

Table of Contents

Executive Summary 1

Section 1:

The Agency Has Taken Initiatives to Improve the Monitoring Systems for Public Education, but Additional Improvements Can Be Made 5

On-Site Monitoring of Education Programs Has Improved, But Additional Improvements Can Be Made 5

Agency Financial Compliance Monitoring of Education Program Allocations Continues to Need Improvement 8

Initiatives Are in Progress to Improve Information Management, but Standards Are Still Needed for Developing and Maintaining Information Systems 11

The Agency Is Working to Improve the Quality of Data Used in Calculating the Student Dropout Rate 13

Section 2:

Changes Have Been Made to Strengthen Management Control Systems, But Additional Improvements Are Still Needed 15

Human Resource Management Controls Have Improved 16

Grants Review and Approval Process Initiatives Have Been Taken, but Improvements Are Still Needed in the Review and Approval of Contracts 17

The Internal Audit Function Is Improving 18

Performance Measures Should Be Developed for all Divisions 19

Property Inventory Records Need to Be Reconciled 20

Section 3:

The Agency Has Achieved the Mandated Changes From Senate Bill 1, 74th Legislature 21

Table of Contents, concluded

Appendices

| | |
|---|----|
| 1 - Objectives, Scope, and Methodology | 24 |
| 2 - Background Information | 27 |
| 2.1 - Status of Recommendations From <i>An Assessment of the Texas Education Agency's Monitoring Systems for Public Education</i> (SAO Report No. 96-072, August 1996) | 27 |
| 2.2 - Status of Recommendations From <i>A Review of Management Controls at the Texas Education Agency</i> (SAO Report No. 97-024, December 1996) | 34 |

Key Points of Report

A Combined Report on The Texas Education Agency

February 1998

Overall Conclusion

While management of the Texas Education Agency (Agency) has taken positive initiatives that begin to address many of the recommendations identified in the following State Auditor's Office reports, it is too early to evaluate the overall success and impact of these initiatives. The two prior reports are: (1) *An Assessment of the Texas Education Agency's Monitoring Systems for Public Education* (SAO Report No. 96-072, August 1996), and (2) *A Review of Management Controls at the Texas Education Agency* (SAO Report No. 97-024, December 1996).

While some Agency initiatives are complete, many are currently in progress with implementation dates scheduled between now and September 1998. We reviewed the Agency's progress to date and identified opportunities for additional improvements to the Agency's monitoring systems and internal management control systems. As a result, we will further assess progress on these initiatives and recommendations during a monitoring review of the Agency scheduled during fiscal year 1999.

Key Facts and Findings

- The Agency improved the monitoring systems for public education related to curriculum, academic compliance, financial compliance, and data quality. The Agency's financial compliance monitoring of education program allocations continues to need improvement. The Agency still needs to ensure school districts' financial compliance with indirect cost limits.
 - Monitoring school district expenditures of \$3.1 billion in Foundation School Program special allotments to ensure compliance with state law.
 - Testing school district data input by relying on independent auditors to ensure the information is accurate and of high quality.

The Agency is improving the quality of data used in calculating the student dropout rate.

- The Agency strengthened its overall control environment and management control systems. The management of human resources related to the evaluation, training, and development of staff members has improved. Management has taken action to improve the effectiveness of the internal audit function. However, improvements are still needed in the review and approval of contracts. Internal Operation's performance measures were developed, but performance measures are still not required for all divisions. Agency property accounting records have not been reconciled to the State Property Accounting System in more than five years.
- The Agency complied with the directives mandated in Senate Bill 1, 74th Legislature. These directives included downsizing the Agency, reducing the number of state rules and regulations that apply to school districts, transferring operations to other state agencies, and developing accountability systems to monitor the public education system.

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This audit was conducted in accordance with Government Code, Sections 321.0132 and 321.0133.

Executive Summary

While management of the Texas Education Agency (Agency) has taken positive initiatives that begin to address many of the recommendations identified in the following State Auditor's Office reports, it is too early to evaluate the overall success and impact of these initiatives. The two prior reports are:

- *An Assessment of the Texas Education Agency's Monitoring Systems for Public Education* (SAO Report No. 96-072, August 1996)
- *A Review of Management Controls at the Texas Education Agency* (SAO Report No. 97-074, December 1996)

While some Agency initiatives are complete, many are currently in progress with implementation dates scheduled between now and September 1998. We reviewed the Agency's progress to date and identified opportunities for additional improvements to the Agency's monitoring systems and internal management control systems. As a result, we will further assess progress on the initiatives and recommendations during a monitoring review of the Agency scheduled during fiscal year 1999.

In addition, we determined that the Agency has complied with the directives mandated in Senate Bill 1 of the 74th Legislature.

The Agency Has Taken Initiatives to Improve the Monitoring Systems for Public Education, but Additional Improvements Can Be Made

Improvements have been made to the monitoring systems for public education related to curriculum, academic compliance, financial compliance, and data quality, but additional improvements can be made. The most progress made to date has been in the areas of curriculum and academic compliance. For example, the responsibility for on-site

monitoring of instructional education program reviews was reorganized under one division to improve efficiency and effectiveness. As a result, all education program compliance issues identified at a school district can be addressed in one monitoring visit.

Initiatives are in progress to improve the quality of data for decision-making purposes, but standards are needed for developing and maintaining information systems. Beginning in September 1996, the new *Financial Accountability System Resource Guide* (Guide) replaced the old Bulletin 679 accounting system in all school districts. The Guide is a comprehensive administrative system used by all school districts to improve the quality of financial information submitted to the Agency. In addition, in an effort to improve the quality of data used to calculate the student dropout rate, the Agency has assembled teams to review the causes of poor data and develop uniform procedures for districts to follow when reporting their dropout data.

The Agency's financial monitoring of school district expenditures of Foundation School Program special allotments is not being performed.

Changes Have Been Made to Strengthen the Systems of Management Controls, but Additional Improvements Are Still Needed

The Agency has made improvements in the management of human resources:

- A new employee performance appraisal system is being used for Agency staff, but evaluations of management personnel are not being done consistently.
- Employee job descriptions containing duties and responsibilities are now a required part of the personnel evaluation process.

Executive Summary

- Beginning in January 1997 the Agency converted to the Uniform Statewide Payroll System leave accounting system.
- A team is currently working to enhance the staff development training curriculum, with implementation scheduled for September 1998.

Initiatives have been taken to improve the grants review and approval process, but improvements are still needed in the review and approval of contracts. Management has designed a Grants Tracking Log to improve the monitoring of the review and approval of applications for discretionary grants, but there are no time frames for its development. In some cases, the approval of professional services contracts occurs after the services have been performed.

Based on recent actions, it appears that management is taking steps to improve the effectiveness of the Agency's internal audit function. The Internal Audit Department has been reorganized under a new director who reports to the Commissioner. In November 1997, a quality control review was conducted at the Internal Audit Department by a team of outside auditors. The team consisted of internal auditors from other state agencies. The purpose of this review was to assess the Internal Audit Department's operations and to make recommendations where improvements could be made. The results of this review have not yet been published.

Performance measures have been developed for divisions within the department of Internal Operations and are scheduled to be implemented in this fiscal year. However, the use of performance measures are not required for all divisions within the Agency. In order for the Agency to monitor the quality of its services to its education customers (such as school districts and education service centers) we are recommending that all divisions be

required to develop performance measures for their core activities.

As noted in the prior audit, the Agency's property accounting records have not been reconciled to the State Property Accounting System in more than five years. This situation significantly weakens the controls over property accounting, increasing the risk that Agency property is not adequately safeguarded.

The Agency Has Achieved the Mandated Changes From Senate Bill 1 of the 74th Legislature

In an effort to shift more control of the public education system from the state level to the local level, Senate Bill 1 changed the structure and role of the Agency. These changes included downsizing the Agency, reducing the number of state rules and regulations that apply to school districts, transferring operations to other state agencies, and developing accountability systems to monitor the public education system.

Summary of Management's Responses

The recommendations and acknowledgments of progress provided in this State Auditor's Office follow-up report are a valuable framework for this agency's continued pursuit of excellence in the management of state funds and resources. The Texas Education Agency appreciates the opportunity to review the recommendations made.

Agency management maintains high standards of integrity in its monitoring systems and financial controls. We will continue to make improvements in these systems. The Texas Public Education Accountability System is one of the nation's finest; we are committed to the diligence that has achieved this level of success.

Executive Summary

Summary of Objectives and Scope

The objectives of this audit were to determine what actions have been taken to address the issues and implement the recommendations associated with the following audits:

- *An Assessment of the Texas Education Agency's Monitoring Systems for Public Education* (SAO Report No. 96-072, August 1996)
- *A Review of Management Controls at the Texas Education Agency* (SAO Report No. 97-074, December 1996)

We also determined if the directives included in Senate Bill 1, 74th Legislature, are being achieved.

The scope of this audit was primarily limited to following up on the issues and recommendations included in the two previous reports and the mandates identified in Senate Bill 1. Our work focused on the main areas of concern identified in the prior audits and the initiatives taken by the Texas Education Agency to address the need for the recommended improvements. Specific accomplishments and areas for improvement related to these areas are presented in the body of the report.

Appendix 2.1 contains a summary of the status of each recommendation contained in *An Assessment of the Texas Education Agency's Monitoring Systems for Public Education*. Appendix 2.2 contains a summary of the status of each recommendation contained in *a Review of Management Controls at the Texas Education Agency*.

Section 1:

The Agency Has Taken Initiatives to Improve the Monitoring Systems for Public Education, but Additional Improvements Can Be Made

Improvements have been made to the monitoring systems for public education related to curriculum, academic compliance, financial compliance, and data quality, but additional improvements can be made. The most progress made to date is in the areas of curriculum and academic compliance. For example, the responsibility for on-site monitoring of instructional education program reviews was reorganized under one division to improve efficiency and effectiveness. As a result, all education program compliance issues identified at a school district can be addressed in one monitoring visit.

Initiatives are in progress to improve the quality of data for decision-making purposes, but standards are needed for developing and maintaining information systems.

Beginning in September 1996, the new *Financial Accountability System Resource Guide* replaced the old Bulletin 679 accounting system in all school districts. The Guide is a comprehensive administrative system used by all school districts to improve the quality of financial information submitted to the Agency. In addition, in an effort to improve the quality of data used to calculate the student dropout rate, the Agency assembled teams to review the causes of poor data and develop uniform procedures for districts to follow when reporting their dropout data.

The Agency's financial monitoring of school district expenditures of Foundation School Program special allotments is not being performed. State law limits the amount of indirect costs to a maximum of 15 percent of the total special allotments received by a school district.

Section 1-A:

On-Site Monitoring of Education Programs Has Improved, but Additional Improvements Can Be Made

The Agency improved its on-site monitoring of instructional education programs at school districts. However, opportunities exist to enhance the efficiency of on-site monitoring of discretionary grant recipients. Our August 1996 report (*An Assessment of the Texas Education Agency's Monitoring Systems for Public Education*, SAO Report No. 96-072) found that the Agency's process for completing on-site monitoring visits, which verify student performance and compliance with education program requirements, was fragmented and inefficient. Our December 1996 report (*A Review of Management Controls at the Texas Education Agency*, SAO Report No. 97-074) identified weaknesses in the on-site monitoring of discretionary grant funds. To remedy these situations, the Agency made the following changes:

- Consolidated the responsibility for on-site monitoring reviews of education programs under the Office of Accountability

- Addressed all instructional education program compliance issues for all programs during a single monitoring visit
- Coordinated the use of staff members who perform compliance monitoring and accreditation reviews more efficiently
- Expanded the Texas School Improvement Initiative (TSII) to include on-site compliance monitoring

The TSII includes more than 1,000 education professionals (such as superintendents, principals, counselors, teachers, and program and curriculum specialists) that are trained to participate as team members on the monitoring visits. This approach to on-site monitoring creates a peer review environment that encourages sharing best practice ideas and processes among educators. The monitoring teams are led by an Agency employee, and TSII team members performing the reviews.

- Hired 35 contract monitors to review Special Education compliance at both public and non-public schools
- Scheduled the implementation (in September 1998) of a new risk-based approach to selecting districts and campuses to receive on-site monitoring visits

The Office of Accountability is currently identifying and defining risk indicators (such as the number of at-risk students being served by a program, student test scores, and the amount of program funding received) to use in the development of the risk-based selection process. This risk-based assessment recognizes that not all districts are alike and will focus monitoring resources on districts that are high risk.

- Developed a risk-assessment plan for selecting grantees for on-site monitoring visits

The plan identifies the criteria used to define risk and includes a rating system to facilitate a risk ranking process. a draft of the plan has been submitted to management for approval.

Efforts should be made by the Agency to eliminate cyclical monitoring requirements and assess the benefits of further coordination of on-site monitoring visits. The following conditions were noted:

- The Agency is still not in compliance with the Texas Education Code requirement that every district receiving Bilingual Education program funds be monitored for compliance with program requirements once every three years. Currently, there are 852 districts receiving Bilingual Education allotments from the Foundation School Program. To meet the three-year requirement, an average of 284 districts must be visited each year.

Last year, the District Effectiveness and Compliance division completed on-site monitoring visits at nearly 150 districts. With current staffing levels, it is unlikely that the Agency will be able to comply with this three-year monitoring cycle for Bilingual Education. The Bilingual Education special allotment is the only allotment that still has a mandated monitoring cycle required by the Texas Education Code.

- Monitoring efforts are not coordinated between all Agency divisions. The division of Contracts and Grants Administration does not coordinate with the Office of Accountability. Although these two divisions may monitor districts that receive funding for both education programs and discretionary grants, there is usually no data sharing. Discretionary grants permit the Commissioner or his designee to use judgement in selecting applications or proposals for funding and in determining the amount to be funded. In fiscal year 1998, approximately \$280 million in discretionary grants will be administered by the division of Contract and Grants Administration.

The division of Contracts and Grants Administration performed approximately eight on-site monitoring visits during fiscal year 1997. This represents less than one-half of one percent (8 out of 2,000) of the total grantees. Coordinating the on-site monitoring visits with the Office of Accountability could improve the efficiency and coverage of the Agency's monitoring efforts.

Recommendation:

- The Agency should move to have the three-year monitoring cycle eliminated for the Bilingual Education program. This would allow the Agency to consistently use a risk-based approach in selecting districts for on-site monitoring reviews. Until the three-year monitoring cycle is eliminated, the Agency should provide resources to ensure compliance with state law. The Agency might consider hiring contractors, as is currently done with monitoring Special Education programs, to comply with the cyclical monitoring requirements.
- Management should evaluate the benefits of coordinating the on-site monitoring visits for the Office of Accountability and the Contracts and Grants Administration Division to improve the efficiency and coverage of the Agency's on-site monitoring efforts.

Management's Response:

The Agency concurs with the State Auditor's Office report that current staffing levels limit the ability to comply with the three-year monitoring cycle. Additional resources may be needed to ensure compliance with state law. The Agency is required by both TEC 29.062 and Federal Court Order 5281 to perform on-site monitoring visits every three years to all school districts and open enrollment charter schools with a Bilingual Education program. Moving to eliminate the three-year monitoring cycle would

require not only a change in state law, but also a change in the federal court order. The Agency may not be in a position to eliminate the three-year monitoring cycle.

In November 1997, the Division of Accountability Evaluations contracted with a bilingual education consultant to develop with others a Bilingual Monitoring Remediation Plan. The plan accomplishes two goals: 1) bring the Agency into compliance with the requirement to monitor every district receiving Bilingual Education program funds once every three years, and 2) maintain compliance with this requirement. With input from ESC leadership, TEA program staff, district stakeholders, and PEIMS data specialists, the consultant has developed a remediation plan to meet that requirement.

The Agency agrees that additional coordination is needed between the two departments. Staff from both departments have met to discuss the Risk Assessment Plan for Determining Risk Level developed by the Division of Contracts and Grants in May 1997. New information technology should improve the accessibility of information between the two departments and improve the efficiency and coverage of the Agency's monitoring efforts. Management will explore the benefits of coordinating and reassigning the on-site monitoring visits for the Office of Accountability and the Contracts and Grants Administration Division to determine if improved efficiency and coverage can be obtained. Appropriate action will be taken after this review which will be concluded this fiscal year.

Section 1-B:

Agency Financial Compliance Monitoring of Education Program Allocations Continues to Need Improvement

Although the Agency has made some improvements in its monitoring of financial compliance, additional improvements are still needed. Our August 1996 report found that the Agency did not use its financial accountability system information to determine if:

- School districts spent their entire financial allotment.
- School districts' expenditures were for direct program services.
- School districts' expenditures were appropriate and reasonable.

Improvements the Agency has made include:

- **Implementing a New Financial Accountability System Resource Guide** - Beginning in September 1996, the new Financial Accountability System Resource Guide (Guide) replaced the old Bulletin 679 accounting system in all school districts. The Guide gives school districts more information on how to manage, account for, and report on their operations by providing greater direction for coding and reporting financial activity. These improvements should result in better quality data submitted by districts through PEIMS (Public Education Information Management System). Implementation of the Guide should improve school districts' accountability for their use of

educational program funds. The Guide includes a process that can link expenditures of a shared service arrangement (cooperative) to each member district. These changes can significantly improve the aggregation of all educational program indirect and direct costs to allow for better financial monitoring.

- **Developing a Compatible Cost Allocation Program to Be Used With the Guide** - This cost allocation program was distributed to districts for use in reallocating miscellaneous costs back to the education programs that benefit from these expenditures. This management tool assists the districts and the Agency in determining where total costs are incurred, but does not alter the original accounting entries or the data submitted to PEIMS.

The Agency still needs to ensure school districts' financial compliance with indirect cost limits by:

- **Monitoring School District Expenditures of Foundation School Program Special Allotments to Ensure Compliance With State Law** - The Agency has not been monitoring school districts' indirect cost expenditures for compliance with the following state laws:
 - Section 105.11 of the Texas Administrative Code
 - Chapter 42 of the Texas Education Code

The laws limit the amount of Foundation School Program special allotments that school districts can spend on indirect costs to no more than 15 percent of the allotment. This limit applies to the following programs that collectively have \$3.1 billion in fiscal year 1998 funding allotments: Compensatory Education, Gifted and Talented Education, Bilingual Education and special language programs, Career and Technology Education, and Special Education. This law implies that at least 85 percent of a district's special allotment must be expended on direct educational costs.

- **Testing School District Data Input by Relying on Independent Auditors to Ensure the Information Is Accurate and of High Quality** - The reliability of school district data is critical to the Agency's ability to perform meaningful analysis to monitor financial compliance with the Foundation School Program special allotments. Prior reports used by the Agency to monitor indirect cost expenditures were discontinued due to data reliability problems.

An opportunity exists for the Agency to rely on the independent auditors to test the accuracy of the school districts' coding of transactions. These auditors are already engaged to do the audits of school districts' annual financial reports and are experienced in financial compliance monitoring. In addition, Texas Education Code, Chapter 44.008 (b), requires the independent audit to include an audit of the accuracy of the fiscal information provided by the district through PEIMS. This could include performing tests of transactions on the financial data to determine the accuracy of the accounting records that are used in the PEIMS data submissions. If the reliability of the PEIMS data can be

enhanced by effective testing of financial transactions at the school districts, then the Agency could use this data to monitor compliance with the indirect cost limit.

Recommendation:

Independent auditors performing audits of school districts' annual financial reports should be required to perform financial compliance testing on the Foundation School Program special allocations. This testing should determine that direct and indirect costs are properly coded to the appropriate fund, function code, object code, organization (campus) and program.

The Agency should develop procedures for the independent auditors' tests of transactions and reporting of results that include:

- Using statistical sampling to estimate the true dollar error in coding transactions
- Reporting the sample results and calculating the dollar error of the population
- Adjusting school district financial data, prior to final submission to PEIMS, when these amounts are materially misstated.

Management's Response:

Texas Education Agency (TEA) management concurs with comments made by the State Auditor's Office that increased reliance on the work of school districts' independent auditors would provide opportunities for TEA to expand its monitoring of school districts' expenditures of education program allotments from the Foundation School Program (FSP), and to improve the accuracy of financial information. On September 1, 1996, TEA implemented changes to financial management guidelines and requirements that are explained in the TEA publication Financial Accountability System Resource Guide. These changes to financial management guidelines and requirements will improve the quality of financial information reported by districts regarding expenditures from FSP education program allotments. Accordingly, expanding the role of the school districts' independent auditors, as recommended by the State Auditor's Office, would enhance the effectiveness of TEA's monitoring efforts, and also further support TEA's efforts to improve the overall quality of financial information submitted through the Public Education Information Management System.

TEA will implement the recommendations of the State Auditor's Office by expanding existing guidelines provided to independent auditors in the Financial Accountability System Resource Guide. TEA concurs with the State Auditor's Office specific recommendations that expanded instructions should be provided to the independent auditors relating to testing the use of appropriate financial account codes and school districts' compliance with requirements regarding minimum expenditures from

education program allotments. TEA also concurs that these instructions should explain the use of statistical sampling techniques in analyzing the impact of errors disclosed during the annual audit. Changes to guidelines to the independent auditors will be effective for audit procedures applicable to annual audits of school districts for the fiscal year needed August 31, 1998.

Section 1-C:

Initiatives Are in Progress to Improve Information Management, but Standards Are Still Needed for Developing and Maintaining Information Systems

Initiatives are in progress to improve the coordination of information systems, which includes the Commissioner's Plan for Information Access. However, there are still no standards for all divisions to follow for developing and maintaining information systems. Both our August 1996 and December 1996 reports found control weaknesses in the management of information systems including fragmented systems planning and coordination, inconsistent data definitions, and weak controls over system development and maintenance.

The Agency formed two standing committees to oversee both information management and the use of information resources across the Agency. Progress is being made to develop standard data definitions and improve the data edit process. These initiatives include:

- **Creation of the Information Systems Advisory Committee (ISAC)** - This committee includes the Deputy Commissioners who are responsible for establishing policies, setting priorities, and providing strategic direction for information management and resources.
- **Formation of the Information Planning Committee (IPC)** - This committee includes the Deputy Commissioners and the Associate Deputy Commissioners and is responsible for resolving agencywide information issues, defining and recommending policy, and recommending priorities for the development and use of information systems and resources.
- **Implementation of the Data Warehousing and the Enterprise Model to Consolidate Information Into a Common Set of Data, Which Reduces Inefficiencies in Managing and Accessing Information** - The Agency developed a database to keep track of the different information systems used. The Agency also made progress in developing consistent data element definitions for use on all information systems. As progress in managing information continues, the fragmentation of data throughout the Agency should be eliminated.
- **Recommendations for Improvements in Data Edits and in the Development of Data Error Trend Analysis Is in the PEIMS Data Collection System** - The data edits would improve the quality of data. Trend analysis of

the data errors would identify trends in school districts' data submissions, database contents, and software that need to be corrected in order to improve the data quality. These recommendations have not been fully implemented.

The Agency needs a standard comprehensive systems development methodology to develop and maintain automated information systems. Divisions providing critical services such as Performance Reporting, Student Assessment, Accreditation, and State Funding independently develop and maintain automated information systems that have:

- Minimal quality control review
- Minimal documentation
- Weak security controls

These automated systems produce information relied upon by Agency management and other decision makers to access school district accountability and student performance. Without a consistently applied system development methodology in place to help ensure the accuracy of data collected from individual divisions, the risks increase that the benefits associated with the Commissioner's Plan for Information Access will not be realized.

The Information Systems Division has an opportunity to assist all divisions that collect data and perform programming functions by encouraging the use of a consistent process for developing and maintaining automated information systems and monitoring implementation. The Information Systems Division began using a comprehensive systems development methodology for its operations. It also began using project management tools to plan and track the progress of its systems development and maintenance activities. This assistance can lead to efficiencies by producing a higher quality of data agencywide.

The ISAC and the IPC could also be used as a vehicle to integrate a systems development methodology policy for all Agency divisions.

Recommendation:

- Management should continue to refine the data editing process to improve the quality of data submitted by school districts.
- Management should emphasize to all divisions developing and maintaining systems that consistent application of system development standards is beneficial and required to ensure that accurate and complete information is produced. The level of system development should be commensurate with the degree of difficulty or complexity of the effort required to develop or maintain the systems. The Information Systems Division, with the ISAC and IPC, could assist and monitor divisions in implementing standards over their systems and data. These standards will minimize the risk of inaccurate, incomplete, or inconsistent data.

Management's Response:

The agency has begun improving the PEIMS edits. We have added additional edits and included some cross-collection verifications. This effort will be intensified in the future. A project group has been tasked to work with our customers to establish the scope of work for improvements to PEIMS Collection System edits and cross-collection validity and reasonableness checks. Those recommendations will be discussed with the Information Planning Committee and with the Policy Committee on Public Education as appropriate. We plan to have the project group report completed by 4Q98 and will develop an implementation plan for all approved improvements by September.

Information Systems will work with customers to develop a reasonable set of systems development standards for customer-developed information systems. That set of standards will recognize the level of business importance associated with the system and both the size and complexity of the system being developed. These standards will be brought to the IPC and the ISAC for adoption by the agency.

Target date for agency implementation: September 1998.

Section 1-D:

The Agency Is Working to Improve the Quality of Data Used in Calculating the Student Dropout Rate

The Agency is improving the quality of data used in calculating the student dropout rate. Our August 1996 report found that the Agency's process for collecting, reporting, and analyzing the student attendance and dropout rate did not verify the accuracy of data reported by school districts. As a result, the student dropout rate for 1994 was more than double the rate reported by the Agency.

The Agency has assigned responsibility and developed procedures for reviewing dropout data reported by school districts. A Special Data Inquiry Unit (Inquiry Unit) was formed in the fall of 1996 to verify the accuracy of self-reported dropout data. Procedures used by the Inquiry Unit include:

- **Comparing Sequential Years' Enrollment Data** - The focus of this comparison is on the students who cannot be located from one year to the next. Unlocated students are those who were enrolled in a prior year but cannot be accounted for in the current year. These students are not on the PEIMS data submissions for unexplained reasons.
- **Identifying Campuses With a High Degree of Students Withdrawing** - The Inquiry Unit developed criteria to identify such districts. These criteria are applied to school districts' enrollment data. A high degree of students withdrawing increases the potential for misclassified dropout figures. The Inquiry Unit sends the results of this analysis to districts requesting they research the status of identified withdrawn students and report the results back to the Agency for review. If a district is identified as having a high degree of

students withdrawing over a two year period, then the Agency performs an on-site review to determine the causes.

In addition to the work of the Inquiry Unit, the PEIMS data committee is enhancing the “leaver” codes. These enhanced codes will identify reasons for all students who leave school from one year to the next. The enhanced coding should improve the quality of the student dropout data reported through PEIMS. However, until these enhancements are implemented in September 1998, districts are still potentially at risk of under-reporting current dropouts (unlocated students) in their PEIMS submissions.

Recommendation:

We encourage the continued use of the Special Data Inquiry Unit to investigate the causes of campuses reporting high numbers, or a high percentage, of withdrawn students.

Management should implement the newly developed leaver codes as soon as possible.

Management’s Response:

It is true that in FY98, districts will have comparable dropout reporting requirements to those used in prior years. For this reason, the agency plans to continue to use the Special Data Inquiry Unit to investigate and address the causes of PEIMS submissions from schools and/or districts that reflect high numbers / percentages of withdrawn students. It is especially important that this function be maintained throughout the transition to the use of “leaver” records and codes, because it will reinforce both appropriate continuity in coding over time, and consistency in use of codes across districts under the new requirements.

The agency already has taken steps to implement district-level use of leaver records and codes and agrees that this change is both necessary and an improvement over current practice. In August 1997, districts were advised of the change to leaver records. Further, the draft 1998 PEIMS Data Standards – which include necessary specifications for leaver records – are being widely distributed this spring. What must be acknowledged is that districts cannot complete their recording of leavers for a given school year before the start of the subsequent school year (i.e., PEIMS Submission 1 for FY99 will reflect the leavers of the 1997-98 school year). Consequently, there will always be a one-year lag between the data that districts are maintaining and the data available to the agency. In sum, the agency cannot obtain leaver record data from districts any sooner than the 1998-99 school year (FY99), and that is, in fact, the targeted year for agency implementation.

Changes Have Been Made to Strengthen Management Control Systems, But Additional Improvements Are Still Needed

The Agency has made improvements in the management of human resources:

- A new employee performance appraisal system is being used for Agency staff, but evaluations of management personnel are not being done consistently.
- Employee job descriptions containing duties and responsibilities are required as part of the personnel evaluation process.
- Beginning in January 1997, the Agency converted to the Uniform Statewide Payroll System leave accounting system.
- A team is currently working to enhance the staff development training curriculum, with implementation scheduled for September 1998.

Initiatives have been taken to improve the grants review and approval process, but improvements are still needed in the review and approval of contracts. Management has designed a Grants Tracking Log to improve the monitoring of the review and approval of applications for discretionary grants, but there are no time frames for the development of this Log. In some cases, the approval of professional services contracts occurs after the services have been performed.

Based on recent actions it appears that management is taking steps to improve the effectiveness of the internal audit function at the Agency. The Internal Audit Department has been reorganized under a new director who reports to the Commissioner. In November 1997, a quality control review was conducted at the Internal Audit Department by a team of outside auditors. The team consisted of internal auditors from other state agencies. The purpose of this review was to assess the Internal Audit Department's operations and to make recommendations where improvements could be made. The results of this review have not yet been published.

Performance measures have been developed for divisions within the department of Internal Operations and are scheduled to be implemented in this fiscal year. However, the use of performance measures is not required for all divisions within the Agency. In order for the Agency to monitor the quality of its services to its education customers (such as school districts and education service centers) we are recommending that all divisions be required to develop performance measures for their core activities.

As noted in the prior audit, the Agency's property accounting records have not been reconciled to the State Property Accounting System in more than five years. This situation significantly weakens the controls over property accounting, increasing the risk that Agency property is not adequately safeguarded.

Section 2-A:

Human Resource Management Controls Have Improved

The Agency is improving its controls over human resource management. However, weaknesses still exist in performance evaluations for nonclassified employees. Our December 1996 report found that the Agency needed to improve the systems for employee evaluations, job descriptions, training, and leave records.

The following steps have been taken to improve controls over human resource management:

- **A new performance evaluation system that identifies essential job dimensions and criteria for measurement was implemented.** A training program was developed by the Human Resources Division to teach Agency managers and supervisors how to use the system, and courses were provided to give all Agency staff members an overview of how the system operates.

Based on the results of our test of 19 classified employees who received pay increases between December 1, 1996, and May 1, 1997, all were supported with current performance evaluations.

- **Functional job descriptions that contain duties and responsibilities have been developed.** Of the 19 classified employee performance evaluations we reviewed, 17 used the new performance appraisal system and included functional job descriptions.
- **Conversion to the Uniform Statewide Payroll System leave accounting system was implemented.** Controls are in place to restrict access to leave records to authorized employees only. Based on our review of the leave records, it appears that the Agency is now recording employee leave transactions accurately.
- **The staff development training plan is being enhanced, with implementation scheduled for September 1998.** The Agency Staff Development Alignment Team (Team) was formed to conduct these changes. The objectives of the Team are to incorporate the elements from two management books, *The Seven Habits of Highly Effective People* and *Principle-Centered Leadership*, into the organizational structure and culture of the Agency. To carry out this work the Team has divided into four subcommittees to focus on (1) planning and operations, (2) staff development, (3) ethics, and (4) performance assessment and development.

Currently, sessions on ethics training are provided as part of the staff development and training curriculum. The ethics policies and training include information on conflicts of interest and dual employment, two areas identified in the December 1996 report as needing emphasis in employee training courses.

The Agency needs to improve controls over performance evaluations for nonclassified employees. Three of the nine nonclassified (exempt) employees tested who received pay increases between December 1, 1996, and June 1, 1997, did not have a current performance evaluation to support this action. One of the three had no documentation in his or her personnel files to support that he or she had ever had a performance evaluation at the Agency.

Recommendation:

Management should ensure that the employee performance evaluation system is consistently applied to all employees, including nonclassified employees. Annual performance evaluations should be prepared as part of an employee's developmental process. All pay actions should be supported by a current performance evaluation.

Management's Response:

Performance evaluations for senior exempt staff became effective in December 1996. It has taken a full year's cycle to complete annual evaluations for all senior staff. All senior staff pay changes have followed appropriate state laws. Also, the agency adopted two new operating procedures in November 1997: OP07-02, Agency Principles of Public Service and OP 07-04, Agency Standards of Conduct and Conflicts of Interest.

Section 2-B:

Grants Review and Approval Process Initiatives Have Been Taken, but Improvements Are Still Needed in the Review and Approval of Contracts

The Agency is taking initiatives to improve the discretionary grants review and approval process. However, the approval process for professional service contracts needs improvement. Our December 1996 report identified a need for improvements in the discretionary grants application review and approval process and policies for the renewal or extension of standard professional service contracts.

The Division of Contract and Grants Administration has developed specifications for a Grant Tracking Log. The Grant Tracking Log will track the review and approval process of the discretionary grant applications. This will assist in identifying bottlenecks and areas in the process where efficiencies can be enhanced. One result should be better service through quicker turn-around time on these applications. Currently, the Agency is evaluating whether it has the capability to develop this system, or if it will be necessary to contract for this service.

Our test of 12 contracts for professional services disclosed 3 contracts that were not approved by the Agency before services were provided. This situation defeats the

purpose of having a contract and increases the risk that services will not be performed as prescribed by the Agency and agreed to by the vendor.

Recommendations:

Management should establish time frames and dates for the development and implementation of the Grants Tracking Log. This should include the decision to develop the Log internally, or to contract for this service.

Management should ensure that employees with authority to approve contracts have the knowledge, skills, and abilities to carry out this responsibility. This includes having specific contracting policies and procedures and ensuring employees responsible for contracting for services receive appropriate training in carrying out their responsibilities.

Management's Response:

Management will review the present time frames and dates for the development and implementation of the Grants Tracking Log, and whether this project should be contracted or developed in-house. The implementation of a contracts and grants log, will be evaluated in terms of the procedures related to, and tools available in ISAS. This is scheduled to be in production for fiscal year 1999.

Management through the Division of Contracts and Grants Administration has implemented training for those individuals signing contracts and those individuals assisting signatories in preparing contracts. Training has occurred over the last four years. The training covers the contents of the Contracts Procedures Manual which is updated as state and federal laws affecting contracting change. Management will conduct further monitoring based on risk levels, including use of the Internal Audit Division.

Section 2-C:

The Internal Audit Function Is Improving

Based on recent actions it appears that management is taking steps to improve the effectiveness of the Agency's internal audit function. Our December 1996 report found that an ineffective internal audit function contributed to the Agency's control weaknesses. The following improvements were noted during this audit:

- **The Internal Audit Department was reorganized under a new Acting Director who reports to the Commissioner.** In September 1997 the Acting Director was appointed as the Director.
- **Management is receiving useful information from the Internal Audit Department.** During our work on this audit, the Internal Audit Department released a report on the Office of Accountability, which included the Division

of District Effectiveness and Compliance (DEC). We reviewed this report since we were also interested in the program monitoring responsibilities and practices of the DEC. The report, one of the first issued by the reorganized Internal Audit Department, appeared to be well-prepared with findings documenting areas where operating procedures could be improved. Our interviews with members of DEC management indicated that they generally agreed with the findings and planned to take recommended actions.

- **A quality control peer review on the operations of the Internal Audit Department has been conducted.** This review was conducted in November 1997 by a team of internal auditors from other state agencies for the purpose of assessing the practices of the Internal Audit Department. A report will be prepared on the results of this review and will include recommendations in areas where improvements can be made.

We commend the Commissioner's efforts to improve the effectiveness of the internal audit function. An effective internal audit function is an important tool in establishing and maintaining effective control systems over Agency operations.

Section 2-D:

Performance Measures Should Be Developed for all Divisions

While performance measures have been developed for the divisions within the Department of Internal Operations, the Agency does not require all departments to have performance measures to determine the quality of their services. Our December 1996 report found that the Agency had no defined comprehensive measures to evaluate the effectiveness and efficiency of its operations.

Performance measures have been developed for divisions within the Department of Internal Operations. Four measures were developed for each of these divisions (Accounting, Budgeting, Personnel, Contracts and Grants Administration). These measures were tied to the key performance indicators established during the Agency's Reengineering Study. To date, baseline data is being gathered with implementation of performance measurement scheduled to begin in 1998.

Departmental performance activities, other than those in the Department of Internal Operations, are not required to be measured. The measurement systems used by the Agency primarily relate to the strategies and goals identified in Article III of the General Appropriations Act. These strategies and goals evaluate the level of attainment of the Agency's primary mission, to educate students. This type of measurement system is necessary, but it does not take into consideration how well departments are providing their services.

The quality (efficiency and effectiveness) of departmental services provided to customers can directly relate to student performance. Departmental activities related to services provided to school districts, education service centers, and other stakeholders have a direct impact on student performance and should be measured. The use of

performance measures should compliment the Agency's strategic plan and be focused on the effectiveness and efficiency of departmental operations.

The Agency Strategic Plan for 1997-2001 (Plan) is significantly different than prior Agency strategic plans and reflects the major changes resulting from rewriting the Texas Education Code in response to the initiatives of Senate Bill 1 of the 74th Legislature (1995). This is a well-conceived Plan that addresses the new focus of the Agency, building the capacity of school district and campus educators, rather than on directing education policy and practice at the local level. The Plan links the State's Education Benchmarks to the Agency's Program Strategy and Operations Strategy.

Recommendation:

Management should extend the departmental performance measurement initiatives undertaken in the Department of Internal Operations to all Agency departments. By developing departmental performance measures, management will be able to monitor the quality of services these departments provide towards building the capacity of school districts and campus educators. This will help to ensure that all divisions are focused towards achieving the Agency's mission.

Management's Response:

The recommendations in this section concerning each division having performance measures will be addressed by the strategic planning and work standards initiative coordinated in the Deputy Commissioner's Office for Finance and Accountability. This initiative is planned for full completion prior to submission of the 2000-2001 Legislative Appropriations Request.

Section 2-E:

Property Inventory Records Need to Be Reconciled

As noted in the prior audit, the Agency's property accounting records have not been reconciled to the State Property Accounting System in more than five years. This situation significantly weakens the controls over property accounting, increasing the risk that Agency property is not adequately safeguarded.

The Agency has hired a full-time employee, trained in the State Property Accounting System (SPA), to address problems associated with the Agency's property accounting system. This person has been able to address the current property management duties; however, the reconciliation of property records with SPA have not been done.

Recommendation:

Management should ensure that reconciliations between the Agency property records and the State Property Accounting System are performed on a monthly basis. All reconciling differences should be researched with the necessary corrections made.

Management's Response:

The Agency agrees and has entered into a contract with Comptroller of Public Accounts to purchase an Integrated Statewide Administrative System (ISAS). The ISAS system will be used by the purchasing, receiving, accounts payable, asset/property management, general ledger departments, and it will be interfaced to the State Property Accounting System and other statewide systems.

Thus, the timely entry of assets will automatically occur when they are recorded as being received. The actual cost of the asset will come from the information, which is entered by accounts payable, which will also make the reconciliation between the general ledger and asset management unnecessary.

Full implementation of these features is planned this fiscal year.

Section 3:

The Agency Has Achieved the Mandated Changes From Senate Bill 1, 74th Legislature

In an effort to shift more control of the public education system from the state level to the local level, Senate Bill 1 changed the structure and role of Agency. These changes included downsizing the Agency, reducing the number of state rules and regulations that apply to school districts, transferring operations to other state agencies, and developing accountability systems to monitor the public education system. The following observations were made:

- The Agency has decreased the size and breadth of its operations. The number of full-time employees has been reduced from 1,055 in August of 1995 to 845 in May of 1997. This downsizing was accomplished by transferring the Proprietary Schools Division to the Texas Workforce Commission and the decentralization of activities to the Regional Education Service Centers. Additional cuts were made through initiatives in a reduction of force and attrition.
- The number of state rules, regulations, and requirements that school districts must comply with has decreased by 35 percent.
- The Teacher Certification Division was subsequently transferred from the Agency to the newly created State Board of Educator Certification. Forty-nine

staff positions were transferred to the new Board, leaving the Agency with 796 filled staff positions at June 30, 1997.

- The Agency has developed, or is in the process of developing, accountability systems for monitoring new areas and initiatives for public education, including:
 - All students can read on grade level by the third grade and continue on grade level for the remainder of their school years. The monitoring system for this mandate is the reading portion of the Texas Assessment of Academic Skills (TAAS) examination. Students are expected to score at least 70 percent of items correct on this examination and maintain that percentage.
 - Waivers from federal government regulations known as Ed/flex. Waivers are granted from federal program regulation to school districts in exchange for improvements in student performance. School districts apply to the Agency to participate in the Ed/flex program. The Commissioner of Education has granted four statewide administrative waivers to over 500 districts and approximately 240 programmatic waivers to more than 160 districts. TAAS scores will be used to measure student performance. The goal for this program is to have a 90 percent passing rate for each group in five years.
 - Charter Schools are a further move towards choice and local control of public education. Application to operate a charter school must be approved by the Agency. Two Agency staff members have the responsibility of monitoring the 17 charter schools that began in the 1997 school year. These 17 charter schools enrolled 2,500 students. The Legislature has approved the creation of an additional 100 charter school and the Agency has received over 500 application requests from interested parties. These additional charters may require additional monitoring resources from the Agency.
 - A one-time facility construction appropriation of \$170 million was provided to 275 school districts through the Foundation School Program based on a statutory formula. The Agency monitors the awards through a review of the local architect or engineer's monthly or quarterly progress reports, and the certificate of completion documentation. In addition, the Agency provided each applicant information to self-monitor the projects on an ongoing basis.

Recommendation:

We recommend that as the number of Charter Schools increases the Agency assign a corresponding level of resources to appropriately monitor this activity. Two staff members were assigned monitoring responsibility for the initial 17 Charter Schools. As these schools proliferate to over 100 in the near future, attention should be given to

increasing the number of monitoring staff members to ensure compliance with the schools' charters.

Management's Response:

The Agency concurs with the recommendation. In addition to the two staff members assigned to monitor the initial Charter Schools, consideration will be made for resources needed to conduct on-site district effectiveness and compliance (DEC) and accreditation reviews of Charter Schools.

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine what actions have been taken to address the issues and implement the recommendations associated with the following audits:

- *An Assessment of the Texas Education Agency's Monitoring Systems for Public Education* (SAO Report No. 96-072, August 1996)
- *A Review of Management Controls at the Texas Education Agency* (SAO Report No. 97-074, December 1996)

We also determined if the directives included in Senate Bill 1, of the 74th Legislature, are being achieved.

Scope

The scope of this audit was primarily limited to following up on the issues and recommendations included in the original reports and the mandates identified in Senate Bill 1. Our work focused on the main areas of concern identified in the prior audits and the initiatives taken by the Texas Education Agency (Agency) to implement Senate Bill 1. It included responsiveness in addressing previously identified weaknesses in the following areas:

- Needed improvements in on-site monitoring for compliance with the education program requirements at the school district level
- The need for more effective financial monitoring by the Agency over the use of education program funding by the school districts
- Better data to improve the accuracy of school districts' self-reported dropout rate
- More efficient use of information resources and systems by the Agency
- Needed improvements in human resources management
- Needed improvements in contracts and grants administration
- Better accounting for property inventory
- The need for a comprehensive performance measurement system for Agency operations and administration

Methodology

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

Information collected to accomplish our objectives included the following:

- Interviews with Agency management and staff
- Documentary evidence included a review of:
 - The Agency's reorganization structure including plans, goals, and objectives
 - Agency policies and procedures
 - The Financial Accountability Resource Guide
 - Board Minutes
 - Personnel files, job descriptions, evaluations, leave records, staff training/development curriculum, and Agency downsizing information
 - Contracts and Grants
 - Reengineering study for the Department of Internal Operations
 - Internal Audit Report on the Office of Accountability

Procedures and tests conducted:

- Review of the training materials for the reorganized on-site compliance monitoring process
- Review of correspondence with school districts related to dropout data
- Review of the desk audit process by the Agency of the school district's audited annual financial reports
- Review of the Special Data Integrity Unit process established to review the accuracy of student dropout data self-reported by school districts
- Compliance testing of personnel files
- Review of contracts for proper approval
- Review of Agency management information systems
- Review of the Agency's reorganization to comply with mandates of Senate Bill 1

Analysis techniques used:

- Control reviews
- Process reviews
- Data comparison
- Selection and testing of random samples

Criteria used:

- The Texas Education Code
- The Texas Education Agency's policies and procedures
- The Texas Education Agency's strategic plan
- The State Auditor's Office Accountability Project Methodology (general and specific)

Other Information

Fieldwork was conducted from June 2, 1997, through September 17, 1997. The audit was performed in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

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

- Dick Dinan, CPA (Project Manager)
- Marcia Carlson-Davis
- Janet Melton, CPA
- Teresa Menchaca, CISA, CDP
- Dennis O'Neal, CIA
- Douglas Powell
- Raquel Wright
- Carol A. Smith, CPA (Audit Manager)
- Craig D. Kinton, CPA (Audit Director)

Background Information

Appendix 2.1

Status of Recommendations From *An Assessment of the Texas Education Agency's Monitoring Systems for Public Education* (SAO Report No. 96-072, August 1996)

Table 1

| Recommendation | Status | Follow-Up Remarks |
|--|-------------|--|
| Section 1: Financial Accountability Systems Are Not Used Effectively to Monitor Districts | | |
| Clarify divisional roles and responsibilities for monitoring programs. | Completed | On September 1, 1996, a reorganization of the program monitoring functions placed this responsibility under the newly created District Effectiveness and Compliance (DEC) Division. |
| Provide specific, detailed policies and guidance for appropriate use of state financial resources. | In Progress | <p>Beginning September 1, 1997, DEC was combined with the Accreditation Division to form the Division of Accountability Evaluations (DAE). The roles and responsibilities are still evolving for DAE.</p> <p>On September 1, 1996, the newly created <i>Financial Accountability System Resource Guide</i> was implemented by every school district in Texas. This Guide is a comprehensive accounting, reporting, budgeting, purchasing, and auditing system that is to be used consistently by all districts.</p> <p>Currently there is a committee working to develop reporting and auditing guidelines specifically for the State Compensatory Education allocation from the Foundation School Program. This is in compliance with Senate Bill 1873 of the 75th Legislature.</p> |
| Develop standardized procedures for reviewing district compliance with allotment requirements. | In Progress | <p>The DEC focused primarily on the program compliance requirements. However, there were seven reviews done in fiscal year 1997 that included both program and financial compliance monitoring.</p> <p>Currently there is a committee working on developing financial reporting and auditing guidelines for Compensatory Education funding. These procedures are to be effective beginning September 1, 1998.</p> |

Table 1, continued

| Recommendation | Status | Follow-Up Remarks |
|---|---|--|
| Include monitoring of all state and federal funds in its data analysis process. | <p>In Progress</p> <p>Not Implemented</p> | <p>While the DEC monitors both state and federal programs, these reviews focus primarily on the academic compliance and not financial.</p> <p>In fiscal year 1997 there was no district financial monitoring done for the 15 percent indirect cost limit for any of the required allocations from the Foundation School Program. The required allocations are Compensatory Education, Bilingual Education, Gifted and Talented, Special Languages Program, Career and Technology Education, and Special Education.</p> |
| Perform trends, ratio, peer review, and other data analysis techniques on the financial expenditure data. | In Progress | The State Auditor's Office has developed a public education database from PEIMS, TAAS, and other data. It is planned that this will be given to TEA in the future to maintain. |
| Establish and impose penalties and sanctions for districts not complying with state program requirements. | Completed | The Education Code establishes sanctions for school districts who are not in compliance with program directives. In addition, the Agency has developed levels of sanctions to be used based on the severity of district noncompliance. |
| Perform timely follow-up visits. | In Progress | <p>Follow-up reviews are done only if the data indicates that corrective actions have not been taken by the districts or campus. For instance, if a school remains low-performing from one year to the next, an accreditation review will be performed again.</p> <p>Follow-up reviews are not done on a routine basis for financial noncompliance due to the difficulty in determining expenditures direct and indirect costs.</p> |
| Section 2: Student Dropout Is More Than Double the Reported Rate for 1994 | | |
| In order to ensure the accuracy of information, the Agency should change its procedures for collecting, reporting, and analyzing student attendance and dropout data. | In Progress | The Agency has formed the Special Data Inquiry Unit to go to campuses with the highest number of unlocated students to investigate the causes. Also, a committee has been formed to expand the current "leaver" codes that will account for all students who have fallen from the attendance records between the end of one school year and the beginning of the next school year. The development of the new "leaver" codes are to be completed for implementation in the 1998-1999 school year. |

Table 1, continued

| Recommendation | Status | Follow-Up Remarks |
|--|-------------------------------------|--|
| Section 3: On-Site Monitoring Visits Have Not Been Completed | | |
| <p>The Texas Education Agency should strive to change state requirements for <u>cyclical</u> on-site monitoring visits to performing <u>risk based</u> on site monitoring visits.</p> | <p>In Progress</p> | <p>The Office of Accountability is in the process of developing a risk-based monitoring system. A committee has been formed to define the elements of risk that will be measured. Currently, a risk-based system is scheduled to be implemented for the on-site monitoring visits beginning September 1, 1998.</p> |
| <p>Perform on-site cyclical visits in a timely manner, until requirements are changed.</p> | <p>In Progress</p> | <p>The division of District Effectiveness and Compliance (DEC) began on-site monitoring of districts on September 1, 1996, following a period when on-site monitoring had been discontinued by the Agency.</p> <p>From September through May 1997 the DEC has been able to perform on-site monitoring visits on nearly 150 districts.</p> |
| <p>Develop procedures for monitoring the Non-Public Schools for appropriateness and reasonableness of expenditures.</p> <p>Additionally, enhance the process for placing facilities on the approved provider list.</p> | <p>Completed</p> <p>In Progress</p> | <p>Non-Public Schools (NPS) are required to have an annual audit by a Certified Public Accountant in accordance with professional standards. In addition, each NPS must undergo an on-site evaluation by the Agency every three years to maintain its approved status.</p> <p>The approval process includes an evaluation, submission of a budget, an audited annual financial report, and an on-site evaluation prior to receiving the Agency's endorsement as an approved contracting facility for students with disabilities.</p> |
| <p>Develop procedures to ensure that state and federal funds are spent appropriately and meet federal requirements.</p> | <p>Completed</p> <p>In Progress</p> | <p>Districts are required to submit their audited annual financial report to the Agency where the annual financial report receives a desk review for compliance with state reporting guidelines and any questioned costs.</p> <p>A committee has been charged to develop reporting and auditing procedures for Compensatory Education funds. These procedures are to go into effect beginning September 1, 1998.</p> <p>We are recommending that the CPAs be used to test the accuracy of expenditure coding of direct and indirect costs to determine the accuracy of information submitted to PEIMS.</p> |

Table 1, continued

| Recommendation | Status | Follow-Up Remarks |
|--|--|--|
| <p>Consider formation of a Coordinated Compliance Review Team to cover all program compliance areas, including financial compliance</p> | <p>Completed</p> | <p>Beginning in September 1996 the DEC began operation. Its charge was to do a comprehensive compliance review of all programs at one visit. The DEC division has been expanded to include accreditation reviews.</p> <p>In September the DEC and Accreditation divisions were merged to bring greater efficiencies to the monitoring process.</p> |
| <p>Section 4: Inefficient Use of Resources Hinders Monitoring Function</p> | | |
| <p>Section 4-A: Districts Provide Data to More Than 70 Information Systems</p> | | |
| <p>Develop procedures to ensure that all information systems are accounted for and new systems are recognized. This would include an updatable, comprehensive list of the Agency's automated systems.</p> <p>Determine its information needs and ensure that the information is being adequately and efficiently collected, and maintained.</p> <p>Perform annual reviews of data elements to eliminate unnecessary data collection.</p> | <p>In Progress</p> <p>In Progress</p> <p>In Progress</p> | <p>The Information Systems Advisory Committee (ISAC) began meeting in the spring of 1997 and is working to address the needs of having a comprehensive list of all Agency automated systems, determine what the current information needs are, and what data collection needs are necessary.</p> |
| <p>Create a data warehouse to reduce data access problems</p> | <p>In Progress</p> | <p>The Commissioner's Plan for Information Access includes considering how the data warehousing might be best achieved.</p> |
| <p>Change the name of the Agency's automated data collection currently known as PEIMS to eliminate confusing the system with the broad legal reference public education information.</p> | <p>In Progress</p> | <p>The Agency's web page now refers to this education data base system as PEIMS Data Collection System.</p> |
| <p>Reduce its reliance on manual systems, reports, and processes prior to automating a manual process.</p> | <p>In Progress</p> | <p>The Information Planning Committee is working with the Data Warehousing project and Enterprise Data Model to reduce number of systems, including manual processes.</p> |

Table 1, continued

| Recommendation | Status | Follow-Up Remarks |
|---|-----------------|--|
| Section 4-B: Public Education Information Management System (PEIMS) Needs Improvement | | |
| Form an internal coordination committee for streamlining data collection needs throughout the various divisions within the Agency. | In Progress | The Information Planning Committee is working on the coordination of data throughout the various divisions. |
| Clarify the roles of advisory committees. | In Progress | Roles of committees are being clarified by the Information Planning Committee. |
| Eliminate conflicts of interest on advisory committees to ensure objectivity and independence. | Completed | The issue was addressed by eliminating membership of one member. |
| Perform annual reviews of data elements to eliminate unnecessary data collection. | In Progress | The Information Planning Committee is working to eliminate unnecessary data collection. |
| Evaluate the edit process. | In Progress | The process has been evaluated, and changes are occurring. |
| Eliminate the duplication of effort involved in performing the same edits. | Completed | Three points of editing with same tool is still occurring. |
| Provide training to districts reporting inaccurate data. | In Progress | The Agency is working to provide more training to those areas in need. |
| Section 4-C: Results Based Monitoring System Is Duplicative, Burdensome, and Costly | | |
| Continue to modify its monitoring process. | In Progress | The Results Based Monitoring system (RBM) was replaced by the District Effectiveness and Compliance (DEC) division on September 1, 1996. All monitoring for practically all programs, state and federal, are performed by the DEC. On September 1, 1997, the DEC was combined with the Accreditation division to form the Division of Accountability Evaluations (DAE). The DAE was identified as a more efficient way to use available staff to do more effective monitoring. |
| Ensure that the adopted monitoring system provides new and useful information and is not a duplication of information contained in any existing systems, prior to investing additional resources. | In Progress | |
| Consider the cost effectiveness of future program monitoring processes. | In Progress | |
| Section 4-D: Fragmented and Inaccurate Record Keeping Hinders Monitoring | | |
| Implement an automated system to track all monitoring visits and complaints. | Not Implemented | No changes have occurred. |

Table 1, continued

| Recommendation | Status | Follow-Up Remarks |
|--|-----------------|--|
| Develop procedures for communicating complaint resolution information to districts. | Not Implemented | No changes have occurred |
| Develop and maintain a centralized record keeping system. | In Progress | Data warehousing is not complete. |
| Section 4-E: Grant Application Process is Untimely and Informal | | |
| Develop and document procedures and criteria for federal grant application reviews. | In Progress | A Grants Tracking Log has been designed and is awaiting development either internally or externally through contracting with a vendor. |
| Develop a checklist for the federal grant application review process. | In Progress | See above comments regarding Grants Tracking Log. |
| Implement an automated system to track all federal grant applications. | In Progress | See above comments regarding Grants Tracking Log. |
| Section 4-F: Monitoring Reports Are Untimely | | |
| Streamline the reporting process. | In Progress | The Office of Accountability is addressing this issue in its reorganization of compliance monitoring and accreditation review process. |
| Cross-train employees to enable more than one person to review and sign reports. | In Progress | See above comments regarding the Office of Accountability's reorganization. |
| Section 4-G: Bulletin 742 Is a Collection of Mismatched and Outdated Forms | | |
| Continue reviewing the existing documents and reports contained in Bulletin 742. | In Progress | The Texas Education Agency Data Approval Committee (TEADAC) reduced the number of data collection documents required of school districts. TEADAC is reviewing its scope of work to determine if in addition to data collection documents it should review other types of forms (such as business transactions and certificates). |
| Expand the committee's charge to include review of the types of documents contained in the Bulletin. | In Progress | See comments above regarding the scope of TEADAC's work. |

Table 1, concluded

| Recommendation | Status | Follow-Up Remarks |
|---|------------------------|---|
| <p>Consider alternative methods of distribution and collection of information currently contained in Bulletin 742. This information should be reviewed for clarity, statutory authority, and completeness prior to inclusion in the Bulletin.</p> | <p>In Progress</p> | <p>Plans are being made for having forms available on the Internet.</p> |
| <p>Develop a series of policy guides similar to those in the <i>Financial Accountability System Resource Guide</i>, for the purpose of communicating policy information needed at the district level, but not required to be collected by the Agency.</p> | <p>Not Implemented</p> | <p>Efforts to date have focused on data required to be collected by the Agency.</p> |

Status of Recommendations From A Review of Management Controls at the Texas Education Agency (SAO Report No. 97-024, December 1996)

Table 2

| Recommendation | Status | Follow-Up Remarks |
|--|-----------------|---|
| Section 1: A Lack of Enforcement of Daily Operational Procedures Has Created a Weakness in the Agency's Control Structure | | |
| Management should: <ul style="list-style-type: none"> • Routinely monitor employees' leave transactions and trends. | Completed | The Agency converted to the leave accounting system component of the Uniform Statewide Payroll System which has improved the security for employee leave transactions. |
| <ul style="list-style-type: none"> • Ensure that employees are fully aware of policies regarding conflict of interest and dual employment | In Progress | The staff development training program is currently being revised with implementation set for September 1998. This program will contain a module on ethics, which includes sections on employee conflict of interest and dual employment. Current training is also covering this topic. |
| <ul style="list-style-type: none"> • Aggressively enforce the Agency's operating procedures for the use of the travel advance fund. | Completed | Employees are now denied a travel advance when they have an outstanding or delinquent travel voucher. The Travel Advance Request form has been modified to better regulate the use of the fund for appropriate purposes. |
| <ul style="list-style-type: none"> • Ensure that proper approvals are obtained for contracts prior to work beginning. | Not Implemented | In our test of 12 service contracts, 3 had work performed prior to being approved by the Agency. In most cases the contract was approved after the services were provided. |
| <ul style="list-style-type: none"> • Ensure that all required provisions are included with each contract. | Completed | Each of the 12 contracts tested appeared to contain all required provisions. |

Table 2, continued

| Recommendation | Status | Follow-Up Remarks |
|--|-----------------|---|
| Section 2: Controls Can Be Improved to Ensure Effective and Efficient Operations | | |
| Section 2-A: Human Resource Management Controls Can Be Improved | | |
| <p>Management should improve controls in the design and implementation of human resource management systems. Specifically:</p> <ul style="list-style-type: none"> As the new performance appraisal system is implemented management should ensure its complete and proper implementation. | Completed | The new performance appraisal system has been implemented for classified employees and training has been provided on how the system will work. |
| <ul style="list-style-type: none"> Compensation decisions should be supported with current employee performance evaluations. | Completed | All 19 of the classified employees tested who received pay actions had a current evaluations (within one year) to support this decision. |
| <ul style="list-style-type: none"> Functional job descriptions should be prepared for every position and communicated to employees in a timely fashion. | Not Implemented | However, three of nine nonclassified (exempt) employees tested who received pay actions did not have current evaluations to support this decision. One of these nonclassified employees file indicated the employee had never had a documented performance evaluation since being employed at the Agency. |
| <ul style="list-style-type: none"> Management should ensure that all intern positions open to external candidates are listed with the Texas Workforce Commission. | In Progress | Job descriptions now exist for approximately 75 percent of all positions and are included on current performance evaluations. |
| <ul style="list-style-type: none"> The Agency should conduct a comprehensive assessment of the training needs of Agency employees and prepare a formal training plan on a regular basis. | Completed | The Agency has not had any intern positions available recently; however, job postings are being listed with the Texas Workforce Commission. |
| <ul style="list-style-type: none"> The Agency should conduct a comprehensive assessment of the training needs of Agency employees and prepare a formal training plan on a regular basis. | In Progress | In April 1997 the Agency Staff Development Alignment Team was created to identify needs and develop employee training programs. A formal training plan is scheduled for completion by September 1, 1998. |

Table 2, continued

| Recommendation | Status | Follow-Up Remarks |
|--|-----------------|---|
| <ul style="list-style-type: none"> Management should incorporate proper controls over access to the leave accounting system or convert to a new system, such as the Uniform State Personnel System. | Completed | In January 1997 the Agency began using the Uniform Statewide Payroll System's leave accounting module. This contains the necessary controls over leave accounting that had been missing. |
| <ul style="list-style-type: none"> Management should fully utilize information obtained from exit interviews to analyze employee turnover and correct situations that cause employees to leave the Agency. | In Progress | Information from exit interviews is being used to review and analyze turnover. |
| Section 2-B: Management of Discretionary Grants and Contracts Can Be Improved | | |
| <p>The Contracts and Grants Division should:</p> <ul style="list-style-type: none"> Implement a formal risk assessment process to facilitate decision-making for the use of its resources in monitoring contracts and grants. | In Progress | A draft risk assessment plan has been proposed and is being prepared for submission to the Agency's Core Committee and the Division of Accountability Evaluations. |
| <ul style="list-style-type: none"> Monitoring efforts should be coordinated among all divisions. | Not Implemented | Monitoring efforts are not being coordinated between Contracts and Grants Division (C/GA) and the Division of Accountability Evaluations (DAE). C/GA feels that the program monitors (DAE) do not have the expertise to monitor fiscal and compliance contracts. |
| <ul style="list-style-type: none"> The Contracts and Grants Division should establish a tracking system for all on-site visits of grantees conducted by the Agency. | In Progress | C/GA uses a manual tracking system for its eight to ten monitoring visits each year, and believes an automated system would not be cost beneficial. |
| <ul style="list-style-type: none"> The Contracts and Grants Division should consider options for allocating additional resources for on-site monitoring of grantees, including realigning staff responsibilities or contracting for services. | In Progress | <p>Because it anticipates a greater than 50 percent increase in work load, the C/GA is requesting a fiscal year 1998 budget proposal that would provide additional funds to perform on-site monitoring visits.</p> <p>We are recommending that the benefits of coordinating on-site monitoring with the Office of Accountability be reviewed. This could improve the coverage and efficiency of the on-site monitoring process.</p> |

Table 2, continued

| Recommendation | Status | Follow-Up Remarks |
|---|-----------------|---|
| <ul style="list-style-type: none"> Develop a tracking system to monitor the process for review and approval of discretionary grant applications. | In Progress | A Grant Tracking Log to monitor the internal review and approval process has been designed. The specifications are being reviewed to see if the Grant Tracking Log can be developed internally by the Agency's Graphics Unit, or if it will need to be contracted to an outside vendor for development. |
| <ul style="list-style-type: none"> Management should establish a written policy for analyzing and justifying contract renewals for professional services. | Not Implemented | According to C/GA personnel, this will be considered during an internal review of the Agency's administrative policies and procedures. |
| Section 2-C: The Agency Should Clarify Its Policy for the Management of Professional Conferences | | |
| The Agency should enhance its policy on the management of professional conferences to clearly define criteria for determining when and how administrative services will be provided. | In Progress | To date, there has been no action taken to enhance this policy. However, the Agency is in the process of amending operating policies and procedures relating to professional conferences. |
| Section 2-D: Controls Over Expenditures Need Strengthening | | |
| <p>Management should improve controls over operating expenditures. Specifically:</p> <ul style="list-style-type: none"> Closely review system controls during the planning and development stages of the new automated administrative system to ensure that duplicate payments will not be processed. In the meantime, management should evaluate the cost/benefit of additional controls to prevent or detect duplicate payments. | In Progress | The Integrated Statewide Administrative System (ISAS) was implemented on a limited basis in November 1997, with roll out to other divisions during fiscal year 1998. The controls of this system will aid in identifying and preventing duplicate payments. |
| <ul style="list-style-type: none"> Procedures should ensure that payments are made within 30 days of either the receipt of an invoice or the day services are completed. | In Progress | ISAS implementation is expected to provide additional controls in this area. |
| <ul style="list-style-type: none"> Management should ensure that bids are stamped with the date and time of receipt. | Completed | Bids are now being stamped with the time and date when they are received by the Purchasing Department. |

Table 2, continued

| Recommendation | Status | Follow-Up Remarks |
|---|-----------------|---|
| <ul style="list-style-type: none"> Management should establish a system to track the timeliness and user satisfaction of the purchase and installation of personal computer resources. Improvements in the purchase and use of virus protection products should also be addressed. | Not Implemented | This recommendation has not been addressed. |
| Section 2-E: Accounting for Property Inventory Is Inaccurate | | |
| Management should improve the record keeping and accounting for property inventory. Specifically: | | |
| <ul style="list-style-type: none"> Management should take steps to improve the accuracy of the State Property Accounting records. | In Progress | While a position was filled to maintain the State Property Accounting (SPA) records, the Agency's property records have not been reconciled with SPA in approximately five years. |
| <ul style="list-style-type: none"> Property records should be reconciled with the accounting records on a monthly basis. | Not Implemented | Management plans to begin reconciling property records once the ISAS is implemented. |
| Section 2-F: The Annual Financial Reporting Process Is Inefficient and Subject to Errors | | |
| Management should evaluate the process to prepare the Annual Financial Report in conjunction with the development and implementation of the new automated administrative system. | In Progress | The new system (ISAS) does have reporting capabilities that should facilitate preparing the Agency's Annual Financial Report. ISAS is scheduled to be implemented during fiscal year 1998, and should be used to prepare the 1998 Annual Financial Report. |
| Section 3: The Agency Lacks a Comprehensive Performance Measurement System for Operations and Administration | | |
| Management should improve its planning and performance measurement system for operations and administration. | In Progress | With the assistance of a consultant, management has developed performance measures for the divisions of Internal Operations (Accounting, Budget, Human Resources, Grants and Contract Administration, and Office Services). Data is being collected this year to begin the measurement process. Performance measures are not required for all divisions. We are recommending that performance measures be required for all departments in order to measure the quality of Agency services to education customers. |

Table 2, concluded

| Recommendation | Status | Follow-Up Remarks |
|--|-----------------|---|
| The revenue and expenditure estimating process should be improved in all program areas to consider factors beyond prior years figures. | Completed | The restructuring and downsizing of the Agency made it necessary to consider factors beyond prior years figures. |
| Management should develop Agency-specific indicators in all divisions to evaluate the effectiveness and efficiency of Agency operations and administration. | Not Implemented | With the exception of the divisions of Internal Operations, discussed above, performance measures are not required of all Agency divisions. |
| Section 4: Communication and Information Management Are Not Integrated | | |
| Executive management must actively lead a unified approach to information systems management. This should include a continued emphasize to all employees the importance of effective communication and coordination through training and supervisory review. | In Progress | <p>The Information Systems Advisory Committee includes members of management. This committee first met in the spring of 1997 and is responsible for information systems policy-making, priority-setting, and strategic direction.</p> <p>The Commissioner has held Agencywide staff meetings to emphasize the mission of the Agency and the importance of communication between divisions in order to achieve this mission.</p> |
| Management should require the use of a comprehensive systems development methodology for all automated projects. | Not Implemented | While the Information Systems Division has adopted a system development methodology, other divisions are not required to follow their lead in this area. As a result there is inconsistency as to the methodology used for developing and maintaining various information systems within the Agency's divisions. |