the Legislative Audit Committee:
      The Honorable James E. "Pete" Laney, Chair
      The Honorable Bob Bullock, Vice Chair
      The Honorable Bill Ratliff
      The Honorable Kenneth Armbrister
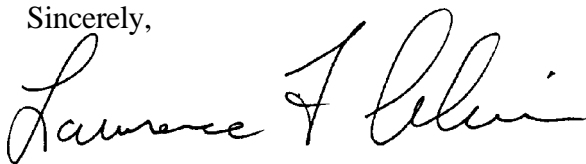   The Honorable Robert Junell
      The Honorable Tom Craddick

The Texas Department of Commerce's (Department) management and staff have made significant progress in resolving issues and recommendations related to the Department's foreign office operations, information resources management, human resources management, and oversight of revenues and expenditures. With few exceptions, the issues noted in our report, *A Review of Management Controls at the Texas Department of Commerce* (SAO Report No. 95-013, October 1994) have been addressed. The remaining issues and recommendations regarding foreign office operations, employee performance appraisals, and waiver procedures for the Texas Leverage Fund Program are currently being resolved by the Department.

Our review of the Department's action plan indicates that the plan, if properly implemented, will assist the Department in complying with applicable state laws and further improve controls over key management areas.

The attached table summarizes the current status of prior-audit issues and recommendations. It also includes the Department's comments regarding each issue. We thank the Texas Department of Commerce for its assistance and cooperation during this audit. If you have any questions, please call Tom E. Valentine at 479-3053.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

LFA/rmn/attachment

Status of Prior-Audit Issues
Texas Department of Commerce

Previous Issues	Resolved (Yes/No)	Follow-Up Audit Results	Management's Responses
FOREIGN OFFICE OPERATIONS			
Foreign Office Quarterly Reports Do Not Include The Results Of Activities	No	Although required by the General Appropriations Act, the results of each contact made are still not being reported; however, the cumulative results of all contacts made are reported at the end of the year. The Department has indicated that it is not feasible to report the results of each contact since businesses are not willing to provide relevant information.	*The Department's experience with the businesses we assist has led us to conclude the requirement cannot ever be achieved as written. We have attempted to satisfy the requirement by reporting the results of foreign office contacts annually on a cumulative basis. Businesses are reluctant to report what may be considered proprietary financial information that could possibly be accessed by competitors through the Open Records Act. In addition, several years can pass between the Department's initial contact with a business and the time the business implements the actions to be reported. This reduces the feasibility of obtaining outcome information from business contacts through the Department's survey efforts.*

Previous Issues	Resolved (Yes/No)	Follow-Up Audit Results	Management's Responses
Services [and costs] Are Duplicated In the Mexico City Contracts	Yes	The Department has rewritten the contracts to eliminate the duplication of services and costs.	*The contracts were re-written to eliminate duplication of costs and services and also to create more accountability on the part of individuals working under contract in the Mexico City Office. The revised contracts have been in place since fiscal year 1995.*
INFORMATION RESOURCE MANAGEMENT			
Information System Development Lacks Sufficient Planning and Priority Setting	Yes	The Department appears to have adequately addressed the issues raised in the prior audit. However, the Department has been assisted in resolving this issue in part because of the significant shift of its workload to the Texas Workforce Commission. This has enabled the Department to improve its control over information priorities.	*Upper management has made, and continues to make, a dedicated effort to ensure appropriate emphasis is placed on Information Resource Management. Key elements in our success have been combining the local area network environment for improved efficiencies and ease of maintenance, migrating to an open/client server environment, and establishing a local area network working committee.*
Training Has Not Kept up With the Department's Technology Change	Yes	Adequate computer training (to address current Department needs) has been made available to staff agencywide.	*The Department has provided applicable staff with specialized computer training to support the latest technologies incorporated into our system. This includes Oracle RDMS and UNIX administration training, certified network engineering training (LAN administrator), and other related technical network support training.*
Incomplete Information Is Used to Distribute the Cost of Data Services	Yes	Allocation of costs for Data Services is currently based on the number of full-time equivalent employees. However, due to the transfer of work to the Texas Workforce Commission, cost allocation is no longer a significant concern—Data Services accounts for a small portion of the Department's staff and operating budget.	*The Data Services Manager maintains and manages a Work Log of daily work activity. This log is used as a management tool to constantly review activity requirements and support processes and procedures to ensure maximum efficiencies and effectiveness of support to all agency personnel.*

Status of Prior-Audit Issues
Texas Department of Commerce, continued

Previous Issues	Resolved (Yes/No)	Follow-Up Audit Results	Management's Responses
HUMAN RESOURCES MANAGEMENT			
The Recruitment and Hiring Process Needs to Be More Standardized	Yes	Management has taken actions to address issues or recommendations from the prior audit.	*The Department has taken steps to ensure that the recruitment and hiring process is consistent across divisions and that all applicants are evaluated according to the same criteria. The Department has implemented a centralized recruitment function and expanded the applicant pool by using additional resources, including the Internet. Human Resources personnel review the selection criteria for all positions. In addition, a standardized form for scoring applicants has been developed and is now used in evaluating all applicants for Commerce positions.*
Training Programs Need to Be Better Coordinated	Yes	Management has taken actions to address issues or recommendations from the prior audit.	*The Department has implemented a system for maintaining centralized training records by requiring all supervisors to report training information to Human Resources. This enables Human Resources to track the amount and type of training each employee receives.*
Other Suggestions for Human Resources Management	Yes, with qualifications	The recommendations have generally been addressed. However, Department management still needs to address two recommendations made for employee performance appraisals: • Improve or delete the communication job dimension used in employee evaluations. The examples, such as "demonstrate tact and diplomacy," are subjective and difficult to measure. Examples should be more closely related to the specific jobs. • Consider if the current job dimensions used in evaluating employees are appropriate for all employees.	*The Department has developed a standardized performance evaluation system in which all employees are rated on the same scale and reviewed based upon individual performance. It is the responsibility of the supervisor to determine if each specific job dimension is applicable to the employee's performance. If not applicable, the supervisor indicates this on the evaluation form. While some of the specific dimensions, such as "demonstrates tact and diplomacy," may appear subjective and difficult to measure, supervisors are instructed to provide specific examples of employee performance to support all ratings above or below the "3," or Satisfactory, level.*

Status of Prior-Audit Issues
Texas Department of Commerce, continued

Previous Issues	Resolved (Yes/No)	Follow-Up Audit Results	Management's Responses

Status of Prior-Audit Issues
Texas Department of Commerce, continued

Previous Issues	Resolved (Yes/No)	Follow-Up Audit Results	Management's Responses
Oversight of Revenues and Expenditures			
Operating Expenditures Have Remained Steady, but Some (Travel and Professional Services) Should Be Closely Monitored	Yes	Since the prior audit, executive management has taken a more proactive stance on monitoring Department travel and professional services expenditures. Controls over this area appear adequate. The Department was aided by the reduction of its responsibilities due to the creation of the Texas Workforce Commission. This reduced workload related to expenditures in the stated categories.	*The Department has instituted policies that require justification for all travel and has implemented processes for reviewing travel requests. The Executive Director's written authorization is required for out-of-state and foreign travel as well as for all travel that involves registration fees. Division Directors are required to sign all Travel Authorization forms for their divisions and monitor the related travel expenditures. The Department maintains more stringent travel reimbursement policies than required by the Comptroller's Office and requires the Travel Division to monitor all Travel Authorization forms to ensure compliance with policies. Commerce continues to require that contracts for professional services be authorized by Division Directors, legal, accounting, and the Executive Director.*

Status of Prior-Audit Issues
Texas Department of Commerce, concluded

Previous Issues	Resolved (Yes/No)	Follow-Up Audit Results	Management's Responses
Include Waiver Procedures In Texas Leverage Fund Program Guidelines	No, with qualifications	Program guidelines were revised soon after the prior audit. Although waiver procedures were not added, the revised program guidelines appear to make the need for granting waivers less likely.	*To resolve the underlying issue of waivers in the Texas Leverage Fund Program (TLF), the Department has revised the initial program guidelines, thereby reducing the need for waivers. TLF is a customer driven program that assists communities in economic development by providing an opportunity to leverage local funds with state resources.* *The program is the product of an agreement between Commerce and Bank One, which is the Letter of Credit provider. Since Bank One ultimately assumes the risk of the loans, it reviews each loan to ensure compliance with program guidelines. By revising the initial program guidelines to reduce the need for waivers, the Department has reduced the number of waivers needed while making the program more accessible to communities. Since FY '95, only one out of the eight loans approved has requested a waiver.*