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# Key Points of Report

## An Audit Report on Welfare Reform Implementation at the Texas Workforce Commission

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August 1999

### Overall Conclusion

The Texas Workforce Commission (Commission) has neglected the fiscal and administrative integrity of certain workforce programs it oversees. While the scope of this audit focused on Temporary Assistance for Needy Families (TANF), the problems identified have implications for other programs overseen by the Commission and administered by the local workforce development boards (boards). The Commission does not entirely agree with the results of our work.

At the direction of the Legislature, the Commission was given the responsibility of consolidating 28 workforce and welfare programs, forming the local workforce boards, and transferring responsibility and oversight of these programs to the boards. The Commission has achieved the legislative objective of establishing the structure for delivery of services by the boards. Twenty-six boards are now operational. However, the Commission failed to provide a foundation of fiscal and administrative oversight and support to ensure that funds are spent appropriately.

### Key Facts and Findings

- In fiscal year 1999, the Commission held contracts with boards totaling over \$820 million in TANF and other workforce program funds.
- The Commission certified 16 of 26 boards for operation before the boards had adequate business systems to administer the funds. Subsequently, Commission monitors have identified many recurring findings at 13 of these boards.
- During the board formation process, the Commission procured \$9.6 million in direct employment placement contracts through a flawed process. The procurement process did not ensure that the Commission paid a fair price for services or that the bidders were financially sound.
- The Commission's process for monitoring boards has gaps that allow problems to remain unresolved. Many boards do not monitor their contractors. The Commission does not consistently compensate for this gap by conducting its own monitoring of the boards' contractors.
- The Commission has not monitored 13 direct contracts totaling \$9.6 million. Our review of \$3.85 million in payments to employment placement contractors estimated \$1.25 million in performance-based payments that were not supported by Commission data.

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

# Executive Summary

**T**he Texas Workforce Commission (Commission) has neglected the fiscal and administrative integrity of certain workforce programs it oversees. While the scope of this audit focused on Temporary Assistance for Needy Families (TANF), the problems identified have implications for other programs overseen by the Commission and administered by the local workforce development boards (boards). The Commission does not entirely agree with the results of our work.

At the direction of the Legislature, the Commission was given the responsibility of consolidating 28 workforce and welfare programs, forming the local workforce boards, and transferring responsibility and oversight of these programs to the boards. The Commission has achieved the legislative objective of establishing the structure for delivery of services by the boards. Twenty-six boards are now operational. However, the Commission failed to provide a foundation of fiscal and administrative oversight and support to ensure that funds are spent appropriately. The Commission's difficulty in meeting these challenges has been compounded by numerous reorganizations that left gaps in key business processes.

Commission monitors identify many repeat problems at the boards, particularly in the areas of procuring contractors and monitoring programs. A large number of recurring findings can be traced to the breakdown in the Commission's process to certify the boards for operation.

To provide TANF employment placement services in areas that did not have an operational board, the Commission contracted directly with 13 service providers. The Commission's process to procure the \$9.6 million in contracts did not ensure that it paid a fair price for services or that the bidders were financially sound.

TANF contractors are not always held accountable for providing services or

complying with regulations. The Commission's process for monitoring boards has gaps that allow problems to remain unresolved. In addition, many boards do not meet their contractual obligations to monitor their contractors. The Commission has not provided the boards with adequate technical assistance to help them establish business systems to protect and administer workforce program funds.

## **The Commission Certified at Least 16 Boards Before They Had Adequate Controls in Place to Protect Program Funds**

The Commission allowed 16 of 26 boards to assume responsibility for program funds before they had adequate business systems in place. As a result, many of the boards in operation today have recurring problems in areas such as procuring and monitoring contractors. Eight of the 16 boards should not have been certified because none of them had a key business system in place to monitor their contractors. Each of the remaining eight boards should have received a conditional certification to ensure that they correctly identified problems and had plans for resolving them.

## **A Flawed Procurement Process for the 13 Employment Placement Contracts Jeopardized \$9.6 Million in TANF Funds**

The Commission obtained \$9.6 million in employment placement contracts using a flawed process. The Commission did not document many of its procurement decisions, so it is hard to determine why it chose one contractor over another. The Commission did not analyze costs to ensure that the price for the services was fair, nor did it review the bidders' financial statements. One bidder who won contracts

# Executive Summary

in three areas declared bankruptcy shortly after signing the contracts. The Commission obtained these contracts to provide services in areas without active boards.

## The Commission's Oversight Does Not Always Identify Problems; Those That Are Identified Are Not Adequately Tracked or Resolved

Neither the Commission nor the boards adequately monitor how their TANF contractors administer the programs. The Commission is responsible for monitoring boards and direct contractors. Gaps in the Commission's monitoring processes often allow board deficiencies to go uncorrected.

The Commission has not monitored 13 direct contracts totaling \$9.6 million. Our review of \$3.85 million in payments to employment placement contractors estimated \$1.25 million in performance-

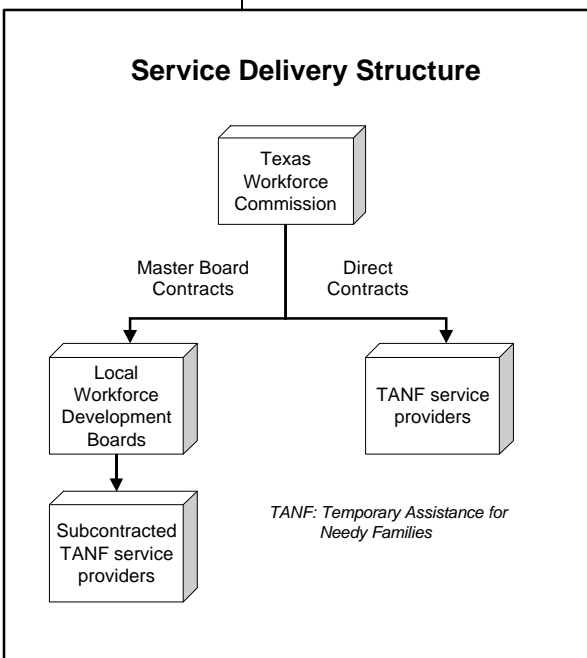
recently began monitoring special initiative contracts totaling \$7.7 million.

The boards are required by their contracts with the Commission to monitor their TANF contractors. However, most local boards do not meet these requirements. While the Commission is aware of this monitoring gap, it does not consistently compensate by using its own staff to monitor the boards' contractors.

## The Commission Has Not Met its Objective of Providing Timely and Responsive Technical Assistance to the Boards

The Commission focuses on program-oriented assistance. It has not adequately addressed the boards' fiscal and administrative needs with timely and responsive technical assistance. However, Commission monitors continue to identify problems in these areas. A number of boards are unsure whom they should contact for technical assistance, and many are dissatisfied with the level of support they receive.

Figure 1



Source: State Auditor's Office

based payments that were not supported by Commission data. The Commission only

## Summary of Management's Responses

The Commission's response indicates that it disagrees with many of the findings in our report. The response is included immediately following Section 4 of this report.

## Summary of Objectives and Scope

The objectives of this project were to:

- Analyze and assess the key management control systems related to implementation of welfare reform programs at the Commission.

# Executive Summary

- Review the transition of program implementation to local workforce development boards.

The scope of our audit included the review of the Commission's management control systems related to welfare reform implementation. We examined the processes used by the Commission to

create, support, and oversee local workforce development boards. We reviewed the implementation and administration of welfare programs by a number of boards. We evaluated the nature, timing, and extent of the Commission's and the boards' monitoring and fiscal review. We also looked at the Commission's direct procurement of TANF-funded services.

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## The Commission Certified at Least 16 Local Workforce Development Boards Before the Boards Had Adequate Controls in Place to Protect Program Funds

The breakdown of the pre-award certification process allowed numerous boards to assume responsibility for multiple federally funded programs without having adequate fiscal and administrative controls in place. Sixteen of 26 boards lacked adequate fiscal controls when they were certified by the Commission as capable of safeguarding the integrity of TANF and other welfare program funds:

- Eight boards should not have been certified due to the absence of a key control system (e.g., monitoring function).
- Eight other boards should have received a conditional certification that required each of them to submit a corrective action plan to fix identified control problems.

Of the remaining ten boards that were certified, three appeared to have adequate fiscal and administrative controls at the time of certification. One board was appropriately certified on a conditional basis. The status of controls at the remaining six boards could not be determined due to inadequate or unavailable documentation at the Commission.

Section 1-A:

### The Commission Did Not Follow its Own Planning Guidelines for Certifying the Fiscal Integrity of the Boards

Although the Commission has established a well-defined process to oversee the transition from board development to operational status (see Appendix 3.1 for overview of the board formation process), this process deteriorated as pressure mounted to get the boards up and running in 1997 and 1998. A key step in this process required each board to submit Form C - Attestation of Key Controls, as part of its Local Plan. Through this form, the board attests that key control systems have been developed and are in place for the following six areas:

- Fiscal integrity (28 criteria)
- Procurement (8 criteria)
- Monitoring and oversight (6 criteria)
- Staff (3 criteria)
- Reporting (5 criteria)
- Data integrity (1 criterion)

(See Appendix 3.3 for a complete list of Key Control System Criteria.)

According to the Commission's planning guidelines, after a board attests to having each of the six key control systems listed above, the Commission's monitors are

required to conduct an on-site pre-award visit to verify the existence of these controls. The planning guidelines further require the monitors to determine whether it is necessary to award a conditional contract to a board if the pre-award visit concludes that one or more of the systems do not meet minimum standards. If a conditional contract is awarded, the planning guidelines require the board to submit a corrective action plan to remedy the identified problems.<sup>1</sup> The key control systems certification process ends when the Contract Monitoring section issues a letter certifying a board's controls. (See Appendix 3.2 for flowchart of Key Control Systems Certification Process.)

Neither the Contract Monitoring section nor the planning team responsible for oversight of board development consistently followed critical elements of the certification process:

- The Contract Monitoring section indicates that it did not use the criteria in Form C for assessing the integrity of the boards' fiscal and administrative control systems. The State Auditor's Office (SAO) has been unable to determine what, if any, specific criteria were used on a consistent basis by the Contract Monitoring section to issue the certification letters. In at least six instances, for example, there is no documentation of the monitors' review of three or more key control areas.
- Monitors issued eight certification letters in anticipation of the board's completing development of at least one key control system. As noted previously, the planning guidelines require the monitors to verify the existence of all key control systems before certifying a board.
- In a number of instances, the planning team requested that the Contract Monitoring section perform an on-site visit before a board submitted the operational plan that contained the Form C - Attestation of Key Controls. In these cases, the monitoring visit was clearly premature, and in some cases, resulted in the monitors relying on previously conducted visits to a prospective fiscal agent such as a local Private Industry Council. The net effect of these actions resulted in the certification of boards to receive funds and oversee programs without assurances of adequate fiscal safeguards.

Section 1-B:

### **Certification Letter Assurances Are Not Supported by Evidence in the Contract Monitoring Section's Working Papers**

An in-depth review by the SAO of the pre-award certification process indicates that the majority of certification letters issued by the Contract Monitoring section are not supported by underlying working papers. The high incidence of control findings contained in the monitors' working papers, which reflect conditions at the boards at

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<sup>1</sup> Two boards received conditional or qualified certifications. In one instance, the conditional certification appeared appropriate. In the other instance, the use of a conditional certification was not appropriate, as the board in question did not have a monitoring function.

the time of the on-site visit by the Commission, are inconsistent with, and at times clearly contradictory to, the assurances of fiscal integrity in the certification letters.

In reviewing the certification process, the SAO compared the certification letter issued by the Contract Monitoring section to the working papers compiled during the monitors' on-site pre-award visit. Findings in the working papers were cataloged and tied back to the criteria in Form C - Attestation of Key Controls, developed by the team responsible for overseeing the board formation process. Based on this analysis, the SAO identified eight boards that should not have been certified because at least one of the six key control systems had not been developed. The analysis further identified eight boards that should have received a conditional certification due to deficiencies in their key control systems. As previously noted, the issuance of a conditional certification would have required a board to formulate and submit a corrective action plan to fix identified control weaknesses.

Section 1-C:

### **The Adequacy of Controls at Six Certified Boards Could Not Be Determined Due to Inadequate or Unavailable Documentation at the Commission**

The status of controls at six boards could not be determined due to inadequate or unavailable documentation or incomplete monitoring procedures. The Contract Monitoring section's working papers for two boards could not be located by the time the SAO had finished its fieldwork. Thus, no determination on the status of controls could be made for these boards.

The certification status of one board is unclear. The letter for this board noted that the board was formed by a merger of two other service delivery area entities and that prior monitoring data were at least a year old. As this letter offered no explicit verification or certification of the controls at this board, it is not clear whether the board was ever certified by the Contract Monitoring section.

The SAO was unable to evaluate the certifications issued to three other boards due to a lack of documentation and/or incomplete procedures used by the Commission monitors during their site visit to verify controls. The working papers for one board indicate that the monitors performed a cursory review of the board's control systems and relied upon a review of disbursements from a previous visit. No information from the previous visit was included in the working papers. Thus, it is not possible to compare the board's key control systems to the established criteria. The certification letter for a second board does not note any significant issues with key controls. However, a review of the working papers for this visit indicated that the board did not have an operational plan and that the monitors did not document any assessment of the six key control areas. The working papers for a third board do not contain any evidence that monitors analyzed key control systems.

Section 1-D:

### **Unaddressed Control Deficiencies Stemming From the Pre-Award Certification Process Have Resulted in Repeat Findings at Numerous Boards**

The impact of prematurely certifying boards is manifested today in the number of repeat findings identified during both the pre-award process and subsequent monitoring visits. Thirteen of 25 boards, for example, had repeat findings in key control areas such as procurement, fiscal integrity, and monitoring. Unconditional certification of boards that lacked either a key control system or had multiple findings resulted in no corrective action requirement at the time of certification in many cases. This further delayed needed improvements to ensure the integrity of program funds.

#### Recommendation:

We recommend that:

- The Commission use the criteria in Form C – Attestation of Key Controls, to certify the remaining service delivery areas where boards are not yet operational.
- The Commission management re-examine how it sets and communicates priority objectives for the organization, particularly when objectives may compete or conflict. The board certification process is a case in point for establishing and communicating clear priorities, as the urgency to bring boards up to operational status competed or conflicted with the need to ensure adequate fiscal controls.
- The Commission clearly assign ownership and authority to manage key business processes that involve multiple sections within the agency. For example, during the pre-award process, management did not clearly designate an individual to manage cross-functional processes such as monitoring, technical assistance, and the board formation planning group.

Section 2: PROCUREMENT

### **A Flawed Procurement Process for the 13 Employment Placement Contracts Jeopardized \$9.6 Million in TANF Funds**

The process to procure employment placement services in 13 service delivery areas was arbitrary and often undocumented. The Commission did not follow good business practices, especially during the proposal evaluation, that it has since advised the boards to follow. A cost analysis was not performed to ensure that the price for the services was reasonable and fair; nor did the Commission review current financial statements of the bidders. A contractor who won contracts in three areas declared bankruptcy shortly after signing the contracts. By not following adequate

procurement procedures, the Commission could not be assured that the contractors selected were capable of providing the required services at a reasonable price.

Section 2-A:

## **The Evaluation, Scoring, and Pricing of the 13 Employment Placement Contracts Had Numerous Weaknesses**

### **Background of Employment Placement Contracts**

Commission management originally decided to contract for TANF services in 15 areas where the boards were not yet operational. Prior to this time, Commission staff provided similar services locally. The procurement of the 13 Employment Placement contracts required three rounds of proposals. (In the two other areas, the boards became operational before the Commission could procure a TANF contractor.)

- Seven contracts were awarded in Round One.
- Three contracts were awarded in Round Two.
- Three contracts were awarded in Round Three.

If an area received no acceptable bid, a second Request for Proposal (RFP) was issued. A third RFP was issued for the remaining three areas in which no contract was awarded after the first two rounds.

The Commission's evaluation of proposals for employment placement contracts was inconsistent and arbitrary. Poor documentation of the scoring and evaluation process makes it difficult to identify how and why decisions were made to award contracts totaling \$9.6 million. The evaluation process did not analyze the reasonableness or fairness of bid prices, nor did the Commission review bidders' financial statements or proposed budgets to assure their financial stability. There is no apparent justification for

the wide range in the price per client awarded to different contractors.

**There were numerous weaknesses in the processes to evaluate and score the proposals:**

- The scoring procedure changed after the process began; therefore, consistency could not be ensured. In the first round, each of the five evaluators scored each of the three proposals for one service delivery area. Thereafter, the proposals for all remaining areas in the first round were scored by "consensus," resulting in one scoring sheet per bidder. No documentation exists to explain how the review team reached a "consensus" or how differences were resolved. The date and authenticity of the scoring sheets could not be verified because scoring sheets were not dated, and with one exception, evaluators did not put their names on the sheets. This poor documentation and lack of detail makes it extremely difficult to determine how and why decisions were made.
- The allocation of points was arbitrary. While there was a range for each scoring criterion, no methodology or documentation exists that explains how to apply the point system to evaluate the bids. The need for such a methodology is underscored by the fact that two bidders were awarded contracts by scoring one point higher than the next highest ranked competitor. Those two contracts were valued at \$578,578 and \$1,062,908, respectively. There is no assurance that the points received by each bidder were the ones

actually awarded by the review team. Points were totaled on a separate “review summary,” although the individual scoring sheet provided a space to score each criterion.

- The evaluation system did not evaluate the reasonableness or fairness of the bid price, but rather ranked the bidders, through a point system, from lowest to highest. Out of 30 possible points, the lowest bidder in an area automatically received 30 points in the price category; the next lower bidder received 25, and so on. In an area where there was only one bid, which occurred in six of the thirteen areas in Round One, the sole bidder received 30 points in the price category, regardless of how reasonable or unreasonable the price bid was. This scoring enabled sole bidders to rather easily meet the 75 point minimum threshold the Commission required for a responsive bidder.
- Of the nine recommendations made by the scoring team in Round One, management twice overrode the evaluation team’s recommendation and did not document how a different decision was reached. Although a lower price was bid by management’s choice, the evaluation team’s choice was not given the opportunity to negotiate on price. Furthermore, the evaluation team’s scoring sheet reflects much lower scores in both “service design” and “demonstrated effectiveness” for management’s choice. This selection appears to contradict management’s instructions to the evaluators to procure quality programs and not focus solely on the bid price.
- Selection criteria were inconsistent. While the lowest bidder was chosen for the aforementioned two contracts presumably because of the lower price, in another area the contract was awarded to the evaluation team’s choice, whose bid was more than double that of its competition.
- There was no review of the bidders’ financial health to ensure their sound financial standing.

**Serious deficiencies were noted in the cost analysis and price negotiation:**

- The Commission did not comply with non-competitive procurement guidelines it now requires the boards to follow. In 7 of the 13 Employment Placement contracts awarded, one bidder in each area responded to the RFP, and that bidder was awarded the contract. Because there were fewer than two responsive offers in each area, the Commission used non-competitive procurement to award these seven contracts.<sup>2</sup>

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<sup>2</sup>In the *Procurement and Contracting Technical Assistance Guide*, dated January 1999, and sent to all boards, the Commission defined non-competitive procurement: “A non-competitive procurement arises when attempts to secure a minimum of two responsive offers have failed.” In the same document, the Commission stated that it now requires prior written approval for any non-competitive procurement expected to exceed \$25,000 and documentation of cost/price comparison and analysis.

- Commission staff did not perform a cost and price analysis in any RFP round to determine if the bid prices were reasonable. The evaluators did not review budgets or other financial information.
- No methodology was used for rate setting; in fact, price per client varied considerably. There are no records that document how the contract price was determined or who negotiated the contracts. Of the seven contracts signed from Round One, five were signed for the amount bid. Two contracts were negotiated to a lower price: from \$2,827 per client bid to \$1,934; and from \$3,234 per client bid to \$2,481. Of the three contracts signed in Round Two, one was signed for the bid price, one was signed for a lower price, and one was signed for a higher amount than the price bid. While the average cost of the first two rounds was \$2,056 per client, the three contracts signed in Round Three were for \$2,900 per client. While this difference may be appropriate, there is no documentation to show how that was determined.

Bidders that were evaluated as non-responsive (evaluation score less than 75 points) were awarded contracts in Round Two. Three areas had bids that did not meet the minimum score of 75 points. Commission management recommended that the three non-responsive bidders be awarded the contract if they received technical assistance. Although we found no evidence that technical assistance was ever provided, contracts were signed in two of the areas deemed to have non-responsive proposals.

Section 2-B:

### **Questionable Management Decision-Making and Procurement Practices in Round Three Resulted in the Selection of a Contractor on the Verge of Bankruptcy**

No documentation exists to explain why Commission management pursued a third procurement round for employment placement contracts in the three remaining areas. The Commission's efforts to procure contractors in these three areas had twice been unsuccessful. The Commission already had program staff in each area to provide TANF services. Nevertheless, the decision was made to issue a third RFP in these areas, despite the following results in Round Two:

- In one area, no bidders responded to the RFP.
- In the second area, only one bidder responded. The proposal was deemed non-responsive (did not meet the required minimum number of evaluation points). Although other non-responsive bidders in this round were awarded contracts, no contract was signed. No documentation exists to support this decision.
- In the third area, one bidder responded with a proposal that was deemed responsive (met required minimum number of evaluation points). However, a contract was not signed and no documentation exists to explain the negotiations or the decision-making process.

**The procurement practices in the third round led to the selection of a contractor who declared bankruptcy shortly after the contracts were signed.** The only respondent in each of the three areas in Round Three was awarded all three contracts, which were signed in early August 1998. In late December 1998, citing its inability to meet its current expenses, the contractor asked the Commission for immediate release from its contracts. Upon receiving notification from the contractor, the Commission acted quickly to obtain forward funding authority from the Legislature to meet the contractor's payroll and prevent service disruption. The contractor declared bankruptcy in January 1999, barely five months after signing the TANF contracts.

**The need for direct service contracts so close to the dates two areas' boards became operational is questionable.** In one area, the board became operational two weeks after the Commission signed the service contract. In the second area, the board became operational two and a half months after the contract was signed with the Commission. (The third area did not have a board as of March 1999.) Management had stated that of the 13 employment placement contracts, most would transition to the area's board once it became operational. The close proximity to these two boards' operational statuses raises a question about the need to engage in these contractual relationships.

**Weaknesses were noted in Round Three of the employment placement contract procurement:**

- The proposals were not evaluated or scored against RFP evaluation criteria. There is no evidence of an evaluation team's or individual's review to determine if the proposals met the minimum requirements of the RFP.
- No records were kept that document the adequacy of the proposals or whether they met any standards.
- No verification of the contractor's information occurred, even though the contractor had no experience in overseeing welfare services or providing training and education to welfare recipients.
- The bidder's financial statements were not requested, received, or reviewed to ensure the contractor's financial stability.

**Recommendation:**

We recommend that the Commission develop and consistently apply procurement policies and procedures. These policies and procedures should:

- Standardize and document in detail all aspects of the proposal evaluation process, including selection criteria and cost analysis. Document the circumstances of all instances in which a management decision is made to override the evaluation team's choice of contractor.



- Establish guidelines for selection of proposal evaluators based on knowledge of the specific program requirements and good contract administration practices.
- Develop a scoring methodology that includes a defined point allocation that is specific to the type of services or contract being procured. Obtain input from program experts, legal and fiscal staff, and contract monitors to ensure that all necessary elements are included in the scoring methodology. Require each evaluator to independently review, score, and document his or her evaluation of each proposal.
- Require all bidders to submit current financial information. This information should be carefully reviewed and verified to ensure the financial stability of the bidder. No contractor should be selected without this assurance.
- Establish a process to perform a cost and price analysis to determine whether the prices bid are reasonable for the services requested. Use this as a guideline in evaluating the proposals and negotiating the appropriate price. *The Financial Manual for Grants and Contracts*, a Commission guide for the boards, contains a cost and price analysis process.
- Develop a policy for the use of non-competitive procurement. Develop procedures for non-competitive procurement and document their implementation.
- Document any price negotiations with bidders.

### Section 3: OVERSIGHT

## The Commission's Oversight Does Not Always Identify Existing Problems; Problems That Are Identified Are Not Adequately Tracked or Resolved

Monitoring weaknesses exist at both the Commission and local board levels. Monitoring is critical to ensure accountability for TANF-funded services and compliance with federal and state regulations. The current risk assessment process within the Commission's Contract Monitoring section needs to be enhanced. Gaps in the Commission's monitoring resolution and enforcement processes often allow the monitors' findings to go uncorrected. Most local workforce boards have not met their statutory obligation to monitor their TANF service providers.

While this audit focused on accountability for TANF funds, the oversight weaknesses identified potentially jeopardize over \$830 million in program funds administered by the Commission. The Commission is ultimately responsible for ensuring that all federal and state funds flowing through their contracts with local workforce boards and service providers are spent appropriately. When monitors identify a board that is not meeting its contractual responsibility to monitor its service providers, the

Commission essentially has two paths of action:

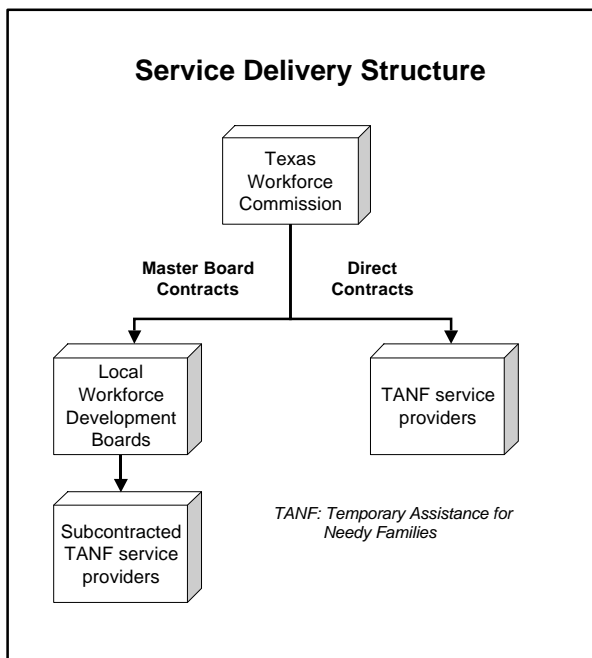
- Send Commission monitoring staff to directly monitor the board's contractors, or
- Hold the boards accountable for monitoring their contractors by implementing and enforcing a tough sanction policy when monitoring deficiencies are identified.

Section 3-A:

### The Commission Does Not Consider All Relevant Information When Assessing Risk to Schedule Monitoring Visits

Contracts with a duration of less than one year may never be considered for monitoring, as risk assessment is conducted annually. The risk assessment is

Figure 1 repeated



Source: State Auditor's Office

weighted to focus on the higher dollar program contracts. Newness of the program is only one of ten criteria considered when assessing inherent risk. The current risk assessment process also does not formally consider individual subcontractor performance when assessing risk at the local board level. Finally, the long cycle time for issuing monitoring reports and the lack of a database to track previous findings hinder timely consideration of relevant information to prioritize and schedule monitoring visits and to follow up on corrective actions.

**The Commission could enhance its risk assessment process by considering other risk factors.** Because risk assessment is conducted annually, contracts with duration of less than one year may never be considered for monitoring. The fiscal year 1998 risk assessment did not include \$8 million in direct employment placement contracts that were entered into during the fiscal year. While the contract monitors were aware of the direct employment placement contracts in fiscal year 1999, these contracts were

not scheduled for monitoring visits for the following reasons:

- The contracts were automatically assigned a lower risk based on the lesser dollar amounts of the contracts (compared to other program contracts).
- The newness of the TANF program was not weighted as a significant risk factor in the risk assessment process. Newness is one of ten criteria considered when assessing inherent risk.

The fiscal year 1999 risk assessment did not include 31 special initiative contracts totaling \$6.5 million. Twenty-one of these contracts were signed in the first quarter of fiscal year 1999, and ten were signed during the second quarter of fiscal year 1999.

**The Commission lacks a centralized database to track all program contracts.** The Commission does not have a method for tracking the contracts for program services that have originated in various sections of the agency. The Commission had great difficulty identifying all TANF-funded contracts between the Commission and local service providers. Without a centralized, comprehensive contract database, oversight of all service providers cannot be achieved or ensured.

**Significant findings from monitoring reviews are not included when assessing risk.** Individual subcontractor performance is not formally considered when assessing risk at the board level. Although expectation of noncompliance is a risk criterion, this criterion is generalized at the board level across all subcontractors. Current risk assessment procedures do not specifically assign a quantitative risk factor to individual subcontractors' past performance. The Contract Monitoring section may fail to identify significant risks associated with individual subcontractors by not considering this data, particularly if the subcontractor in question provides services to more than one board.

The long cycle time between monitoring reviews and the issuance of monitoring reports leaves gaps in the risk assessment process. Cycle time for issuing reports ranges from 100 to 344 days, with an average cycle time of 189 days. Because risk assessment staff members rely on the monitoring reports to identify findings, the cycle time for issuing reports can result in delays of a year or more before incorporating identified issues into the annual risk assessment.

In addition to the long reporting cycle time, the Contract Monitoring section lacks a systematic mechanism to track the resolution status of previous findings. As noted in Section 3-E, the Contract Monitoring section lacks a database to track findings and has inconsistent procedures for following up on the status of previous findings on subsequent monitoring visits.

Recommendation:

We recommend that:

- The Commission clarify roles, responsibilities, and procedures to ensure that all contracts are provided to the Contract Monitoring section for inclusion in the risk assessment process.
- The Contract Monitoring section modify its procedures to ensure that new contracts are immediately incorporated into the risk assessment process.
- The Contract Monitoring section weigh newness of program more heavily in assessing inherent risk.

- The Commission complete a centralized database for all contracts. This database should be accessible by Commission departments, such as Contract Monitoring, Internal Audit, and Workforce Division sections.
- The risk assessment process be modified to quantify individual subcontractor risk when assessing risk at the board level.

Concurrent recommendations for addressing the cycle time of issuing reports and tracking monitoring findings are made in Section 3-E.

Section 3-B:

### **The Commission's Fiscal and Program Monitoring of the Local Workforce Boards Does Not Provide Reasonable Assurance That TANF Funds Are Being Spent Appropriately**

The Commission's fiscal monitoring policy has been to conduct reviews down to the board level, under the assumption that the boards will monitor their subcontractors. Although the Commission is aware that the boards frequently do not monitor their contractors, fiscal monitors do not consistently conduct reviews below the board level. Current monitoring procedures may omit testing of TANF disbursements entirely and do not adequately examine the support for and allowability of program specific expenditures. Contract Monitoring staff conducted only a few, limited TANF program reviews in fiscal year 1998. In the absence of effective board monitoring, the Commission lacks assurances that program funds are spent as intended and that services are being appropriately delivered.

**Current fiscal monitoring procedures are inconsistent and lack program-specific attributes.** Fiscal monitors test a board's disbursements based on a sample from the board's entire program funding streams, not by specific program or contractor. As the samples are not stratified by program, it is possible that TANF disbursements would be omitted from the test on any given monitoring visit, particularly as TANF represents less than 9 percent of the boards' current overall funding stream.

It is not standard practice for fiscal monitors to examine the administrative cap on TANF funds, although monitors are aware that the boards in general do not have a systematic way of allocating costs or approved cost allocation plans. Monitors generally do not compare a board's funding allocation for specific programs to its subcontractor's budget to ensure that the board is passing on the funds as required.

**Federal and state compliance is not ensured by limited scope reviews.** Of the 18 local workforce boards that had TANF contracts in place by the end of fiscal year 1998, only limited program monitoring took place at four board areas. These reviews consisted of limited case file readings and provider staff interviews. The lack of a TANF policy infrastructure and program expertise within the Commission added to the difficulty of interpreting policy and devising program monitoring instruments. A comprehensive TANF program monitoring tool was not finalized until January 1999.

The Contract Monitoring section planned broader, more comprehensive program reviews for fiscal year 1999.

Recommendation:

We recommend that the Commission:

- Formulate policies and procedures to clearly address:
  - The use of the Commission's staff to monitor in the absence of adequate board monitoring.
  - Deployment of a combination of technical assistance and sanctions to ensure future monitoring by the boards.
- Consider changing the fiscal monitoring sampling methodology to include a stratified sample across each board's program funding streams. The Commission should consider procedural changes that ensure that every board program is statistically represented in the sample and that the sample is stratified to include all cost categories such as administrative caps and specific program expenditures.

Section 3-C:

**The Commission Has Not Provided Sufficient Oversight for the \$17.3 Million in TANF-Funded Contracts With Local Service Providers**

**Employment Placement Contracts (\$9.6M):**

TANF-funded, performance-based contracts that provide TANF recipients with assessment, job readiness, and job search services to find and retain employment.

**Special Initiative Contracts (\$7.7M):**

Use of TANF funds to invest in long term success employment strategies for TANF recipients. (Rider #27, General Appropriations Act, 75th Legislature, Regular Session)

The Commission does not have assurance that a number of contractors are spending their TANF funds appropriately and according to program regulations and contract terms. Payment requests for direct contracts are not verified. Although one contractor declared bankruptcy in January 1999, the Commission has not monitored the employment

placement contractors to ensure contractor performance or tested the validity of disbursements. (See Section 2 on the procurement of the employment placement contracts.) Monitoring of special initiative contractors began in March 1999.

**Controls over fund disbursements for the direct contracts are defective.**

The employment placement contracts are particularly risky since the contractor payments are performance-based. While the contractors are paid on the client's completion of job readiness, employment entry, and job retention, these achievement milestones are self-reported by the contractor. (See text box on page 18 for payment structure of direct contracts.) We noted a number of serious deficiencies:

- There was no segregation of key duties related to these contracts. Management assigned one program specialist to assist in the negotiation of the employment placement contracts. Once the contracts were awarded, the individual became the contractors' sole contact for payment requests for almost a year.
- No one verified the validity of payment requests for employment placement contracts before making payments. The Commission did not confirm contractor-reported milestones. Although a list of clients served accompanies each contractor's payment request, the documentation has never been reviewed or verified.
- No one verifies that TANF funds are being spent according to program regulations and guidelines. Under current procedures, the Contracts Payable section relies on the Contract Monitoring section to review and verify the allowability and appropriateness of payments to contractors after the payment has occurred. As of April 1999, there had been no post-payment review of the employment placement billings. A TANF provider with \$1.7 million in employment placement contracts in three areas declared bankruptcy, significantly minimizing the probability of the Commission recouping any disallowed costs. No evidence was found that payments for the special initiative contracts are verified.

**Testing of employment placement contract payments estimated \$1.25 million in unsupported payments.** \$1.25 million of \$3.85 million in performance-based payments were not supported by Commission data in the Employment and Child Care (ECC) Data Warehouse and Unemployment Insurance Tax Wage Records (UI) databases. The amount of unsupported payments was derived by using each contractor's billing error rate and applying it to the total payments made through February 1999 for services rendered through December 1998. These error rates could be the result of either of the following:

- Payments were made for services not rendered or milestones not met, or
- Services were rendered and milestones were met but not accurately captured in the databases

#### Employment Placement Contract Payment Milestones

Each contract has a fixed price per client. The price per client ranges from \$1300 to \$2900. Contractors are paid a percentage of the fixed price when they report that a client has completed the following milestones:

- 20 percent - Upon completion of assessment, orientation, and job preparedness activities (or entry into employment, whichever comes first)
- 20 percent - Upon completion of two weeks in an approved employment
- 30 percent - Upon completion of 90 days employment
- 30 percent - Upon completion of 180 days employment

Using data from the ECC and UI databases, the SAO tested one monthly service billing, randomly selected, from each of the 13 contractors for 652 clients paid by the Commission totaling \$509,213. Of this amount, \$148,118 of unsupported payments were identified. The purpose of the testing was to estimate the impact of not

monitoring the contractors. The performance payment milestones were self-reported by the contractors. Although the SAO established an error rate for individual contractors, validity and reliability of the Commission's source data were not established by direct testing of the data. While the SAO did not independently establish error rates for either the ECC or UI databases, the Commission relies on both systems to track and report data.

As shown in Appendix 4, a number of questionable payment categories emerged from the testing:

- Clients that could not be verified in the ECC database, but for whom the contractors submitted a bill. Of the 652 clients tested, 9 could not be verified.
- Clients in the ECC database that were not in the UI database, but for whom the contractor submitted an employment related payment request. In the absence of wage information the incentive payments for completion of two weeks in an approved employment of 22 of the 652 clients could not be verified.
- Clients for whom the contractor submitted a bill for completion of assessment, job readiness, and job preparedness activities, but for whom the ECC database does not show participation in these activities. The participation status of 183 clients could not be verified. (Although the contracts call for payment upon completion of the activity, we tested for participation in the activities [assessment, orientation, and job preparedness.])
- Clients for whom the contractor submitted a bill for entering employment and retaining the job for two weeks. In 45 instances the ECC and/or UI databases do not show achievement of this milestone.
- Clients for whom multiple billings were made for either job placement or job retention. Contractors submitted multiple bills for the same clients achieving the same milestones in 29 instances. Only one billing per client milestone is allowable.
- Clients for whom contractors billed as being employed for 90 or 180 days, but for whom UI data does not show as having achieved this employment retention milestone. The employment retention of 26 clients could not be verified against the UI database.

The analysis underscores the need for both program monitoring of services and fiscal monitoring of payments, particularly when payments are performance-based and data is self-reported by contractors. The testing results suggest that employment placement contractors are not providing the services to clients that they have contracted to deliver and that contractors are billing for incentive payment milestones that the clients have not achieved. The ECC database indicates that 28 percent (183 of 652) of the clients tested did not participate in the assessment, job readiness, and job preparedness activities stipulated in the contracts. Although the contractor billed for these services, it appears that more than one quarter of the clients may have been placed into job search activities without receiving these preparatory services. While

the multiple payments clearly indicate deficiencies in fiscal controls, the payments for job readiness and retention milestones that cannot be verified by the UI and ECC databases present both performance reporting and fiscal control problems.

As of June 1999, five of the aforementioned employment placement contracts between the Commission and the contractors were still in effect. Another three of these contracts are still active, but they have transitioned to operational workforce development boards. The Commission's master contracts with local workforce development boards allow for performance-based payment structures between the boards and their contractors.

Recommendation:

We recommend that:

- The Commission monitor contractors to verify service delivery and validity of corresponding payment requests.
- The Commission provide guidelines to the boards for monitoring performance-based contracts.

Section 3-D:

**Most Local Workforce Boards Are Not Meeting Their Statutory Responsibility to Monitor Their TANF Service Providers**

Commission management and monitoring staff characterize the boards' monitoring as inconsistent and question most boards' understanding of their responsibility to monitor their contractors. Reports released by the Commission's Contract Monitoring section indicate a pattern of the boards performing little oversight of their service providers. As of March 31, 1999, 5 of the 15 boards the SAO contacted had reviewed their TANF contractors and issued a monitoring report. Of these five, only one had performed any fiscal monitoring.

Despite this lack of board monitoring, current policy and practice permit contractor reimbursement from summary billings without documentary support. The Commission's *Financial Manual for Grants and Contracts* stipulates that summary billing is permissible only when the board has determined that the contractor has strong internal control systems that are subject to routine monitoring. (Summary billing is submission of a request for payment without providing supporting documentation.)

The recent bankruptcy of a board contractor demonstrated the impact of summary billing in the absence of board monitoring. The contractor, which had contracts with five local boards, did not provide supporting documentation to the boards when requesting cash advances and reimbursement. The contractor was found to have over-billed for administrative and indirect costs and under-billed for program costs. The Commission could only estimate the amount of funds due from the bankrupt contractor to the boards. A special Commission report noted that "due to the



condition of the [contractor's] accounting records...it was not possible to determine the exact amount of the [contractor's] expenditures.” The Commission, upon receiving notification that the contractor could not meet its payroll expenses, requested an additional \$350,000 from the Legislature to “insure that these local workforce boards do not default on their payroll, fringe benefits and contracted services.” Two boards had advanced program funds to this contractor.

Recommendation:

We recommend that the Commission ensure that local workforce boards meet their statutory responsibility to monitor their service providers (contractors). This responsibility includes:

- Documented monitoring procedures and tools
- Risk assessment and finding resolution processes
- Regular fiscal monitoring to verify program-related expenditures
- Regular programmatic monitoring to determine if appropriate services are being provided to the clients in compliance with their contractual agreements and federal and state regulations
- Timely issuance of monitoring reports that discuss the results of the monitoring visits

The Commission should also ensure that local workforce boards follow the contractor summary billing guidelines in the Commission's *Financial Manual for Grants and Contracts*. The boards should not allow a new contractor to submit summary billings until the board has determined, through frequent and regular monitoring visits, that the contractor has strong internal control systems.

Section 3-E:

**The Commission Lacks an Effective Process to Ensure That Monitoring Findings Are Resolved**

The Commission's effectiveness in resolving monitoring findings is hampered by procedural gaps, incomplete tracking systems, long cycle times, and the absence of a clearly defined sanctions policy. Procedures for tracking and following up on reported findings within the Contract Monitoring section are inconsistent, leaving inadequate assurances of appropriate corrective action. The long cycle time for issuing monitoring reports and administrative rule time frames for resolution can delay implementation of corrective action by a year or more. Although there are significant instances of repeat findings at the same boards, the Commission does not have a clear policy of when to impose sanctions.

**Contract Monitoring has inconsistent procedures for tracking and following up on findings.** The lack of follow-up procedures is illustrated by the fact that at least 13

**A monitoring visit can result in findings that fall into three categories:**

Findings resolved with the board or contractor: issues that are disposed of by the monitors after negotiation/explanation from the Board. These issues never make it to the final monitoring report.

Reported findings that the board agrees to: findings that become the monitor's responsibility to track and ensure that the board implements the related recommendations.

Findings on which the monitors and the board disagree: findings are referred to the Resolution unit for follow-up and resolution. Referral of findings to the Resolution unit primarily involves questioned costs.

boards have had findings on the same issues on subsequent monitoring visits. There is no database to catalog and track the status of the findings that are not referred to the Monitoring resolution unit. (See text box for discussion of finding categories.) Moreover, there is no consistent mechanism within the Contract Monitoring section's working papers to track the findings.

The number of repeat findings, however, may be understated for at least two reasons. One reason is the lack of a tracking mechanism to ensure coverage on subsequent visits, which may result in failure to identify previous findings and a corresponding lack of follow up procedures. The second reason is that

time constraints on monitoring visits may result in no coverage for a particular control area such as a cost allocation plan on a given visit.

**Long cycle times in issuing monitoring reports delay follow up and resolution.** As findings are not formally tracked until a final report is issued, the long cycle time between a monitoring visit and the release of a report can significantly delay the follow up and resolution process. As noted in Section 3-A, the average cycle time for report issuance is 189 days. The Resolution unit, which was created in October 1997, did not receive any referrals from Contract Monitoring until the summer of 1998 due to the backlog in issuing reports. The long cycle time in issuing reports also affects fiscal and program monitors. In some instances, a subsequent monitoring visit may occur before a final report on the same board is released, creating confusion as to the final disposition of previous findings. It should also be noted that the long cycle time in issuing reports delays incorporating findings into the risk assessment process used to prioritize and schedule monitoring visits.

**The Commission lacks a clear policy on when to impose sanctions.** The Commission does not have a policy that states when it should impose sanctions on boards. While there are written criteria on violations that are subject to sanctions in the Texas Administrative Code, there is no clear policy on when to impose these sanctions. Although the Commission's administrative rules require boards to implement corrective action within 180 days of notice, the incidence of repeat findings underscores the need for a clear policy on when failure to correct identified deficiencies will result in more severe sanctions. For example, one report issued 22 separate findings to a board. Nine months after the report was issued, the board had responded to only eight of the 22 findings. There was no evidence of any corrective action on the other 14 findings. While the Commission can offer technical assistance to help boards correct deficiencies, it appears that there are instances in which the Commission must also compel corrective action from the boards.

Recommendation:

We recommend that the Commission:

- Create a centralized database to track the status of all findings, recommendations, and implementation of recommendations. In creating the database, the Commission should consider the needs of all internal users of such a system.
- Conduct a cycle time analysis to determine the causes for current report issuance cycle time. In conjunction with the cycle time analysis, management should establish performance standards for acceptable report issuance timelines. The performance standards should consider the needs of various users of the reports.
- Develop a policy stating when sanctions should be imposed. The policy should be specific enough to establish clear expectations to the boards regarding timelines for implementing corrective action and the consequences of board failure to institute corrective action.

Section 4: TECHNICAL ASSISTANCE

## **The Commission Has Not Met its Objective of Providing Timely and Responsive Technical Assistance to Local Workforce Development Boards**

The Commission's system for providing technical assistance to boards has gaps and overlaps, and it lacks a systematic way to align services with customer needs. While several areas provide guidance on program and policy issues, the lack of a comprehensive assessment of the types of technical assistance that boards need has resulted in gaps in providing assistance on fiscal and administrative issues. The Commission's heavy emphasis on program-oriented technical assistance has left fiscal and administrative needs largely unaddressed, despite continuing deficiencies in fiscal/administrative areas identified by the Commission's monitors. Although a December 1998 reorganization of the Workforce Division aimed to consolidate technical assistance, several areas still provide technical assistance and support to the boards. A number of boards expressed confusion about whom they should contact for technical assistance, as well as dissatisfaction with the level of support they receive from the Commission.

Section 4-A:

### **There Is Overlap and a Lack of Coordination Among the Commission Staff Members Who Provide Technical Assistance**

There are at least five different areas within the Commission that provide some form of technical assistance or support to local boards (see table on next page). Four of these areas are in Workforce Development, while the Training Section is in the

Administrative Support Division. Technical assistance provided by these areas is focused primarily on programmatic issues, with particular emphasis on meeting federally mandated client participation rates. Interviews with management and staff of these areas indicate a lack of awareness and uncertainty as to the specific type of technical assistance other areas provide to the boards. The predominant programmatic focus of these areas, combined with the lack of clarity on each area's respective role increases the probability of duplication of effort in providing technical assistance to the boards.

Table 1

Area	Focus of Board Support
<b>Workforce Development</b>	
Technical Assistance	Provides program assistance with emphasis on increasing participation rates.
Performance Review and Evaluation	Analyzes data and determines if boards are meeting participation rates. Will identify causes of not meeting participation rates.
Board Support	Maintains contact with boards to provide assistance/guidance in the advancement of local strategies.
Program Planning and Development	Sends out policy guidance on participation rates and provides technical assistance on policies.
<b>Human Resources</b>	
Training	Trains boards on automation, program strategies, case management, and methods of increasing participation rates.

Section 4-B:

**Boards Are Uncertain About Whom to Contact for Technical Assistance**

The Commission has not established a clear, formal line of communication with the workforce development boards on how or from whom to request technical assistance. Despite the re-organization of the technical assistance function previously noted, the Commission still maintains multiple points of contact for requesting technical assistance. Multiple points of contact, combined with the similarity of services provided by different areas, creates confusion among the boards about whom to contact for assistance.

In the absence of a formal, designated point of contact for requesting assistance, many boards have resorted to reliance on an informal network of contacts within the Commission for information. This lack of a formal contact is time consuming and frustrating. It also creates the risk of the Commission providing inconsistent or incorrect information. In addition, advice given out by staff members who are not a part of the formal technical assistance function limits the Commission's ability to track requests to identify customer needs and trends.

Section 4-C:

### **The Commission Does Not Systematically Analyze the Boards' Technical Assistance Needs**

The Commission lacks a formal, proactive process to identify the technical assistance needs of the local workforce development boards. The areas providing technical assistance do not track the types of questions or requests received, nor do they formally track the number and type of on-site services delivered to the boards or subcontractors. In addition, until recently, there has been very little coordination between the technical assistance areas and the Contract Monitoring section. The Contract Monitoring section was not permitted until March 1999 to share monitoring findings with technical assistance staff. As the monitoring function provides a prime source of information to identify customer needs, an effective needs assessment process has been hampered by the historic lack of communication between the Contract Monitoring and technical assistance areas.

In addition to the lack of communication between Contract Monitoring and technical assistance staff members, the breakdown in the pre-award certification process (described in Section 1) may have contributed to a perception that boards require primarily program-oriented technical assistance. As most boards received letters certifying the adequacy of their key fiscal and administrative controls, technical assistance staff may not have realized that boards had problems in these areas.

Section 4-D:

### **The Commission's Current Structure for Providing Technical Assistance Does Not Recognize Fiscal and Administrative Technical Assistance as a Major Customer Need**

The lack of fiscal and administrative expertise among technical assistance staff is a barrier to providing proactive assistance to the boards on these types of issues. In many cases, technical assistance is needed before key business processes are implemented. If a board has a weak procurement system, for example, technical assistance should be provided before major procurement decisions are made. In other cases, some boards have not developed or implemented key systems such as a monitoring function in lieu of guidance from the Commission on how they should monitor contractors.

As noted in Sections 1 and 3-E, a number of workforce development boards have deficiencies in fiscal and administrative areas such as contract monitoring, procurement, and cost allocation. A review of the Contract Monitoring section's reports and working papers shows that at least 13 of 25 boards have had repeat findings in these and other areas. Although the Commission conducted seminars in the fall of 1998 and the spring of 1999 with sessions on fiscal and administrative topics, these seminars were conducted well after most boards were already operational. In addition, the large number of monitoring findings on fiscal and administrative issues indicates the need for more intensive assistance in these areas. As the areas providing technical assistance are staffed primarily with programmatic expertise, the current service delivery structure is not set up to provide the

comprehensive, on-site fiscal and administrative technical assistance that monitoring findings have identified as a major customer need.

The lack of timely and responsive technical assistance noted above contributes to continuing deficiencies in key control systems at many boards. The unmet needs for fiscal and administrative technical assistance has led to dissatisfaction among the boards with the Commission's level of support. Seven of nine boards the SAO contacted were not satisfied with the support they receive from the Commission, nor did they know whom to contact at the Commission for assistance.

Recommendation:

We recommend that the Commission:

- Conduct a formal assessment of the types of technical assistance that local workforce development boards and their contractors need. The Commission should continue and expand recent efforts to increase communication between the Contract Monitoring section and the technical assistance function to identify customer needs. As a part of the needs assessment, the Commission should track and catalog the types of customer inquiries and assistance requested. The Commission should also consider the use of customer surveys to identify significant customer needs as well as the level of customer satisfaction with the technical assistance provided.
- Formally track the types of technical assistance provided by different areas within the agency.
- Designate a single point of contact for requesting technical assistance.
- Inventory the types of technical assistance provided by different areas and analyze the current service delivery structure for duplication of effort. The commission should also re-examine the capability of the current structure to provide technical assistance on fiscal and administrative issues.

## Management's Responses and State Auditor's Comments

### State Auditor's Comments on Commission Responses

Our overall conclusion is that the Commission has neglected the fiscal and administrative integrity of certain workforce programs it oversees. The primary purpose of obtaining responses to our audit report is to provide the Commission with an opportunity to comment on the report's recommendations and present a plan to improve operations.

The Commission's responses indicate that it disagrees with many of the findings in our report. Often where the Commission disagrees with our assessment of the problem, the Commission makes assertions that are not supported by documentation or evidence provided to the audit team. In other instances, the Commission agrees to consider our recommendations without acknowledging the problem identified. Because we do not agree with many of the Commission's responses, we have provided comments where necessary. These comments follow the Commission's responses.

## 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 11, 1999

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

  
Dear Mr. Alwin:

Thank you for the opportunity to respond to your audit report on Welfare Reform Implementation at the Texas Workforce Commission (TWC). We always look forward to working with your staff and gaining insight to ways we may improve. We appreciate your comments and recommendations.

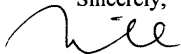
We take very seriously our responsibility to protect program resources and provide effective oversight of Local Workforce Development Boards. The success of helping the Boards become operational and the increase in participation rates reflect our strong commitment to moving programs to local control. We have demonstrated our commitment by increasing monitoring staff, designating specific organizational units to provide technical assistance, and providing immediate response in critical situations to ensure service delivery and safeguard public funds.

This report fails to recognize the tremendous accomplishments of TWC and its local partners. We recognize that process is important and strive to improve processes where possible. We are also responsible for improving results. While integrating multiple agencies and programs, we achieved federal TANF/Choices participation targets. Prior to implementing an aggressive plan to improve performance results, the state's participation rates had been as low as 17.05% for All Families and 7.5 % for Two-Parent Families. By the end of FY 98 rates had increased to 27.44% and 42.92% respectively. The stabilized All Family rate plus the caseload reduction allowance essentially eliminated any danger that the state would not meet its All Family rate. We continue to work closely with the local boards on improvements to their TANF/Choices programs.

Attached is our response to the individual findings and recommendations. Our Internal Audit Department will follow-up on 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 recommendations.

Sincerely,



Mike Sheridan  
Executive Director


Attachment

mc w/attach: Commissioners  
Fran Carr, Internal Auditor

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Management's Response:

Section 1: CERTIFICATION:

**The Commission Certified at Least 16 Local Workforce Development Boards Before the Boards Had Adequate Controls in Place to Protect Program Funds**

*The Commission worked very closely with the twenty-eight (28) Local Workforce Areas to develop a responsible entity to assume local control of the workforce programs. In our opinion, Local Workforce Boards that were certified demonstrated adequate fiscal controls to assume responsibility for the funds to be allocated. The fiscal agents for twenty-five (25) of the twenty-six (26) operational Local Workforce Boards were already responsible for federal funds under agreement with other state or federal agencies, demonstrating that the state/federal agency agreed with our assessment.*

*TWC has strengthened its Contract Monitoring function to ensure that Local Workforce Boards maintain adequate fiscal controls. The program and fiscal monitoring functions have been merged and the staff increased by thirty (30) positions. In addition, agency management has implemented processes requiring actions to address serious issues or inadequate controls that represent a potential risk to the protection of public funds. For example, TWC has established a Sanctions Committee made up of staff from various parts of the agency to review and recommend any necessary corrective actions.*

State Auditor's Follow-Up Comment:

The Commission states that "...25 of the 26 operational [boards] were already responsible for federal funds under agreement with another state or federal agencies, demonstrating that the other state/federal agency agreed..." that fiscal controls were adequate. However, the Commission does not respond to the issue that its own monitors had determined that fiscal controls were inadequate at 16 of 26 boards. The Commission's decision to issue certifications to these 16 boards conflicts with its own assessment of the adequacy of controls.

Management's Response:

Section 1-A:

**The Commission Did Not Follow its Own Planning Guidelines for Certifying the Fiscal Integrity of the Boards**

*Even though the appropriate process for certifying boards was followed, we appreciate and agree with the Auditors' comments relating to working paper documentation and working paper filing. While the documentation was not sufficient, the guidelines were followed and completed. With the implementation of our new electronic working paper system, procedures to improve access to working paper files and more training on working paper documentation standards will be established. We acknowledge that there could have been better linkage between Form C - Attestation of Key Controls and the procedures used during the on site visits for the certification of key controls. However, the monitoring procedures used during the on*

*site visits closely mirrored the planning guidelines by incorporating forty-four (44) of the fifty-one (51) Form C criteria. The remaining criteria were not viewed as significant in respect to fiscal controls. We maintain that Contract Monitoring performed sufficient work to conclude that the Boards had satisfied the criteria relating to fiscal controls contained in Section 6 (i) and (j) of the Workforce Board Planning Guidelines.*

*In certifying the remaining two boards we will utilize all significant criteria in Form C.*

*During FY 98, the TWC Executive Team met with Commissioners to establish goals and priorities with the priority setting work sessions facilitated by an external facilitator. To assess performance and establish new strategic priorities and goals, another facilitated work session is scheduled for October 28, 1999. The Commission established a Planning Department and selected a director on July 1, 1999. The Planning Department is responsible for the development of both the TWC Strategic Plan and the new Business Plan for the future. Within both of these planning efforts, there will be an examination of priority objectives and business goals. Additionally, the Planning Department is currently developing a Master Project Schedule that will include the Commission's priorities and track the progress against projected completion dates for those priority projects.*

*During the audit, some agency roles and functions were in a transition state, but since that time, functions have been better delineated and responsibilities more clearly defined. In the development of a Business Plan for TWC, the Planning Department will examine existing business processes to ensure ownership and to assign business goals. In assisting the remaining two Local Workforce Areas in becoming operational boards, the Workforce Development Division will designate an individual to manage cross functional processes with regards to monitoring, technical assistance, and board formation planning.*

State Auditor's Follow-Up Comment:

The Commission states that "...the appropriate process for certifying boards was followed..." Despite numerous meetings with the Commission on the certification process, the Commission has never been able to provide the SAO with specific criteria used on a consistent basis to certify the boards. The Commission does not identify in its response the 44 criteria it states were incorporated into its monitoring procedures. It is not clear in the Commission's response whether a monitoring system, which was lacking at eight boards, is one of the criteria viewed as not significant with respect to fiscal controls. It should be reiterated that the prevalence of repeat monitoring findings noted in Section 1-D quantifies the impact of the breakdown in the certification process.

Management's Response:

Section 2: PROCUREMENT

**A Flawed Procurement Process for the 13 Employment Placement Contracts Jeopardized \$9.6 Million in TANF Funds**

*We appreciate the SAO's assessment of the procurement of the employment placement contracts but do not agree with the individual comments or that funds were at risk. We agree that the contracting process had weaknesses when the employment placement contracts were entered into as evidenced by our response to the SAO report, "A Follow-up Audit of Management Controls at the Texas Workforce Commission" dated August 1998.*

*The audit finding that some funds were at risk appears to not have fully considered the fact that the cost of delivering services varies between locations based on demographics, availability and accessibility. Competition and local market conditions affect price, plus the needs of the client base and establishing services in areas where there are no providers drives up the price. For example, it costs more per client to contract with a provider in a rural area where it is more difficult to serve the clients. Costs and price analysis was done as is documented in our LAR.*

*We established a goal to have a contract services department fully operational to provide controls over all contracts entered into by September 1, 1999. We have established the department, hired the director and other key staff. We are on schedule with our plan. The process for procuring direct contracts had already changed at the time of this audit and will continue to improve under the new contract services department. We welcome the SAO's review of the changes that have been made to the contracting process.*

*In September 1999, the Contract Services Department will begin reviewing all significant program services contracts to address the concerns expressed in the auditor's recommendations to strengthen our procurement practices. One of the major responsibilities of this department is to develop by April 2000, standardized contracting policies and procedures. Procedures will address proposal evaluation, guidelines on scoring methodology, bidder financial verification, and cost and price analysis. Guidelines will also be developed for non-competitive procurements.*

*Currently program contracts are tracked in the Contract Management and Budget Department of the Workforce Division; however, all TWC contracts, MOUs, and MOAs will be incorporated in the centralized database being developed by the Contract Services Department. The new centralized database will be comprehensive and assessable by all appropriate departments. An initial action plan for the development of the database will be available October 1, 1999. By November 1999 all TWC contracting documents will reside in the Contract Services Department.*

*The need for direct service contracts so close to the dates two areas' boards became operational is questionable.*

*The direct service contracts were necessary to continue an appropriate level of service, as there was no way of knowing with certainty when a board would transition. One of the many issues that made the direct contracts necessary was a loss*

*of staff due to their anticipation of the change to local control. We worked directly with the Local Workforce Boards to establish contracts that they would be comfortable working with once they became operational. The Boards had the option to assume the contracts and continue service without interruption. In those areas where assumption of the contracts was not anticipated, the contracts served to augment the activities of state staff.*

**State Auditor's Follow-Up Comment:**

We disagree with the Commission's assertion that the funds for the employment placement contracts were not at risk. The Commission placed the \$9.6 million in TANF funds at risk when it did not follow good business practices to procure the contracted services. With respect to the issue of cost and price analysis, we understand that the lack of competition and local market conditions affect the price of services. However, despite requests for documentation, the Commission did not provide evidence of any price or cost analysis of individual contract areas to assure the reasonableness and fairness of the contracted price.

*Section 3-A:*

***The Commission Does Not Consider All Relevant Information When Assessing Risk to Schedule Monitoring Visits***

*We have established a risk assessment system that provides effective monitoring coverage within available resources. We were pleased to share our methodology, at the request of the State Auditors, with other state agencies having similar responsibilities. We are always interested in improving our processes and will evaluate the SAO's recommendations along with enhancements already being pursued by Contract Monitoring staff to refine and improve the risk assessment model. For example, we have already implemented the recommendation to assess risk throughout the year by conducting quarterly risk assessments in fiscal year 2000.*

*A process was implemented in February 1999 that ensures Contract Monitoring's Risk Assessment Section receives all contracts for inclusion.*

*We will make improvements to the risk assessment by November 1999 that will incorporate weighting newness of program and individual subcontractor performance.*

*The Commission lacks a centralized database to track all program contracts.*

*The Commission has a database that tracks all program contracts. The database was not current at the time of the audit, but that has been corrected. It should be noted that all contracts are maintained in Contracts Payable and no contractors received payment without official documentation on file. The new Contract Services Department will ensure that all contracts entered into by the Commission are maintained in a centralized contract tracking system on a current basis.*

Section 3-B:

***The Commission's Fiscal and Program Monitoring of the Local Workforce Boards Does Not Provide Reasonable Assurance That TANF Funds Are Being Spent Appropriately***

*Although the Boards were in the process of implementing TANF and were just beginning to spend program funds in FY 98, TANF was only one of six programs for which we had monitoring and oversight responsibilities. We aligned our monitoring resources based on the level of expenditures and potential risk for all programs managed by Local Workforce Boards. In addition, our monitoring plan for FY99 incorporated increased monitoring activities for all programs that transitioned to the Boards, including TANF.*

*Both state and federal guidance places emphasis on an integrated approach to providing services. We believe our sampling techniques are acceptable and ensure programs receive adequate coverage and reflect the trend of integrated services. However, we will consider the auditors' recommendation to include more program specific test work.*

**State Auditor's Follow-Up Comment:**

The Commission does not address our concern about gaps in its oversight function. When the Commission identifies boards that are not meeting their contractual obligation to monitor their service providers, it has two choices: (1) use Commission staff to monitor the boards' contractors, or (2) hold the boards accountable for monitoring their contractors through a sanction policy. Without clear policies and procedures to address the absence of board monitoring, there is no assurance that the contractors are spending program funds appropriately.

**Management's Response:**

Section 3-C:

***The Commission Has Not Provided Sufficient Oversight for the \$17.3 Million in TANF-Funded Contracts With Local Service Providers***

*We appreciate the SAO determining that staff responsible for certifying billings on direct contracts was not performing verification. Our Internal Audit department has begun testing direct contract payments to determine if the billings were valid and payments appropriate. The contractor will reimburse any payments determined to be inappropriate for that amount. In addition, Internal Audit will recommend specific procedures that will strengthen controls over direct contract payments. Management will evaluate Internal Audit's recommendation and implement procedures to verify service delivery and payment requests by November 1999.*

*Testing of employment placement contract payments estimated \$1.25 million in unsupported payments.*

*The ECC data warehouse and the UI Tax System will not provide support for validity of payments in all cases. The ECC data warehouse was designed for performance reporting and does not capture all information that would be needed for payment verification. We do not agree with the projections based on the ECC data warehouse*

*and the UI Tax System totaling \$1.25 million in unsupported performance payments. Support did exist in the JOBS and SAVERR databases.*

*The SAO analysis indicates there is a need to verify requests for payment against case files. We agree and have begun testing payment requests. It should be noted that there is less risk associated with performance based contracts as payment for services is made after the fact. By verifying requests for payment, these contracts pose no particular risk.*

**State Auditor's Follow-Up Comment:**

We disagree with the Commission's assertions that support existed for some of the exceptions we found in our contract testing. Our audit team exercised due diligence through repeated requests, over a three-month period, to various functional areas for assistance in finding missing client data. Our requests did not result in additional information.

The Commission states that "...there is less risk associated with performance based contracts..." We disagree. These performance-based contracts are high risk for several reasons:

- The contracts are incentive-based.
- The contractors receive payments after self-reporting completion of milestones.
- The contracts have not been monitored.

The Commission had not verified payments to contractors by the end of our fieldwork. Timely verification of contractor requests for payment will reduce the risk of these contracts.

**Management's Response:**

*Section 3-D:*

***Most Local Workforce Boards Are Not Meeting Their Statutory Responsibility to Monitor Their TANF Service Providers***

*Some Boards were not providing adequate coverage for their service providers. In instances where it came to our attention that there were concerns about service provider performance, we expanded our work. Recommendations TWC made to the Boards in this area have already resulted in improvements to Board monitoring processes. We will continue to work with Local Workforce Boards to ensure necessary improvements are made to the Board monitoring process. We have incorporated procedures in our monitoring program to determine the appropriate level of testing at the subcontractor level. In addition, we will be providing additional support to the Boards in meeting their monitoring responsibilities. For example, Contract Monitoring will again offer training to Board and contractor monitoring staff by November 1999.*

*We will, also, re-examine current policies and procedures to find any opportunities to strengthen the monitoring process when Board monitoring is not adequate.*

State Auditor's Follow-Up Comment:

Note State Auditor's comments for Section 3-B on page 33.

Management's Response:

Section 3-E:

***The Commission Lacks an Effective Process to Ensure That Monitoring Findings Are Resolved***

*We agree with this finding. A database has been developed to track the status of all findings, recommendations, and implementation that will become effective with FY 00 monitoring reports.*

*We have taken steps to ensure that future monitoring reports are released on a timely basis. Analysis of the report process will begin September 1, 1999. New performance standards will be established based on the results of the analysis. In addition, the agency assigned staff in February 1999 to meet regularly as part of a Sanctions Committee to review monitoring findings and recommend corrective actions. The Committee will develop operating procedures by October 1, 1999 that will define the process for applying the Sanctions Rule.*

State Auditor's Follow-Up Comment:

Although the Texas Administrative Code contains written criteria on board violations subject to sanctions, the Commission lacks a policy that states when sanctions should be imposed. The implementation and enforcement of a tough sanction policy is necessary to ensure that the boards are meeting their contractual responsibilities as stated in their master board contracts.

Management's Response:

Section 4: TECHNICAL ASSISTANCE

***The Commission Has Not Met its Objective of Providing Timely and Responsive Technical Assistance to Local Workforce Development Boards***

*We believe the December 1998 reorganization of the Workforce Division reflects a clear distinction between duties and responsibilities with regard to technical assistance. We will immediately notify the Boards and contractors that all technical assistance requests should be addressed to the Technical Assistance Department. With a customer service focus, Technical Assistance will survey the Boards to identify their needs. We will begin a study to develop ways the Commission can implement the auditor's recommendations.*

*The Training Section of the Administrative Support Division facilitates and coordinates all formal training. Topics are not limited to workforce issues; however, Training coordinates with Workforce to determine the specific types of instruction to offer based on need.*

Section 4-D:

***The Commission's Current Structure for Providing Technical Assistance Does Not Recognize Fiscal and Administrative Technical Assistance as a Major Customer Need***

*The Commission has provided extensive fiscal technical assistance to the Boards. We developed and distributed a comprehensive financial manual and guide, "Financial Manual for Grants and Contracts (FMGC)". In the past two years we conducted five two-day fiscal forums for Board personnel which consisted of detailed training on each section of the FMGC. In addition, we held an internal training course on the FMGC to assure that TWC technical support staff were knowledgeable in current fiscal requirements. We also held a Financial Conference January 20 - 22, 1998 in Austin for Board staff to update and train on issues in the fiscal and administrative area. Another Financial Conference was held January 20 - 22, 1999 in Austin to provide additional fiscal and administrative training and support. The Workforce Planning Conference, September 23 - 25, 1998 contained a session on fiscal matters and the Statewide Planning Conference, February 24, 1999, also contained fiscal and administrative sessions. Commission staff conducting those sessions also provides technical support for fiscal and administrative matters.*

*The Technical Assistance Section in the Workforce Division has added seven positions for technical assistance. There are two full time staff in the Technical Assistance Section with extensive knowledge and experience in fiscal and administrative matters. They have provided assistance in fiscal and procurement matters through on-site visits and telephone conferences. In addition, they are actively involved in updating the FMGC to assure that it addresses changes resulting from the implementation of the Workforce Investment Act (WIA).*

**State Auditor's Follow-Up Comment:**

We encourage the Commission to use the results of its proposed customer needs assessment to analyze the alignment between board needs, current staffing levels, and areas of expertise. In addition, given the lack of awareness between different sections on the types of technical assistance provided, we still believe the Commission should inventory the types of technical assistance activities each area provides to identify potential gaps and/or duplication of effort.

**Management's Response:**

*The quality and consistency of technical assistance provided to the boards is evidenced in the following feedback we have received from the Boards:*



*Luis:*

*On behalf of the Coastal Bend Workforce Development Board, I would like to express my sincere appreciation on the Technical Assistance that your office has provided to our board and its service providers. This week, TWC representatives presented an excellent technical assistance workshop on meeting participation rates. It resulted in excellent strategies that will be implemented in this region. We are expecting good results from the session's ideas.*

*In the past two years, since the Board assume many of the responsibilities of HB 1863 and SB 642, the Technical Assistance, provided by yourself, state sponsored workshops, visits to our board meetings, as well as, on site presentations by TWC staff, has made our region one of the most productive boards in the state.*

*Again, thanks for the support that is provided by your office and other TWC representatives.*

*Carlos A. Herrera  
President/CEO  
Coastal Bend Workforce Development Board*

*Martha...I wanted to take just a minute to share with you and others the comments from our Project Operator and his key staff regarding several recent experiences with TWC staff.*

*The Board's Chief Operating Officer just came back from Austin and the Child Care Technical Assistance Conference. She said she had never seen staff so ready to help, who had answers to the questions, who really seemed to understand the differences in local area's needs. She said that she really felt like we had the support to turn our Child Care program into one of the best in the state. Additionally, Norm Haley reported on two recent TA visits from TWC, one on WIA Eligibility and one a pre-review for the One-Stop certification. He said both visits were extremely helpful with good TA, good examples of what other areas were doing and several excellent recommendations. He said that both visits really made a big difference in the learning curve for the front-line staff. Thanks very much.*

*Mimi Purnell  
Acting Executive Director  
Upper Rio Grande Workforce Development Board*

*Martha,*

*Just wanted to give you some information on the technical assistance we have received from TWC. We have requested and received technical assistance several times in the form of on-site visits related to TANF/Choices (all areas especially participation rates); Food Stamp E&T (ABAWD services); TWIST and JTPA (follow-up and retention of welfare clients). Board, contractor and fiscal agent staff have also arranged to visit TWC state offices to receive technical assistance on fiscal, child care, resolution of program findings, property, facilities and contracting. We have found TWC staff to be responsive to our requests for technical assistance and capable of providing the assistance we have required.*

*Sincerely,*

*Mary Ross*

*Executive Director*

*West Central Workforce Development Board*

*Martha Martinez*

*I would like to extend my thanks to you, as part of Technical Assistance for the time and effort you gave to Cameron Works, Inc. during its time of transition. Your availability and quick response to our requests provided for meeting critical timelines. As I expressed to Barbara Cigainero on March 24, 1999: "Martha is proof that there are sane, rational, reasonable people who make sense..." I'm including a copy of this E-Mail with this note.*

*Sincerely,*

*Hank*

*Barbara:*

*I wish to thank you very much for allowing us to borrow Martha Martinez. Martha is proof that there are sane, rational, reasonable people who make sense, still left on this earth. After a while, with our clear solid evidence one begins to wonder if every one else got on the Ark and left you behind. Martha is just what the Doctor ordered. Thank you.*

*I owe you big time.*

*Hank*

*The Tarrant County Workforce Development Board understands that the State Auditors Report recently issued includes a review of the Texas Workforce Commission. Specifically, the review indicated that responses by local workforce boards were not favorable when reporting adequate technical assistance provided by TWC to the Boards.*

*Maybe the conclusion arrived by the State Auditors Office could only be determined in this manner due to the way the questions to the Board were worded.*

*Be aware that Tarrant County Workforce Development Board is in contact with TWC Workforce Development staff almost daily and technical assistance is provided continuously, professionally and competently. I cannot imagine what it would be like without the Workforce Development staff to assist in the resolution of complex issues and to answer endless questions for our Board. Furthermore, the responsiveness is always in the spirit of helpfulness.*

*We hope this message conveys the help provided to us by TWC.*

*Sincerely,*

*Joe Warren  
Director of Administration*



TO: Sarah Bailey  
Texas Workforce Commission

FROM: Linda Brown Turk  
Executive Director

SUBJECT: TWC Technical Assistance

DATE: August 6, 1999

I want to take this opportunity to thank TWC for the technical assistance that they have rendered to the Southeast Texas Workforce Development area this past program year.

The most important period I must recognize happened during the bankruptcy of our Career Center contractor, MAPA. During that time, we had over 65 Career Center staff that were not going to receive payroll checks. It was the holidays and was to be the last check of the calendar year. It could have been devastating for the heads of families and single heads of households. However, TWC stepped in and gave great assistance and guidance to the situation and as a result we were able to pay employees and move forward dealing with that situation.

Again, TWC gave us assistance in dealing with our low performance in TANF participation rates. Repeatedly they have answered questions and sent technical assistance staff to help us determine the necessary steps to improving our performance. As a result we have improved our participation rates in both categories and we are on our way to exceeding these standards.

Lastly, I would like to also thank Eric Brown who was our technical assistance representative this year. Eric assisted Southeast in every manner. No matter what the issue or question was, Eric never failed to follow through and find the answer for us. It is technical assistance staff like him that has proven to be invaluable to us.

Thank you very much for your assistance this year. We are looking forward to developing and improving our partnership this next program year.

## Objectives, Scope, and Methodology

### Objectives

The primary objectives of this project were to:

- Analyze and assess the key management control systems related to implementation of welfare reform programs at the Texas Workforce Commission (Commission).
- Review the transition of program implementation to local workforce development boards.

Management controls are policies, procedures, and processes used to carry out an organization's objectives. They should provide reasonable insurance that:

- Goals are met.
- Assets are safeguarded and used efficiently.
- Reliable data is reported.
- Compliance exists with laws and regulations.

Management controls, no matter how well designed and implemented, can only provide reasonable assurance that objectives will be achieved. Breakdowns can occur because of human failure, circumvention of control by collusion, and the ability of management to override control systems. However, monitoring established controls can assist in detecting and correcting weaknesses in a timely manner.

### Scope

The scope of this audit included:

- Consideration of the Commission's overall management control systems: policy management, information management, resource management, and performance management, as related to welfare reform implementation
- Review of the processes used by the Commission to create, support, and oversee local workforce development boards
- Review of implementation and administration of welfare programs by a number of local workforce development boards
- Review of the nature, timing, and extent of the Commission's and local workforce development boards' monitoring and fiscal review
- Review of the Commission's direct procurement of TANF-funded services

## Methodology

### Information collected:

- Interviews with Commission executive management and staff
- Interviews with staff at other state agencies that operate TANF-funded programs
- Interviews with local workforce development board staff
- Interviews with TANF/CHOICES service providers and clients
- Interviews with members of the Legislature and legislative staff
- Documentary evidence such as:
  - The Commission's and numerous local workforce development boards' plans, goals, budgets, memoranda, policies, and procedures
  - Master Board contracts and contracts to provide TANF-funded services
  - Procurement records for TANF-funded services
  - Contract Monitoring section working papers
  - Expenditure data
  - Unaudited employment data generated by the Unemployment Insurance Tax Wage Records database
  - Unaudited client data from the Employment and Child Care Data Warehouse

### Procedures and tests conducted:

- Observation of processes related to determining TANF eligibility and providing TANF services to welfare recipients
- Review of Commission pre-award certification process
- Review of contract administration and procurement procedures
- Review and analysis of contract, fiscal, and program monitoring files
- Tests of employment placement contract payments

### Criteria used:

- SAO Accountability Project Methodology
- SAO Contract Administration Model
- Texas Statutes and Administrative Code
- General Appropriations Act, 75th Legislature

- Other standards and criteria developed through secondary research sources, both prior to and during fieldwork

### Other Information

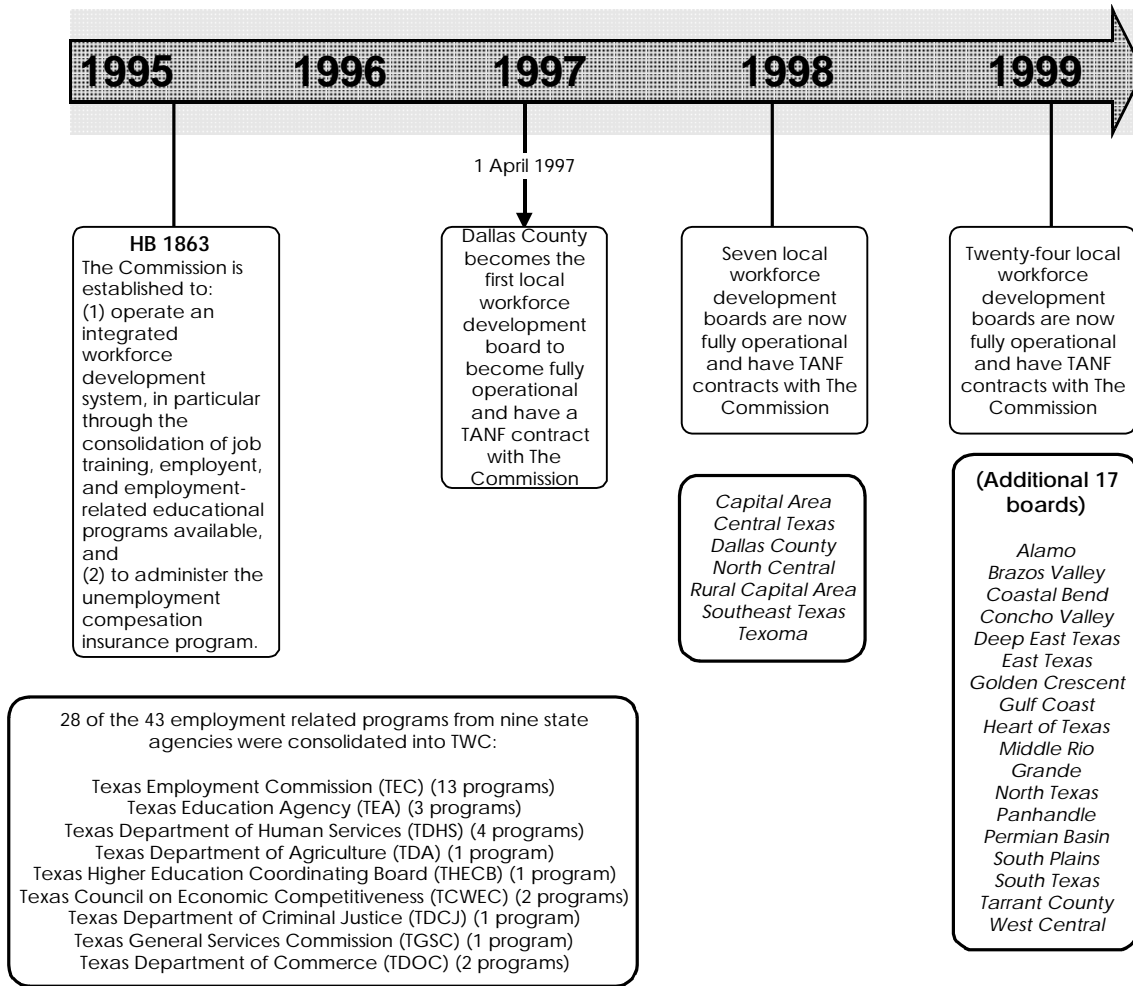
Fieldwork was conducted from November 1998 through April 1999. The audit was conducted in accordance with *Government Auditing Standards*.

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

- Babette Laibovitz, MPA (Project Manager)
- John C. Young, MPAff (Assistant Project Manager)
- Enrique Aleman, Jr., MPA
- Adriana Buford, CPA
- Beverly C. Burton, JD
- Vivek Katyal, MBA
- Kevin Lebovitz
- Trent B. Nicol, MAcc
- Henry Siller, Jr.
- Bruce Truitt, MPAff (Quality Control Reviewer)
- Charles R. Hrcir, CPA (Audit Manager)
- Susan A. Riley, CPA (Audit Manager)
- Deborah L. Kerr, Ph.D (Audit Director)

## Local Workforce Development Board Milestones

Figure 2



Source: Texas Workforce Commission



## Local Workforce Development Board TANF Contract Dates

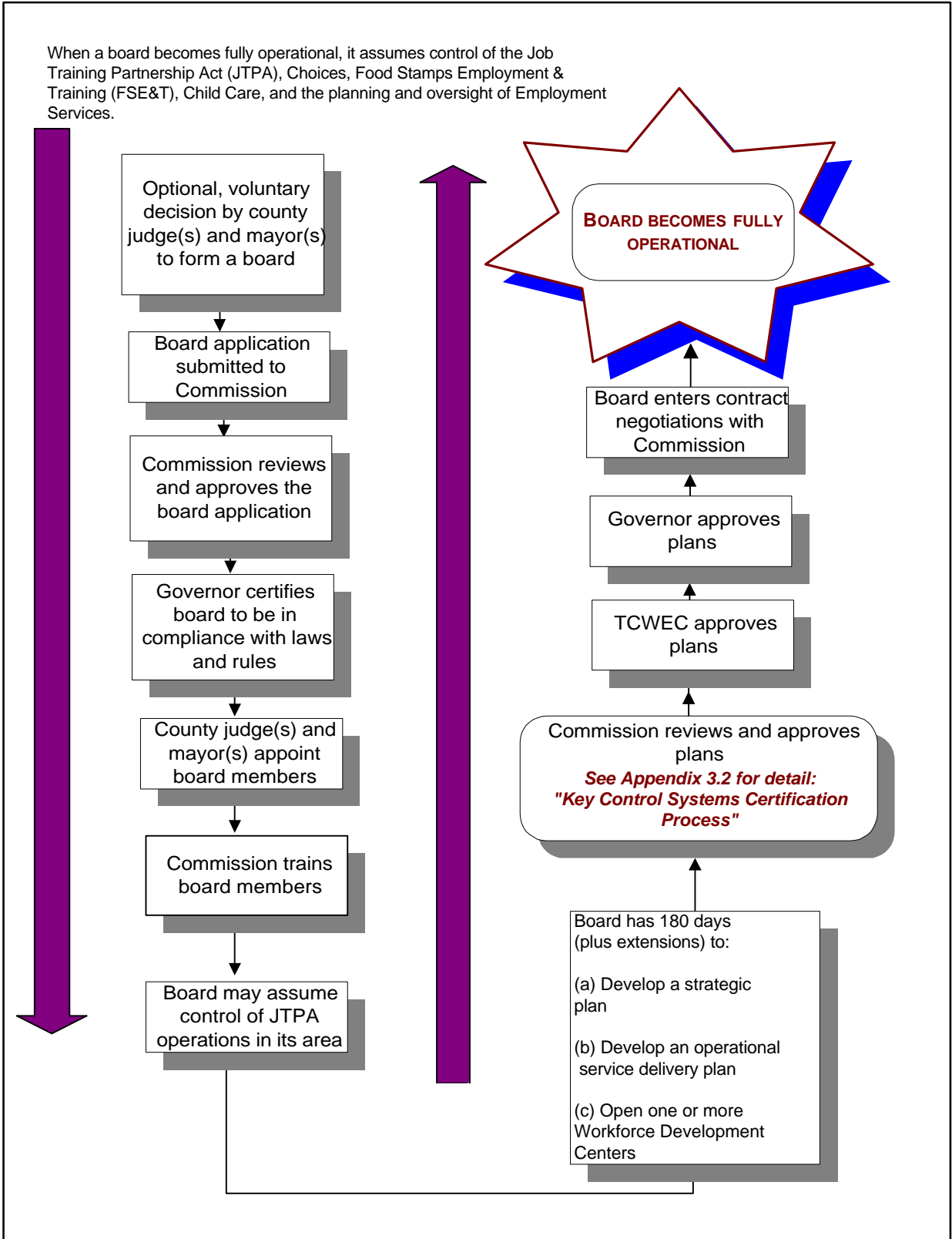
Table 2

Board	Date of Contract	Board	Date of Contract
Alamo	3/1/98	Middle Rio Grande	9/1/98
Brazos Valley	6/1/98	North Central Texas	9/1/97
Cameron County	N/A	Northeast Texas	N/A
Capital Area	12/1/97	North Texas	12/1/98
Central Texas	12/1/97	Panhandle	11/1/98
Coastal Bend	7/1/98	Permian Basin	7/1/98
Concho Valley	9/1/98	Rural Capital Area	11/1/97
Dallas County	4/1/97	Southeast Texas	12/1/97
Deep East Texas	10/1/98	South Plains	7/1/98
East Texas	10/1/98	South Texas	7/1/98
Golden Crescent	9/1/98	Tarrant County	7/1/98
Gulf Coast	4/1/98	Texoma	10/1/97
Heart of Texas	9/1/98	Upper Rio Grande	4/1/99
Hidalgo/Willacy	N/A	West Central Texas	1/1/98

Source: Texas Workforce Commission

## Overview of the Local Workforce Development Board Formation Process

Figure 3

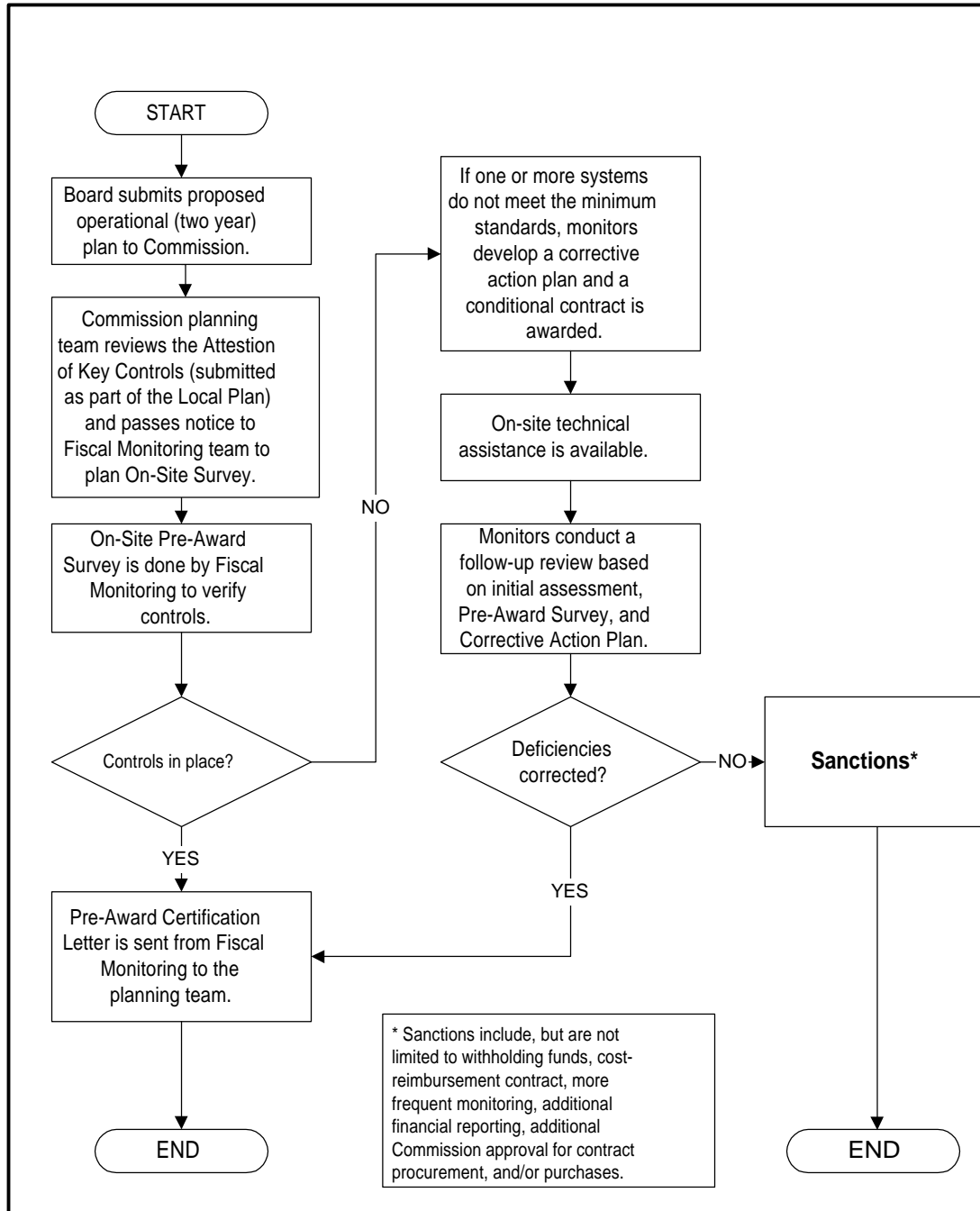


Source: Texas Workforce Commission process

## Key Control Systems Certification Process

As one of the criteria for State Approval of the Local Plan, a board must demonstrate, through the completion and Commission approval of the Key Control Systems Certification, that it has the capability to safeguard program resources.

Figure 4



Source: State Auditor's Office

**Form C - Attestation of Key Controls** (replica of original document)

Key Control systems Certification				Completion	
Item #	FISCAL INTEGRITY	Systems	Policies	Procedures	Date
1.	Method of accounting for program income is in accordance with Federal Regulations				
2.	Method of budget development appropriately allocates resources and expenditures				
3.	Encumbrances are utilized and monitored				
4.	Proper cash management				
5.	Cash and/or cash equivalents are properly recorded, credited, and/or deposited or disbursed in a timely manner				
6.	Funds are drawn from the proper account of the awarding agency				
7.	Bank accounts are reconciled to accounting records in a timely manner				
8.	LWB staff are adequately bonded				
9.	Collateral agreements are in place and sufficient to protect balances in excess of FDIC coverage				
10.	Safeguarding and control of grant revenue and program disbursements				
11.	Timely resolution of questioned costs and/or the repayment of disallowed costs by the LWB and its sub-contractors				
12.	Safeguarding of fixed assets				
13.	Additions or deletions to program property are appropriate and authorized				
14.	Adequate separation of duties as they relate to cash, fixed assets, property, and other LWB resources				
15.	Fixed assets are properly recorded in the accounting system				
16.	The method of cost allocation, including indirect cost rate where appropriate, is allowable				
17.	Payroll expenditures are properly authorized, accurately recorded in a timely manner, and properly classified in the correct accounting period.				
18.	Travel expenditures are reasonable and necessary				
19.	Travel expenditures are properly authorized and accurately recorded				
20.	All purchases are reasonable and necessary				
21.	All purchases are properly authorized and accurately recorded				
22.	Sufficient supporting documentation is retained to support authorization of all purchases				
23.	Only authorized, accurate transactions are entered in the accounting system				

Key Control systems Certification				Completion	
Item #	FISCAL INTEGRITY continued	Systems	Policies	Procedures	Date
24.	The duty of authorizing source documents is separate from the duty of entering records into the accounting system				
25.	Insurance coverage is properly procured, current, and sufficient to protect program assets				
26.	Records are retained in accordance with the applicable rules and regulations				
27.	Stand-in costs are tracked in a timely and accurate manner				
28.	Audits are conducted in accordance with applicable federal circulars and state policies				
<b>PROCUREMENT</b>					
29.	All program procurement is in accordance with applicable program guidelines, Federal Regulations, and State policy				
30.	Subrecipients/subcontractors certify all applicable key control systems as outlined in this document, prior to contract award				
31.	Pre-qualified bidders lists will be maintained				
32.	Procurement process will be expedited through the utilization of a bidders lists(s)				
33.	Criteria have been established to offer fair and equitable competition among a sufficient number of firms and/or bidders				
34.	Basic evaluation criteria have been developed to promote an equitable and efficient selection process				
35.	Written results of evaluation and selection process are available to requesting bidders				
36.	All awards are the result of an "arms length relationship"				
<b>MONITORING and OVERSIGHT</b>					
37.	Monitoring of cash management function				
38.	Auditing the cash management function				
39.	The ability to independently identify system deficiencies and the ability to take prompt and appropriate corrective action				
40.	Evaluation of LWB subrecipients in the following areas:				
	a. Compliance with all Federal and State regulations				
	b. Compliance with all contractual and grant requirements				
	c. Those outlined in this document				
	d. Proper spending, reporting, and accurate accounting of Federal and State funds				
	e. Fulfillment of program objects/goals in the most efficient and effective manner				

Key Control systems Certification				Completion	
Item #	MONITORING and OVERSIGHT	Systems	Policies	Procedures	Date
41.	Effective monitoring of LWB subrecipients activities				
42.	Design and implementation of a risk assessment				
STAFF					
43.	Ensure salary and benefits packages are reasonable and necessary				
44.	Guidelines are available regarding employee conduct and conflicts of interest, either real or apparent				
45.	Recruitment and selection of employees effectively matches applicant skills and interests with entity staffing needs, job requirements, assignments, and tasks in a manner which complies with both entity goals and objectives and applicable legislation				
REPORTING					
46.	Proper identification, utilization, and reporting of program income				
47.	Financial and performance reporting systems are designed to facilitate timely reporting of accurate information in compliance with all applicable Federal and State rules and regulations				
48.	Stand-in costs are reported and audited in a timely manner				
49.	Information presented in required reports complies with all applicable Federal and State reporting requirements				
50.	All required match is timely accumulated and reported in accordance with applicable Federal and State rules and regulations				
DATA INTEGRITY					
51.	Manual and/or automated information systems produce accurate and comparable information in compliance with applicable rules and regulations				

**KEY CONTROL SYSTEM  
STATEMENT OF ATTESTATION**

The local workforce board must certify that it has developed key control systems to address the areas of fiscal integrity, procurement, monitoring and oversight, staff, reporting systems, and data integrity as specified in the attached Key Control System Certification. Such systems are subject to review and approval by the Texas Workforce Commission (TWC).

The workforce board of \_\_\_\_\_  
workforce development area attests that key control systems, policies, and procedures are in place to protect the integrity of program funds and that such systems, policies, and procedures are in compliance with the applicable Federal and State rules and regulations. The board also certifies that written procedures and policies are available for inspection by TWC or its designee.

\_\_\_\_\_  
Typed Name of Local Workforce Board Chair

\_\_\_\_\_  
Signature of Local Workforce Board Chair

\_\_\_\_\_  
Date

\_\_\_\_\_  
Typed Name of Board Chief Executive Officer

\_\_\_\_\_  
Signature of Board Chief Executive Officer

\_\_\_\_\_  
Date

7/7/96

Section 7-2

Appendix 4:

## Testing of Employment Placement Contract Payments

Contract	Amount Tested <sup>#A</sup>	Unsupported Payments <sup>#B</sup>	Clients Not Verified in ECC <sup>#C</sup>	Resulting Unsupported Payments <sup>#D</sup>	Clients Not in UI <sup>#E</sup>	Resulting Unsupported Payments <sup>#F</sup>
Contract #1	\$ 48,720	\$ 32,480	0	\$ 0	1	\$ 580
Contract #2	38,280	13,340	0	0	0	0
Contract #3	23,780	1,740	0	0	1	580
Contract #4	47,880	17,780	5	1,680	6	2,660
Contract #5	31,280	10,280	1	260	3	1,550
Contract #6	16,200	2,850	1	1,050	1	300
Contract #7	21,060	3,840	1	240	0	0
Contract #8	44,650	14,250	0	0	0	0
Contract #9	90,742	32,510	0	0	4	6,953
Contract #10	61,211	7,543	1	1,934	2	1,354
Contract #11	32,175	4,290	0	0	1	390
Contract #12	14,820	780	0	0	1	390
Contract #13	38,415	6,435	0	0	2	390
<b>Grand Total</b>	<b>\$509,213</b>	<b>\$ 148,118</b>	<b>9</b>	<b>\$ 5,164</b>	<b>22</b>	<b>\$ 15,147</b>

<sup>#A</sup> Amount Tested - contains the dollar amount of all payments tested in the sample.

<sup>#B</sup> Unsupported Payments - contains the dollar amount of all unsupported payments from the tested sample.

<sup>#C</sup> Clients Not Verified in ECC - contains the number of clients that could not be verified in the ECC database, but for whom the contractors submitted a bill.

<sup>#D</sup> Resulting Unsupported Payments - contains a breakdown of the dollar amount of all unsupported payments associated with "Clients Not Verified in ECC."

<sup>#E</sup> Clients Not in UI - contains the number of clients that were not in the UI database, but for whom the contractor submitted an employment related payment request. The figure in each cell is the total number of exceptions for the contract, excluding client exceptions already counted in "Clients Not Verified in ECC" that met this attribute.

<sup>#F</sup> Resulting Unsupported Payments - contains a breakdown of the dollar amount of all unsupported payments associated with "Clients not in UI."

<sup>#G</sup> Lack of Participation in Components 1 and 7 or 14 - contains the number of clients for whom the contractor submitted a bill for completion of assessment, job readiness, and job preparedness activities, but for whom the ECC database does not show participation in these activities. The contracts state that job readiness payments can be made upon client completion of assessment, orientation, and job preparedness activities (or entry into employment, whichever comes first). Activities and services provided to the client by the contractor are classified as components for reporting purposes. Reported completion of Component 1 "Assessment" and Component 7 "Job Readiness" satisfies the assessment, orientation, and job preparedness activity requirement. However, both components must be completed in order for the job readiness payment to be valid. Completion of Component 14 "Employment Entry" also satisfies the requirements of the job readiness payment. If the provision of these services is not reported by the contractor within the contract period, the payment for job readiness is considered unsupported.

Source: State Auditor's Office



Lack of Participation in Components 1 and 7 or 14 <sup>#G</sup>	Resulting Unsupported Payments <sup>#H</sup>	Employment Entry/Two Weeks on Job <sup>#I</sup>	Resulting Unsupported Payments <sup>#J</sup>	Multiple Milestone Payments <sup>#K</sup>	Resulting Unsupported Payments <sup>#L</sup>	Unsupported 90- and 180-Day Payments <sup>#M</sup>	Resulting Unsupported Payments <sup>#N</sup>
38	\$ 22,620	7	\$ 4,060	0	\$ 0	6	\$ 5,220
21	12,180	2	1,160	0	0	0	0
0	0	2	1,160	0	0	0	0
10	2,800	10	2,520	7	1,960	13	6,160
13	3,920	5	1,300	11	2,860	1	390
2	900	2	600	0	0	0	0
14	3,360	1	240	0	0	0	0
28	13,300	3	950	0	0	0	0
37	18,855	3	1,488	6	2,729	3	2,485
1	387	6	2,321	2	387	2	1,160
7	2,730	2	780	1	390	0	0
1	390	0	0	0	0	0	0
11	4,290	2	585	2	585	1	585
<b>183</b>	<b>\$ 85,732</b>	<b>45</b>	<b>\$17,164</b>	<b>29</b>	<b>\$ 8,911</b>	<b>26</b>	<b>\$ 16,000</b>

<sup>#H</sup> Resulting Unsupported Payments - contains a breakdown of the dollar amount of all unsupported payments associated with "Lack of Participation in Components 1 and 7 or 14."

<sup>#I</sup> Employment Entry/Two Weeks on Job - contains the number of clients for whom the contractor submitted a bill for entering employment and retaining a job for two weeks.

<sup>#J</sup> Resulting Unsupported Payments - contains a breakdown of the dollar amount of all unsupported payments associated with "Employment Entry/Two Weeks on Job."

<sup>#K</sup> Multiple Milestone Payments - contains the number of clients for whom multiple billings were made for either job placement or job retention. Only one billing per client milestone is allowable. The figure in each cell is the total number of multiple job placement or retention payments for the contract.

<sup>#L</sup> Resulting Unsupported Payments - contains a breakdown of the dollar amount of all unsupported payments associated with "Multiple Milestone Payments."

<sup>#M</sup> Unsupported 90- and 180-Day Payments - contains the number of clients for whom contractors billed as being employed for 90 or 180 days, but for whom UI data does not show as having achieved this employment retention milestone. Excludes client exceptions already counted in "Clients not in UI."

<sup>#N</sup> Resulting Unsupported Payments - contains a breakdown of the dollar amount of all unsupported payments associated with "Unsupported 90- and 180-Day Payments."

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