



OFFICE OF THE STATE AUDITOR

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LAWRENCE F. ALWIN, CPA
State Auditor

August 31, 1998

RE: A Follow-Up Audit on Management Controls at Texas Workforce Commission

Members of the Legislative Audit Committee:

The Texas Workforce Commission (Commission) has made progress in transferring service delivery responsibilities to the local workforce development boards over the last two years. At the time of our 1996 audit, none of the local boards were operational. As of July 1, 1998, the majority of eligible program funding is managed at the local level by 16 fully operational local workforce development boards.

The Commission is also taking steps to improve oversight and management of employment-related services. These actions are intended to correct weaknesses in contract administration, planning, budgeting, and accounting previously identified in our 1996 audit. With a dual role, the Commission is both a service provider and a monitor over local workforce development boards. In these roles, the Commission manages over \$800 million in public funds to help citizens develop work skills and find jobs.

Since many of the Commission's initiatives are still in progress, we could not fully determine their outcome. The Commission's efforts show that management recognizes areas that need improvement and has initiated actions to correct the problems. However, until the proposed solutions are fully implemented, we are concerned that problems identified both internally and externally will continue.

Additional concerns were noted in the following areas:

- The Commission does not formally track and monitor the status of initiatives to improve operations which ensure that corrective actions are implemented timely and consistently.
- The Commission does not know if its current staffing level is appropriate to support the new workforce delivery system. Consequently, the Commission may not be taking advantage of opportunities to redefine jobs and realign staff.
- The Commission still needs to place a high priority on improving contract administration despite progress made over the last two years.

SAO Report No. 98-065

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We appreciate the cooperation of Commission staff and management during this review. We have attached a more detailed discussion of the Commission's progress and areas needing improvement. Please contact Susan Riley, Audit Manager, at (512) 479-4700 if you have questions about this report.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

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Attachment

cc: Texas Workforce Commission
Mr. Mike Sheridan, Executive Director
Ms. Diane D. Rath, Commission Chair
Mr. Terrence P. O'Mahoney, Commissioner
Mr. Ron Lehman, Commissioner
Ms. Fran Carr, CPA, Director, Internal Audit
Mr. Mike Fernandez, Division Director
Ms. Jean Mitchell, Division Director
Ms. LaSha Barefield, Division Director
Ms. Cassie Carlson Reed, Division Director

Detailed Issues and Recommendations

Why was it important for the Commission to address weaknesses identified in the State Auditor's 1996 Management Control Audit?

In December 1996, we reported that the Commission was in the initial stages of consolidating workforce programs, and still had much to accomplish in terms of developing and implementing a system of management controls. Specific weaknesses were noted in planning and contract administration. (*An Audit Report on Management and Fiscal Controls at the Texas Workforce Commission*, SAO Report No. 97-022, December 1996).

The Commission needed to improve planning of agency operations to meet its legislative mandate to consolidate 28 individual workforce-related programs from 10 different agencies. The lack of a clear and comprehensive plan for the new workforce delivery system limited the Commission's ability to function as an integrated, consolidated organization as envisioned by the legislature.

Additionally, the Commission needed to finalize contract provisions and oversight processes for the local workforce development boards (LWDBs). Over half of the \$800 million in funding the Commission receives will be provided to the LWDBs, which will then contract for services. A well-developed contract administration system is necessary to ensure the fiscal integrity and quality of the contracted services.

What progress has the Commission made since the audit?

The Commission has focused on transferring service delivery responsibilities to the local workforce development boards over the last two years. Establishing local control over delivery of employment-related services is one of the primary objectives of the legislation which created the Commission. The Commission considers its progress in this area to be an accomplishment because the legislation did not include specific timelines for creating the LWDBs or transferring program operations.

The Commission also has a number of initiatives underway to improve its management processes and ensure accountability of public funds. The actions address operational weaknesses in areas such as contract administration, budgeting, accounting, and strategic planning. Specific efforts include:

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Status of LWDBs

As of July 1, 1998, 16 of the 28 local boards were fully operational. None of the local boards were operational at the time of the 1996 management control audit.

The 16 fully operational boards manage over \$451 million, or 69 percent of eligible program funding. Eligible programs include: Child Care Services, Choices, Food Stamp Employment and Training, Job Training Partnership Act, and planning for Wagner-Peyser Employment Services.

The remaining ten certified boards are scheduled to be fully operational by October 1, 1998.

- Technology Enabled Reengineering Action (TERA) Revision of the strategic plan
- Change in the organization of State Office
- Improvements in contract administration
- Restructure of Internal Audit Department
- Consolidation of field operations

Commission Initiatives (see page 10) provides additional details of the key improvements and initiatives in progress.

What does the Commission still need to improve?

We identified three specific areas which require management's attention.

Status of Agency initiatives should be formally tracked and monitored.

The Commission does not have a formal, centralized oversight function to track and monitor progress of its current initiatives to improve operations. Responsibility for tracking and monitoring the status of agency efforts is currently spread among various divisions. Because many of the improvements involve complex and long-term actions, the Commission needs to have a comprehensive picture to assess progress on a regular basis.

We recommend that management designate a single oversight authority within the agency to:

- Work with responsible divisions and management to establish milestones and specific dates for implementing planned improvements.
- Track and monitor results to ensure that implementation is timely and consistent throughout the agency.
- Take appropriate action when progress is not made towards milestones.

Improve assessment and management of staffing levels.

The Commission does not know if its current staffing level is appropriate to support the new workforce service delivery system. Decisions to increase or decrease staff do not include comprehensive assessment of agencywide staffing requirements. While the total number of employees has decreased over the last two years, the Commission may not be taking advantage of opportunities to streamline support functions or reallocate resources to areas with greater need. Payroll and related costs are the Commission's single largest operating expenditure, totaling over \$200 million during fiscal year 1997.

Two factors impact the Commission's ability to assess the appropriateness of its staffing levels. First, the workloads of support functions in the state office are not assessed when program operations are transferred to the local level. Additionally, vacant positions are filled without a comprehensive assessment of agencywide needs or cost-benefit analysis.

The need to improve assessment and management of agencywide staffing needs is indicated by the following examples:

- Over a 14-month period ending May 1998, the number of field office employees decreased by 14 percent while the number of state office employees increased by approximately 13 percent. There may be valid reasons for the increase in state office employees, such as consolidating functions previously performed in the field. However, the Commission does not regularly track or monitor information needed to assess the cause of the increase.
- In February 1998, the Commission consolidated its training function by combining existing training positions from field offices, program training departments, and the human resources department. Some of the existing 43 positions were vacant due to retirement and attrition. However, the positions were filled with new hires without determining if the agency's training needs justified retaining and filling all of the existing positions.
- Agency Rider No. 35 of the General Appropriations Act, 75th Legislature requires the Commission to reduce employees in proportion to the transfer of funds to the local boards. Commission staff can provide detailed information on the 800 employees who have left the agency as part of the shift of program operations to the local boards. However, changes in staffing levels have not been compared with the rider requirements to determine if employee reductions are on target with legislative intent.

Based on our calculations, the number of Commission employees should be 4,236 when all of the 26 certified local boards become fully operational on October 1, 1998. The average number of Commission employees for the month ended June 30, 1998 was 4,546.

In a state office reorganization announced on June 30, 1998, the Commission's executive director acknowledged the need to be leaner and more efficient in headquarter operations. To assist in reaching this goal, we recommend that the Commission:

- Develop a method to track and ensure compliance with the requirements of Rider No. 35.
- Retain, fill, and/or reallocate vacant positions only when necessary and justified based on an assessment of agency needs. Assessment of agency needs should include an independent (of the requesting division) cost-benefit analysis and consideration of the workloads of both field and state office operations.

Contract administration function still needs improvement.

Progress in the contract administration area since 1996 is encouraging. However, problems identified both internally and externally (see text box) in 1997 and 1998 indicate that the Commission still needs to place a high priority on improving contract

administration. The contract administration function is critical to agency operations because the majority of workforce services are delivered by contractors. The Commission spent over \$542 million on contracts with service providers during fiscal year 1997.

During this audit, we found that formal reports have not been issued for the majority of monitoring reviews made in fiscal year 1998. Service providers did receive the results of the reviews verbally. However, lack of formal communication may delay implementation of corrective actions, which decreases the effectiveness of the contract oversight function. A

similar issue regarding the timeliness of contract monitoring reports was included in a report issued by the Commission's internal auditor in August 1997. Repeated audit findings indicate that weaknesses have not been corrected in a timely manner.

To minimize the risks associated with this critical function, we recommend that the Commission:

- Follow-up and ensure that all audit recommendations (both internal and external) are implemented in a timely manner.
- Implement, to the extent feasible, corrective actions identified in the agency's reengineering process.

Previously Reported Contract Administration Weaknesses

- The Commission has not implemented an effective contract administration system to procure, monitor, and evaluate contract management and monitoring processes. (TWC Internal Audit Report—Project # 97-016-20, August, 1997).
- Required annual program reviews and Medicaid reviews not performed annually for all of the Communities In Schools providers (SAO No. 98-010, December 1997).
- Required annual program monitoring visits not performed for all of the JTPA sub-recipients. (SAO No. 98-319, March 1998).

What is Management's Response?

Management concurs with the issues included in this report and is taking steps to implement the recommendations. The full text of management's responses is included on page 6.

Audit Objective, Scope, and Methodology

The purpose of this audit was to follow-up on the Commission's progress in correcting weaknesses identified in *An Audit Report on Management and Fiscal Controls at the Texas Workforce Commission* (SAO Report No. 97-022, December 1996). The scope included consideration of the progress made in the Commission's overall management systems including policy management, information management, resource management, and performance management. We performed our audit work by interviewing, reviewing documents, and testing transactions and management processes. Our audit work was performed between April and July 1998, and was conducted in accordance with government auditing standards.

Management's Responses

Mike Sheridan
Executive Director



Diane D. Rath, Chair
Commissioner Representing the Public

T.P. O'Mahoney
Commissioner Representing Labor

Ron Lehman
Commissioner Representing Employers

August 19, 1998

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

Dear Mr. Alwin:

We appreciate the audit work performed for the TWC Management Control Follow-Up Audit under the leadership of Project Manager Ms. Cindy Reed. The audit was a concise overview of the agency's follow-up actions since the management control audit of 1996. The Texas Workforce Commission (TWC) certainly appreciates your recognition of not only the progress achieved and the initiatives taken to date by the Commission, but also the fact that we are continuing to succeed to improve our operations. We have reviewed your audit report and agree with your findings and recommendations.

As stated in your report, TWC has focused its efforts in the past two years on the establishment of the local workforce development boards in order to fulfill our statutory mandate of providing the framework for effective local control and delivery of workforce services.

With twenty-six (26) local boards fully operational by October 1, 1998, TWC intends to address the operational weaknesses at the state headquarters level over the next few months. We plan to address your findings in the three specific areas (monitoring agency initiatives; assessment of staffing levels; and contract administration) in a relatively short timeframe and in fact have already analyzed all three in order to begin structured implementation during state Fiscal Year 1999.

Attached are the TWC formal management responses to the audit report. Our Internal Audit Office will follow-up on a monthly basis to determine the status of the proposed corrective actions. The Internal Auditor will forward the status of the corrective actions to your office periodically.

Again, we thank you for your assistance and recognition of our efforts during challenging times.

Sincerely,

Mike Sheridan
Executive Director

Attachment
mc: Commissioners
Fran Carr, Internal Auditor

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TEXAS WORKFORCE COMMISSION (TWC)
RESPONSE TO THE STATE AUDITOR'S OFFICE TWC MANAGEMENT
CONTROL FOLLOW-UP AUDIT
AUGUST 12, 1998

- Status of Agency Initiatives Should be Formally Tracked and Monitored.

The Commission does not have a formal, centralized oversight function to track and monitor progress of its current initiatives to improve operations.

Management Response

The Texas Workforce Commission (TWC) agrees that there should be a formal, centralized oversight function to track and monitor progress of projects to improve operations. In fact, this need was documented by TWC in an analysis conducted in May 1998. As requested by TWC Executive Director Mike Sheridan, an overall review and assessment of the TWC structure and processes was conducted in May 1998. The independent report dated June 17, 1998, was provided to the Executive Director and to the Commissioners with thirty-one recommendations. Twenty of the recommendations addressed structural or organizational changes which were incorporated in the agency's organizational changes effective July 1, 1998. The remaining eleven recommendations addressed processes and procedures. Within the Administrative Support Division created July 1, 1998, there is to be a new Planning Office for TWC. The proposed "planning coordination and management services" function of the Planning Office will include as recommended in the June 17, 1998 report, the development of a Major Activity Progress (MAP) tracking system that would track on a monthly basis the progress made on major projects, plans, or rules in both the program and support areas of TWC. The major recipients of this report would be the Commissioners, the Executive Director, and the Executive Team. The need for a similar tracking system was discussed in the Covenant Needs that resulted from the strategic teambuilding sessions completed in February 1998 by the Commissioners, the Executive Director, and the Executive Team.

The new Planning Office will also issue a Project Prioritization Plan (PPP) by the Executive Director which will provide guidance to the directors to be shared with their staff as to the work "priorities" in a state fiscal year which may be updated on a quarterly basis. Completion dates of projects would be included. This document should be monitored for the Commission and the Executive Director.

With the July 1st reorganization, Mr. Sheridan asked the Executive Team to finalize any further organizational changes by September 1, 1998. The Planning Office should be fully operational by November 1, 1998, with the tracking/monitoring of agency initiatives/projects implemented.

- Improve Assessment and Management of Staffing Levels.

The Commission does not know if its current staffing level is appropriate to support the new workforce service delivery system.

Management Response

The Texas Workforce Commission (TWC) agrees with the need to establish a formal process to assess and analyze staffing needs to ensure staffing levels are appropriate to support the new local workforce services delivery system. Although the initial focus of TWC has been towards making the local workforce development boards (LWDBs') operational, the Commission is now further examining the need to determine support guidelines and to define parameters of technical assistance to the LWDBs.

During the recent development of the TWC fiscal year 1999 operating budget and the legislative appropriations request (LAR) for the 2000-2001 biennium, TWC staff have been exploring opportunities to streamline support functions. As a follow-up action to the budgeting process, a comprehensive staffing assessment by department and by program of the state level funded areas will be conducted no later than January 1, 1999. For example, a job audit project will be conducted of employment services staff in the Workforce Development Division in order to ensure effective delivery of services. This staffing assessment should not only provide an effective basis for providing support functions, but may also result in reallocation of resources.

As a result of the staffing assessment, TWC plans to issue formal monthly management reports for the Commissioners and the Executive Team to track and ensure compliance with Rider #35 of the General Appropriations Act requiring the TWC reduction of employees in proportion to the transfer of funds to the local workforce development boards. It should be noted that the Commission already issues monthly reports that summarize program/employee transitions (completed and targeted) by local workforce delivery area. Additionally, TWC through its Human Resources Department uses full time equivalent (FTE) and position control oversight to track program/employee transitions to local control and positions filled/vacant.

At this time, it should be noted that the Commission has determined the TWC training plan for state fiscal year 1999. To ensure effective utilization of staff resources, the Training Department in conjunction with the Workforce Development Division identified the curriculum development and training needs. TWC's training plan will be monitored closely and management, in conjunction with our local partners, will review short term and long term training goals on a quarterly basis.

- Contract Administration Function Still Needs Improvement.

Progress made in the contract administration area since 1996 is encouraging. However, problems identified both internally and externally in 1997 and 1998 indicate that the Commission still needs to place a high priority on improving contract administration.

Management Response

The Texas Workforce Commission agrees that effective contract administration is critical to agency operations. The Commission also agrees that timely reports are critical to help ensure contractors implement appropriate corrective actions.

The Contract Monitoring Department assumed responsibility for the program monitoring function on September 1, 1997. The program director was selected, qualified staff were hired and trained, and appropriate monitoring instruments were developed. Successful site visits were completed for more than 32 Job Training Partnership Act (JTPA) contractors to ensure compliance with federal mandates.

TWC is pleased to report that the mandatory JTPA site visits were completed within the required time constraints; however, this affected the timely release of reports. The months of July and August have been devoted to completing draft reports for all fiscal year 1998 reviews. Our goal is to have these reports to the respective contractor by the end of September 1998.

It should also be noted that we are currently planning our fiscal year 1999 monitoring reviews. This plan includes prioritized visits to higher risk entities to ensure that management has implemented the corrective action recommended in our 1998 reports.

Commission Initiatives

Key Improvements and Initiatives in Progress

- Improvement of financial and administrative business processes through a reengineering effort. The process improvement recommendations represent a change in the way the business areas are organized, managed, and delivered at the Texas Workforce Commission (Commission), and the way in which financial management and human resource business processes are performed. According to the Commission's Internal Audit Department, the reengineering process complied with the Governmental Accounting Office's standards for an effective reengineering process.

The Commission intends to implement a new automated system to address the process improvement recommendations identified through the reengineering process. Implementation activities are scheduled to begin August 1, 1998, with the financial application scheduled to be fully operational no later than September 1, 1999. All applications are scheduled for implementation by May 1, 2000.
- The Commission issued a revised strategic plan on June 15, 1998. The revised plan resulted from the efforts of a group of senior Commission leadership to develop a more unified strategic direction for the agency.

As part of the process of revising the strategic plan, the Commission identified four essential areas as priorities: (1) complete devolution, (2) employee support, (3) quality issues, and (4) development of an infrastructure system.
- A State Office organizational change became effective on July 1, 1998. The agency's executive director states that the changes will enable the Commission to provide the best service for its customers and further eliminate duplication of effort between program operations.
- The Commission has made considerable progress in the development of master contracts between LWDBs and the Commission. This process includes implementing a risk assessment process and formal monitoring process to review the fiscal operations of its service providers.
- The Internal Audit Department has been restructured and has implemented a new risk assessment process.
- Effective June 1, 1998, the Commission closed seven of the ten regional offices and established three regional Field Administration Centers. The Commission estimates the savings at \$3.7 million annually, including the reduction of 78 full-time equivalent positions that had been dedicated to the old regional structure.