

A Review of

Management Controls at the Texas Department of Commerce



Office of the State Auditor
Lawrence F. Alwin, CPA

October 1994

Report No. 95-013



OFFICE OF THE STATE AUDITOR

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Members of the Legislative Audit Committee:

The Department of Commerce generally has effective policies, procedures, and processes for the management controls included in this audit except for performance monitoring. The performance monitoring information does not provide state leaders with the information needed to make program and budget decisions.

Specifically, the Department needs to address the following problems:

- A lack of information to evaluate the effectiveness of the foreign office operations.
- Insufficient planning and priority setting in information system development.
- Weaknesses in the training program and the recruitment/hiring policies and procedures.

Management at the Department generally concurs with the recommendations in this report. They have contracted for a study to review alternatives for measuring the performance of business development projects. Management's responses are included in Appendix 2.3 of the report.

This audit focused on performance monitoring of foreign offices, management of information, human resource management, financial controls and analyses, and organizational structure. Other recent State Auditor Office audits have reviewed other management control areas including policy/planning and performance measurement.

Department management and staff were very helpful during this review and we appreciate their time and assistance.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lawrence F. Alwin".

Lawrence F. Alwin, CPA
State Auditor

LFA/rmn/enclosure

Key Points Of Report

A Review of Management Controls at the Texas Department of Commerce

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Key Findings

- The Department of Commerce generally has effective policies, procedures, and processes to manage the 1994 operating budget of \$28.7 million - except for performance monitoring.
- Better information is needed to monitor the performance of the \$1.2 million foreign office operations in Germany, Taiwan, Japan, and Mexico. Other recent reports issued by the State Auditor's Office have cited the need for better performance measures for economic development programs.
- Automated information systems offer program areas advantages of end-user computing through four local area networks, but system development needs to be managed more effectively through better planning and priority setting.
- The Department has budgeted about \$12.1 million, or 42 percent, of the operating budget for payroll and related costs. Policies and procedures for managing human resources are strong except in the areas of recruitment/hiring and training.

Contact:

Randy Townsend, Audit Manager (4794750)

Table of Contents

Executive Summary	1
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Section 1:

More Informative Reporting and Monitoring Of The \$1.2 Million Foreign Office Operations Is Needed	5
---	---

Foreign Office Quarterly Reports Do Not Include The Results of Activities	6
--	---

Services Are Duplicated In The Mexico City Contracts	8
--	---

Section 2:

Decentralized Data Processing Meets User Needs, But Systems Development Should Be More Efficient	10
---	----

Information System Development Lacks Sufficient Planning And Priority Setting	11
--	----

Training Has Not Kept Up With The Department's Technology Changes	12
--	----

Incomplete Information Is Used To Distribute The Costs of Data Services	13
--	----

Section 3:

Enhancements In Human Resource Management Are Needed	14
---	----

The Recruitment And Hiring Process Needs To Be More Standardized	14
---	----

Training Program Needs To Be Better Coordinated And Costs Monitored	16
--	----

Other Suggestions For Human Resource Management	18
---	----

Table of Contents, concluded

Section 4:

**Oversight Over Revenues And Expenditures
Is Adequate, But Some Improvements
Are Needed** 21

Operating Expenditures Have Remained Steady, But
Some Should Be Closely Monitored 22

Include Waiver Procedures In Texas Leverage
Fund Program Guidelines 23

Section 5:

Organization Structure Meets Current Needs 24

Appendices

1 - Objective, Scope, and Methodology 25

2 - Background Information

2.1 Agency Profile 28

2.2 Organizational Chart 31

Executive Summary

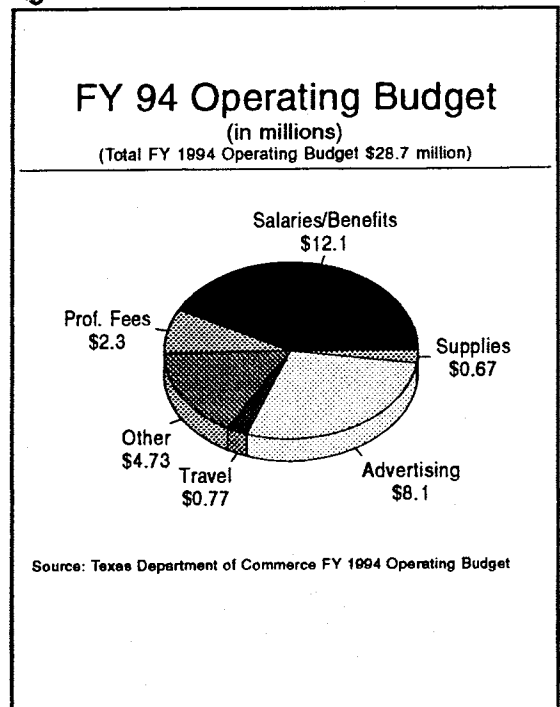
The Department of Commerce generally has effective policies, procedures, and processes for the management controls included in this audit except for performance monitoring. These management controls promote the appropriate use of \$28.7 million budgeted for fiscal year 1994 operations. (The Department also administers \$227.8 million in federal pass-through grants. These funds are included in the scope of the federal compliance audit performed by the State Auditor's Office annually.) (See Figure 1.)

The effectiveness of the management controls is reflected in information systems that generally provide needed information, personnel policies and procedures that are well documented and generally in compliance with state and federal laws, adequate oversight over revenues and expenditures, and an organization structure that meets the needs of the Department.

However, the Department needs to improve management controls in the following areas:

- Better information is needed to evaluate the effectiveness of the \$1.2 million foreign office operations in Germany, Taiwan, Japan, and Mexico. (Note: State Auditor's Office Report No. 94-114, issued in April 1994, also cites the need for better performance measures to tell state leaders how well economic development programs work. Department of Commerce management has contracted for a study to review alternatives for measuring the performance of business development programs.)
- Information system development needs more planning and priority setting.
- The employee training program and the recruitment policies and procedures need enhancements.

Figure 1



More Informative Reporting And Monitoring Of The \$1.2 Million Foreign Office Operations Is Needed

The Legislature and Department management do not have important information needed to make program and budget decisions about the \$1.2 million foreign office operations. The foreign office quarterly activity reports do not include information on the results of business contacts and the results of assistance provided to Texas communities.

The contract for the tourism director in Mexico City and the contract for public relations in Mexico duplicate services to be performed. In fiscal year 1994, the Department will pay \$86,000 to the foreign office tourism director in Mexico and \$75,000 to a public relations firm for tourism

Executive Summary

promotions in Mexico. The contracts indicate that all 11 services to be provided by the foreign office tourism director are identical to services to be provided by the public relations firm.

Decentralized Data Processing Meets User Needs, But Systems Development Should Be More Efficient

The Department's divisions are generally satisfied with the automated information and feel they get the information needed to do their jobs. The divisions have gained the benefits of end-user computing in a decentralized data processing environment.

However, the Department has not managed the development and maintenance of information systems in the most efficient ways. Better management of information resources would minimize the risk of spending money on systems that are not used and would minimize the risk of leaving divisions without adequate computer support services. Insufficient planning contributed to at least \$36,000 being spent on systems which were never implemented or are underutilized.

The Department's evolution to decentralized end-user computing has not been managed through a formal agency-wide planning process for information resources.

- The Department has not established a systematic approach for setting automation priorities.
- Training for the central data services staff has not kept pace with the changes in technology in the different program areas.

- Incomplete information is being used to distribute costs associated with central data services.

Enhancements In Human Resource Management Are Needed

Enhancements to recruiting, hiring, and employee training will reduce the risk of appearing to have a subjective recruitment/hiring process and will help to promote a productive workforce. This is important because payroll and related costs are the Department's largest use of resources. The Department has about 300 employees and will spend about \$12.1 million (42 percent of the operating budget) for payroll and related costs.

- Much of the recruitment and hiring process is handled at the division director level. Each director or subordinate is responsible for ranking hiring criteria and interview questions. The criteria and questions differ from division to division. Some are more valid than others. This can give the appearance of a subjective recruitment/hiring process.
- There is very little coordination among training programs at the Department. The information gained from employee performance appraisals is not used to determine training needs. The cost of external training is not being monitored sufficiently.

Oversight Over Revenues And Expenditures Is Adequate But Some Improvements Are Needed

The Department has provided oversight over revenues and expenditures which promotes the

Executive Summary

efficient use of funds. Operating expenditures from fiscal year 1992 through 1994 have not changed significantly. The Department's total operating expenditures for fiscal year 1993 increased about 2 percent from fiscal year 1992. The operating budget for fiscal year 1994 projects a 4 percent *decrease* in total operating expenditures.

However, the following expenditures have increased and should be monitored closely for opportunities to reduce costs:

- Some professional service expenditures increased \$770,000, or 57 percent, in fiscal year 1993. These include foreign office management, financial services, tourism research studies, and economic development studies.
- Travel expenditures increased \$119,000, or 19 percent, in fiscal year 1993. Department employees traveled for purposes of training, business development, and conference attendance.

Organizational Structure Meets Current Needs

The Department's organizational structure supports the accomplishment of agency goals and objectives. There are four program areas: Work Force, Smart Jobs, Business Development, and Tourism -- and four administrative support areas -- Administration, Human Resources, Legal, and Public Information.

Summary of Management's Response

Department management generally agrees with the recommendations with only minor

exceptions. Action has either already been taken or a plan of action has been developed to address each issue.

Summary Of Audit Objective And Audit Scope

The objective of this audit was to evaluate selected management control systems at the Department of Commerce and to identify strengths and opportunities for improvement. The audit focused on the following areas:

- performance monitoring and evaluation (foreign office monitoring)
- management of information
- human resource management
- financial controls and analyses
- organizational structure

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Detailed Issues and Recommendations

Section 1:

More Informative Reporting And Monitoring Of The \$1.2 Million Foreign Office Operations Is Needed

Current reports on the \$1.2 million foreign office operations do not include information on the effectiveness of operations. Also, services have been duplicated in the Mexico City office contracts.

The Department has four foreign offices located in Mexico City, Mexico; Taipei, Taiwan; Frankfurt, Germany; and Tokyo, Japan. Government Code 481.027 requires the Department to "maintain and operate offices in foreign countries for the purposes of promoting investment that generates jobs in Texas, exporting of Texas products, tourism, and international relations for Texas."

The directors of the foreign offices are personal service contractors -- they are not state employees. All four offices have directors of business development and two offices, Mexico City and Frankfurt, also have directors of tourism. Foreign office expenditures in fiscal year 1994 will be approximately \$1.2 million. (See Figure 2 for a breakdown of foreign office budgets by city and by program area.)

Figure 2
Foreign Office Budgets Fiscal Year 1994

Business Development Budget:	Frankfurt	Taipei	Mexico City	Tokyo	Services for all Cities	Total
Director's Budget:						
Personnel	\$131,000	\$ 78,106	\$168,432	\$116,100		\$493,638
Operating	\$148,400	\$112,440	\$ 87,140	\$ 46,000		\$393,980
Total-Director	\$279,400	\$190,546	\$255,572	\$162,100		\$887,618
Accounting Service					\$54,000	\$54,000
Total	\$279,400	\$190,546	\$255,572	\$162,100	\$54,000	\$941,618

Figure 2 concluded

Tourism:	Frankfurt		Mexico City		Service for all Cities	Total
Director's Budget:						
Personnel	\$ 40,000		\$ 40,000			\$ 80,000
Operating	\$ 42,369		\$ 46,284			\$ 88,653
Total-Director	\$ 82,369		\$ 86,284			\$168,653
Public Relations			\$ 75,000			\$75,000
Accounting Services					\$15,000	\$15,000
Total	\$ 82,369		\$161,284		\$15,000	\$258,653
Total--City	\$361,769	\$190,546	\$461,856	\$162,100	\$69,000	\$1,200,271

Source: Texas Department of Commerce

Section 1-A:

Foreign Office Quarterly Reports Do Not Include The Results Of Activities

The reports on activity in foreign offices do not include important information needed by state leaders to make program and funding decisions. All offices complete quarterly reports which include all required information *except* the results of each contact. No other reports are being prepared which reflect specific outcome information on foreign office operations.

The Department is required to maintain and report information on the direct benefits that result from the operation of the foreign offices. A General Appropriations Act rider requires that the Department report information detailing the number of contacts with foreign and domestic businesses, the name of each business, the nature of the contact, and the results of each contact. The Department is also required to report the name of each Texas community assisted and the nature and results of the assistance.

Reports issued by the State Auditor have commented on the lack of performance monitoring:

- SAO Report No. 94-114, *Better Planning and Coordination Are Needed Among Texas Economic Development Programs*, issued in April 1994, indicates that the Department of Commerce needs additional performance

measures which will reflect the outcome of economic development programs. The measures identified as needed are average wages and actual jobs created.

- SAO Report No. 94-080, *Financial and Compliance Audit Results*, also issued in April 1994, stated that the Department needs to improve its system for identifying all subrecipients who should submit audit reports and for ensuring resolution of all subrecipient audit findings within the required six-month period. The Department is responsible for \$227 million in federal funds which are administered by subrecipients.

This report also stated that the internal audit function should be strengthened, and the risk assessment process for the internal audit plan should be revised. This revision should include identifying the high-risk federal compliance requirements and automated systems. The internal audit function can assist in providing assurance on the effectiveness of the subrecipient monitoring system.

An effective subrecipient monitoring system reduces the likelihood of noncompliance with federal regulations.

Reliable performance monitoring and reporting is needed to convince state leaders that programs should be continued and funded at appropriate levels and to comply with federal regulations.

Recommendation:

The following information should be added to the quarterly reports to comply with the General Appropriations Act rider:

- the results of each business contact made
- the results of assistance provided to Texas communities

The results should be comprised of performance measures that gauge the effectiveness of the foreign office operations. The following measures are recommended:

- the number of jobs created from contacts made
- the average wages of jobs created
- the dollar amount of exports

A time lag between initiation and completion of some foreign office efforts may require the use of projected data for reporting purposes. For example, a foreign investor may decide to locate a manufacturing facility in Texas. A time lag of months or years may occur before the facility actually hires employees and begins operations. In this case, projected job creation and projected wages could be used to meet quarterly reporting requirements. A comparison between projected and actual data could be made to ensure the reasonable accuracy of projected data.

Management's Response:

The Texas Department of Commerce is in compliance with four of the five types of information required in Article V, Section 7-B. This rider requires the Department to report quarterly information from the foreign offices detailing the number of contacts with foreign and domestic businesses, the name of each business, the nature of the contact, and the direct results of each contact. Currently, aggregate results (sales, companies locating operations in Texas, etc.) are reported as part of the reporting process through the LBB, but not the direct results of each contact.

The results of each contact (business and community) will be included as part of the 4th quarter foreign office report for FY 94 and will continue to be a part of each of the subsequent foreign office reports.

In addition, the University of North Texas and their subcontractor, the Urban Institute, have contracted with the Texas Department of Commerce to conduct a study on measures. This study is in response to the Legislative Budget Board adding new measures to better gauge program effectiveness in creating actual jobs and the actual wages of those jobs.

***Foreign Office Performance monitoring.** A survey process can be utilized to follow assistance given to communities and on businesses having contact with foreign offices to determine results. The conversion time between contact/assistance and actual jobs created and export sales made is not predictable, thus lessening any accuracy of projected data. Commerce will implement a survey process in FY 95 to get results data in the interest of arriving at a cost/benefit analysis.*

Section 1-B:

Services Are Duplicated In The Mexico City Contracts

- a. Department contracts indicate that all 11 services provided by the foreign office director are identical to services provided by the public relations firm. The Department will pay about \$86,000 to the foreign office director and \$75,000 to a public relations firm for tourism promotions in Mexico.

Government Code, section 481.027, requires the Department to promote tourism in foreign countries. The promotional effort is carried out through foreign offices or public relations firms.

Recommendation:

The Department should select either the foreign office representative or the public relations firm to promote tourism in Mexico City. The elimination of duplication in services should result in about \$75,000 of annual savings.

- b. The Department has two contracts with obligations to pay \$38,090 for the same office space and maintenance for the Mexico City office. One contract requires the office director to pay the rental expense from his \$255,572 annual personal service account. Another contract requires a separate rental payment to Texas A&M University for the same office space. Although this has not caused duplicate rent/maintenance payments, the contracts need to be amended so they clearly reflect who will pay the rent/maintenance.

Recommendation:

The Department should amend the contracts to accurately reflect rent/maintenance obligation.

Management's Response:

We would agree that our Mexico City tourism director has similar duties to the public relations firm, however, each organization deals with different aspects of tourism media and marketing.

This is an initiative that has been found to be very effective due to the small staff at our Mexico City office. Initially, as defined in the agency's goals, the Tourism Division could not participate in funding Texas Department of Commerce foreign offices which led to their contractual agreement with the public relations firm in Mexico City. Upon our investigation of media firms in Mexico, it was discovered that most firms either handled strictly media or trade sales, and not both aspects of the market as we had hoped.

Our Mexico City tourism director's responsibilities include conducting sales calls to travel agencies and tour companies, coordinating educational seminars for travel agents, and handling responses to an average of 125 tourism phone inquiries per week. Thus, allowing our other Business Development staff to continue their work in bringing business investment opportunities to Texas without interruption.

Our public relations firm has dealt primarily with the all media aspects of the Mexico City office and generally does not respond to trade sales or tourist inquiries for information.

Both the Business Development Division and the Tourism Division of the Texas Department of Commerce recognized the duplication that can occur and we have been monitoring the performance of each initiative in order to determine whether to make the transition to the foreign office or redefine the public relations firms' scope of services for the next fiscal year.

Mexico City-Texas A&M contract. (First it needs to be clear that there has not been a duplication of payment on rental expense in Mexico City.) Early in the fiscal year, the former Director of International Business was trying to find a simpler process to

pay Texas A&M University. Funds were inadvertently budgeted in two separate contracts. This issue has been resolved and during FY 95 the Texas A&M contract will be paid from Austin.

Section 2:

Decentralized Data Processing Meets User Needs, But Systems Development Should Be More Efficient

The Department's divisions are generally satisfied with the automated information and feel they get the information needed to do their jobs. The Department has evolved into a decentralized data processing environment. Agency divisions have gained the benefits of end-user computing. Those benefits include greater control over their information resources and a reduction in time-consuming tasks.

The decentralization is partly due to the Department inheriting information systems with program transfers from other agencies. This has created a mixture of software and hardware that has presented a challenge for coordination. Another reason for decentralization is that the different program areas of the Department have very different information needs.

Each division is implementing automated systems independently, with a central data processing department which supports all divisions. Three separate Local Area Networks (LAN) are maintained, and a fourth is planned. The networks are divided along division lines.

Recommendation:

To be more efficient the Department should improve in the areas of planning, priority setting, and training.

Management's Response:

Over the past several months Data Services has aggressively pursued a move toward an open/client server environment. This new environment supports and enhances end user computing, yet maintains a centralized approach to information. Recently, the agency replaced the data General minicomputer with a DEC Alpha 2100, and installed a fourth local area network. This installation completes the long-range plan of having the agency on a common platform to share information and to eliminate redundant processes. The Alpha 2100 is connected to the two existing Avion 4600 systems. These UNIX-based systems and the four local area networks (Accounting, JTPA, Business Development and Administrative) make up Commerce's open systems network. The four local area networks are maintained by LAN Administrators with Data Services being the central manager of the network.

Section 2-A:

Information System Development Lacks Sufficient Planning And Priority Setting

The Department does not have a formal process for agency-wide planning for information resources. Each division makes decisions for information resources for their particular needs.

The Department does not have a steering committee for agency-wide planning for information resources. Also, the Department lacks a formal system for requesting data services support and prioritizing automation projects. There are no requirements for project justifications, such as needs analyses, feasibility studies, or cost-benefit analyses.

Planning and management tools, such as methodologies for system development or project management, have not been used in developing information systems.

Insufficient planning and coordination has resulted in the development of automated systems that were never fully implemented, duplicated other systems, or were used only a few months. Also, there are systems on individuals' personal computers that are not documented in a central list of applications.

Data services resources of at least \$36,000 were spent developing these underutilized systems. Without a formal agency-wide process for planning and coordinating information resources, there is little assurance that systems are the most cost-effective response to information needs. The Department runs the risk of just reacting to issues and spending resources on systems that do not meet the needs of the agency.

Recommendation:

The Department should develop an agency-wide system for planning, prioritizing, and controlling information systems. The planning process should include comparing division needs to each other, determining how information can improve effectiveness of services, and considering whether the value of various information is worth the cost of an information system.

Information system planning should include estimates of the project scope, benefits, time schedule, and budget. Organizing the project includes developing the project work plan, defining project standards, completing the project, and training the team.

In order to protect the investment in technology, the agency must develop processes to ensure that these resources are used efficiently and effectively. There must be assurances that information systems maintained by end-users are identified and controlled. The location, source, and most current version of all data should always be available. Backup and archiving procedures must also be established for all data and software.

Management's Response:

Currently, there is a Local Area Network Committee that meets twice a month. The purpose of the Committee is to share information regarding the planning and installation of the agency's local area networks, and to develop and implement standards for the network. The network administrator or representative is responsible for disseminating information to their respective division. The meetings have been extended to cover other automation topics common to all divisions. These meetings have been very effective.

We plan to continue using the Local Area Network meetings to address the information resource needs of the divisions, i.e. planning, prioritizing, and monitoring the development of systems. If conflicts occur, they will be addressed at the senior staff level.

Data Services will be responsible for developing and implementing a project work plan procedure, and for defining project standards. This will be accomplished by adopting a standard development methodology for the agency.

We are in the process of converting all old Cobal applications to Oracle. These shared applications will be on the Alpha 2100 System. The most current version of these applications will be available to the users. Backup and archive procedures are currently in place, however, they need to be updated to reflect the new environment.

Section 2-B:

Training Has Not Kept Up With The Department's Technology Changes

The technical training for Data Services has not kept up with the changes and additions to technology. The staff is not fully prepared to support divisions with varying software and hardware.

Training is essential with end-user computing to ensure staff acceptance and optimal use of new technology. Adequate training is required to provide assurance that both equipment and software is installed, operated, and maintained properly, protected from misuse and damage, physically secure, and supported by expert technical assistance. Without well-trained technicians for support, the divisions are at risk for service interruptions because Data Services may not have the skills to resolve system problems.

Recommendation:

The training needs for Data Services should be considered in developing agency planning needs and priorities. Specifically, more training is needed in areas such as local area network technology and personal computer application and hardware support.

Management's Response:

We concur with this recommendation. Data Services staff as well as other division automation support staff should stay abreast of technology.

Recently, two Data Services analysts attended training classes for the new Alpha 2100. Other classes are scheduled once the agency's move is completed. Currently, two individuals are in the process of being trained as certified network engineers.

Data Services has published PC hardware and software standards for the agency. These standards include software for the Macintosh and PC environment which they are trained to support. Any new software requiring technical support will have to be reviewed and approved by the Local Area Network Committee before it is installed. Training requirements in order to support the software will also be addressed at this time.

Section 2-C:

Incomplete Information Is Used To Distribute The Costs Of Data Services

The "maintenance log report" used to allocate data services costs no longer reflects an accurate estimate of service performed for each division. This is because the report only tracks activity on older systems and does not include the newer systems.

The "maintenance log report" does not reflect the amount of support that divisions receive from the data services support group. Without accurate information on which divisions are actually receiving support services, planning and budgeting may be inaccurate.

Recommendation:

In addition to the "maintenance log report" which tracks the older systems, the Department should use information in the "transaction report," which tracks activity on the newer systems. Data Services should also consider adding the number of inquiries for systems on these reports to calculate the use of automated systems.

Also, the "problem log" used to document troubleshooting by Data Services and help desk requests should be accurately maintained and considered in allocating data services costs.

Management's Response:

Upon completion of the agency's move to the Stephen F. Austin building, and the local area network project, divisions will be able to share and distribute information. Data Services is in the process of converting older applications and tracking systems

to Oracle. These systems are being migrated to the new Alpha 2100. During the conversion process enhancements are being made to these applications/systems to capture more useful information. Systems like the "maintenance log report" and the "transaction report" will be combined to track activity on all systems. Accounting applications will also be reviewed to aid in the reporting process.

Data Services has designed a Data Services Request form which will be used by all divisions when requesting any kind of development or assistance from Data Services. This form will capture all types of services rendered by Data Services in order to reflect a more accurate picture of the services performed for each division.

A report will be produced from the Data Services Request forms which will have a control number. The Local Area Network Committee platform will be used to review the report in terms of prioritizing, planning, and monitoring the agency's automation workload.

Section 3:

Enhancements In Human Resource Management Are Needed

Human resource management policies and procedures are well-documented and, with minor exceptions, are in compliance with state and federal laws and regulations. These policies and procedures set a good structure for managing the largest use of budgeted resources at the Department. The Department has about 300 employees and will spend approximately \$12.1 million (42 percent of the operating budget) on payroll and related costs.

Enhancements in the areas of recruitment, hiring, training, and other human resource controls will reduce the risk of the appearance of a subjective recruitment/hiring process and will promote a productive workforce.

Section 3-A:

The Recruitment And Hiring Process Needs To Be More Standardized

The recruitment and hiring process is handled extensively at the division director level, and the process varies from division to division. This can give the appearance of a subjective recruitment/hiring process.

Division directors or subordinates determine when a position is needed, write the job description, recommend the classification/salary group, evaluate the applicants, set the interview schedule and interview the applicants, and make the selection. Each director or subordinate is responsible for creating applicant ranking criteria and interview questions. For example, a quantitative ranking method was not used by all divisions. When each division is responsible for creating criteria, questions, and forms, there is a risk that applicants will be evaluated on different criteria.

While having the flexibility to evaluate and rank each applicant on the specifics of the individual job is important, there could be a more standardized format for ranking. The Department would be less at risk of appearing to have subjective practices if the Human Resources division staff reviewed the position criteria and scored the applicants on a standard form.

Recommendation:

A more standardized process should be developed for recruiting and hiring employees. The Human Resource division should be used more as a professional service to assist in recruiting/hiring rather than just to process papers. The Human Resource staff should review position criteria and score the applicants on a standard form. This process will lend more objectivity to the process and prevent the appearance of subjective practices.

Other suggestions for strengthening the recruitment/hiring process include:

- Completed application forms should be required from all applicants before being evaluated for a position. Resumes should not be used to evaluate the applicant because resumes sometimes contain information that refer to the applicant's race, religion, political affiliation, etc. This information should not be considered in evaluating the applicant.
- The Equal Employment Opportunity (EEO) data form should be separated from the application form before it is given to the applicant. By separating the forms, the Department avoids the appearance that this information is part of the application information. EEO data should not be used in evaluating the applicant.
- Consideration should be given to posting classified position salaries at a salary group range rather than limiting it to Step 1 of the range. This will give more flexibility in setting an appropriate salary.
- Phrases such as "provides oral and written interpretation," "communicates effectively, both verbally and in writing," and "should have good written and oral communication skills" used in job postings could be rewritten so they will not violate any Americans with Disabilities Act concerns about overly restrictive job qualifications.

Management's Response:

Recruitment - HR currently advertises positions by posting them at the Texas Employment Commission, by sending postings to various agencies and organizations, and very often by advertising in the newspaper. Other methods of recruitment include personal and mail contacts with profession-specific organizations. We feel these methods are effective and appropriate.

Hiring - We concur in the recommendation that the hiring process needs to be more standardized. We are substantially enhancing our procedures in order to conform to the majority of the recommendations. These changes will be effective September 1; the others will be effective within a month or two of that date.

- We agree that a more standardized process should be developed for hiring employees. The HR department is currently developing standardized guidelines for ranking applications and for ranking interviews.

- We agree that HR staff should screen all applications for minimum requirements before submitting them to supervisors. This is now being done consistently.

- We agree that complete application forms should be required from all applicants before being evaluated for a position. The current procedures require that all candidates submit completed application forms before being considered for a position. The principle document to be used for consideration will be the application. If a resume is included it will be considered as supplemental information only.

- The State Auditor's Office recommended that the EEO data form should be separated from the application before giving to the applicant to avoid the appearance that this information is a part of the application information. We feel that a better way to do this is to stamp each EEO form in red with the words "VOLUNTARY, NOT REQUIRED INFORMATION." This procedure has been put in place. Nevertheless, supervisors never see the EEO survey as it is separated from the application, filed separately and the information on it is not made available.

- We agree that consideration should be given to posting salaries at a Salary group range rather than limiting to Step 1 of the range. This is now being done on an individual basis. In some cases the agency cannot advertise at a range because of budgetary or organizational reasons. HR is currently posting positions using a salary range on a case by case basis.

- Phrasing on job postings regarding oral and written communication skills is currently being evaluated. Suggested terminology has been obtained from the Texas Commission on Human Rights and is being evaluated for possible use in the agency's postings.

Section 3-B:

Training Program Needs To Be Better Coordinated And Costs Monitored

Several weaknesses were observed in the training program:

- There is little coordination among the various training efforts, e.g., divisions provide training without notifying the Human Resources division for centralized training records.

- A system has not been established for monitoring the amount and type of training for each employee.
- Employee performance appraisal information is not used in determining agency training needs.
- Costs of external training are not monitored.

Strengthening the training program will help to ensure a skilled workforce. While training is important, it is also important to monitor the cost of training and to provide cost-effective training.

Recommendation:

The Department should develop an agency-wide training plan which considers training needs and the cost of training.

Management's Response:

We concur that the training program needs to be better coordinated. Planning efforts are currently under way to develop an agency-wide training plan which addresses training needs and corrects lack of coordination.

- The HR department currently does collect information regarding training provided to staff members. However, it is apparent that not all training is being captured. Efforts will be renewed to improve the collection of this information.

- We agree that our system for monitoring the amount and type of training for each employee could improve. We feel strongly that the various divisions have different training needs, and the various employees have different training needs. Currently, supervisors, managers and division directors are responsible for monitoring. Methodology and need for further increased monitoring are currently under consideration.

- Employee performance appraisal information is used by individual supervisors to determine training needs. In addition, HR has captured this information from the current performance evaluations and that information is being used to develop the next Fiscal Year's training plan.

- Costs of external training are monitored by the individual supervisors, managers and division directors. Methodology and need for further increased monitoring are currently under consideration.

Other Suggestions For Human Resource Management

Other opportunities for improvement were found in areas of employee performance appraisals, compensation/rewards, and employee relations.

Employee Performance Appraisals:

- Consider including customer service as a job dimension to be evaluated. Customer service is an important part of the Department's strategic plan and employee pledge; therefore, it seems appropriate to evaluate employees' performance in this area.
- Either improve or delete the communication job dimension used in employee evaluations. The examples, such as "demonstrates tact and diplomacy," are very subjective and difficult to measure. Examples should be more closely related to the specific job.
- Encourage supervisors to support ratings above or below a three with examples of work. Department policy states that supervisors are encouraged to do this, but it is rarely done.
- Consider if the current job dimensions used in evaluating employees are appropriate for all employees.

Compensation/Rewards:

- Compensatory time and holiday work time should be accounted for separately on leave reports. The State Auditor's Office contends that there is a greater responsibility of agencies to allow employees to take holiday compensatory time off than state compensatory time.
- Consider revising the wording for the policy on travel time outside the regular work hours to ensure compliance with the federal Fair Labor Standards Act (FLSA) regulations. FLSA regulations state that regardless of whether it is authorized or not, if a FLSA non-exempt employee travels outside of work time and not by public conveyance, they would need to be compensated.

Employee Relations:

- Change the policy that states "an employee who has accumulated overtime, compensatory time, or annual leave must use accumulated FLSA overtime leave first." If an employee requests to go on leave, the request can only be approved or denied based on work needs. The agency cannot require an employee to use a particular type of leave over another type.

- Reconsider the policy on granting administrative leave to RIFed (Reduction in Force) employees because it appears inequitable where some employees would receive administrative leave and some would have to use their compensatory time.
- Change the policy on taking compensatory leave before the effective date of resignation to read "accrued compensatory leave up to 10 days." The current policy states that "employees are entitled to utilize, and division directors should approve, ten working days of compensatory leave before the effective date of resignation." This could be interpreted to mean that an employee will be given administrative leave if they do not have 10 days of compensatory time.
- Develop a more formal process for obtaining reasons for employee termination data. The current process results in a large percentage of terminations being coded as "reasons unknown." This provides little information to analyze turnover rates.
- Reconsider the family and medical leave policy that states that "a husband and wife employed by the State of Texas are permitted only a combined total of 12 weeks of leave during any 12 month period if the leave is taken. . . ." for certain specific reasons. In practice, most agencies are only using this restriction for spouses employed within the agency, not the entire State.

The Department may also want to reconsider the portion of this policy which states that the Department "may deny job restoration to key employees." This term is used in the federal Family and Medical Leave Act (FMLA) if such denial is necessary to prevent substantial and grievous economic injury to the operations of the Department. Because of some concern over whether "key employees" should be defined as relevant to the entire State or individual agencies, most agencies do not have this restriction.

- Consider including a procedure in the human resource procedure manual on how to investigate a sexual harassment concern, and include a discussion on interviewing the accused employee.
- Consider including a policy that an employee who serves on a jury during a weekend or holiday is not entitled to state compensatory time, FLSA overtime, or holiday time for this service. This is an often asked question of the State Auditor's Office. This would provide the information for employees.

Management's Response:

Employee Performance Appraisals: The performance appraisal system was developed by a cross divisional team. The team was charged with developing a performance appraisal which addressed Total Quality Management principles. Input

on the system was solicited from all employees and that input was carefully used in refining the system. The agency has had a history of changing performance evaluation instruments on nearly a yearly basis, and this has caused problems in tracking performance. We feel a strong need to establish performance appraisal continuity for at least a few years. Therefore, the agency does not plan to revise the performance evaluation instrument this year.

- Consider including customer services as a job dimension to be evaluated. We feel that customer service is adequately addressed through other dimensions. The next time the performance appraisals are revised, consideration will be given to including customer service as a job dimension.

- Improve or delete the communication job dimension. The next time the performance appraisals are revised, consideration will be given to deleting and/or revising the communication job dimension.

- Encourage supervisors to support ratings above or below a three with examples of work. We concur with this recommendation. Through training on conducting performance appraisals, this will be addressed.

- Consider if the current job dimensions used in evaluating employees are appropriate for all employees. The performance evaluation instrument has provisions for ratings of "not applicable." We feel that this option ensures that the job dimensions are appropriate for all employees. Through supervisor training on conducting performance appraisals, the need to evaluate employees on skill levels appropriate for the position and classification will be addressed.

Compensation/Rewards:

- We concur that compensatory time and holiday work time should be accounted for separately on leave reports. The agency has recently converted to the new State Comptroller's USPS payroll system. Under that system, in the near future, compensatory time and holiday work time will be accounted for separately.

- We concur that the wording in our Personnel Policies needs revision on travel time outside the regular work hours to ensure compliance with the Fair Labor Standards Act (FLSA). The personnel policies have been revised to ensure that the wording for policy on travel time outside the regular work hours for FLSA employees in compliance with FLSA.

Employee Relations:

- We concur with the recommendation to change the policy that states "an employee who has accumulated overtime, compensatory time, or annual leave, must use accumulated FLSA overtime leave first." This policy was changed effective September 1, 1994.

- *The personnel policies have been revised to allow RIFed employees two weeks of administrative leave. RIFed employees will not be allowed to use accrued comp time after the RIF date.*
- *We concur with the recommendation regarding resigning employees and comp time. The personnel policies have been revised to clarify the policy on allowing resigning employees to utilize up to 10 days of accrued compensatory time before the effective date.*
- *We concur that a more formal policy should be put into effect for obtaining reasons for employee termination data. In cases of resignation, employees are now asked to choose an appropriate resignation termination code. In addition, separating employees are asked to fill out a confidential questionnaire concerning their reasons for leaving the agency.*
- *We concur with the recommendation regarding the Family Medical Leave Act regarding concurrent state employment for a husband and wife. The personnel policies on the Family Medical Leave Act have been revised to state that "a husband and wife employed by the agency (instead by the State of Texas) are permitted only a combined total of 12 weeks of leave during any 12 month period . . ."*
- *We concur with the recommendation regarding the Family Medical Leave Act and "key employees." The personnel policies on the Family Medical Leave Act have been revised to delete the portion regarding "key employees." For the purposes of our policy, there is now no stipulation for "key employees."*
- *We concur that there should be procedures for investigation of sexual harassment claims. Procedures for investigation of sexual harassment cases are in place in the Human Resources office. However, our General Counsel has advised against listing specific procedures in the office's procedure manual.*
- *We concur with the recommendation regarding jury duty on weekends and holidays. The personnel policies have been clarified to state that an employee who serves on a jury during a weekend or holiday is not entitled to state compensatory time, FLSA overtime, or holiday time for this service.*

Section 4:

Oversight Over Revenues And Expenditures Is Adequate, But Some Improvements Are Needed

The Department has provided oversight over revenues and expenditures which promotes the efficient use of funds. The Department's budget for fiscal year 1994 is \$256.5 million. This includes about \$227.8 million in federal pass-through grants. The remaining \$28.7 million is used for operating expenditures. Salaries and benefits of \$12.1 million are the largest operating expenditure and represent 42 percent of the

operating budget. Advertising expenditures of \$8.1 million are used for tourism promotion and represent 28 percent of the budget.

Section 4-A:

Operating Expenditures Have Remained Steady, But Some Should Be Closely Monitored

Total operating expenditures from fiscal year 1992 through 1994 have not changed significantly. Expenditures for fiscal year 1993 increased about 2 percent from fiscal year 1992. The operating budget for fiscal year 1994 projects a 4 percent *decrease* in total operating expenditures.

However, some expenditures have increased:

- Some professional service expenditures increased \$770,000, or 57 percent in fiscal year 1993. These expenditures include financial services, foreign office management, tourism research studies, and economic development studies.
- Travel expenditures increased \$119,000, or 19 percent in fiscal year 1993. These expenditures include in-state, out-of-state, and foreign travel. The travel purposes include training, business development, and conference attendance. The 1994 fiscal year budget projects a 4 percent increase over the 1993 fiscal year travel expenditures.

Recommendation:

The Department should review professional service and travel expenditures for opportunities to reduce costs. This will assist the Department in accomplishing goals within current budget limitations.

Management's Response:

The agency has in place a process to review operating expenditures on a monthly basis. At the beginning of each fiscal year an operating budget is adopted outlining projected expenditures by cost category. This budget is monitored monthly and a formal budget adjustment request is required for any deviation.

The increase in FY 93 professional fees were due primarily to costs incurred in setting up the bond program for the Texas Economic Development Program. All contracts for professional fees are reviewed by the division director, legal and accounting before submission to the executive office for signature. The necessity for reviewing contracts in light of reducing costs will be stressed at all levels of review.

Travel requests currently require a review by the division director before travel expenditures can be incurred. In addition for all out-of-state and foreign travel

requests a plan of work approved by their division director must be submitted to the executive director for approval prior to traveling. Again the opportunity to reduce costs will be stressed in reviewing travel requests.

Section 4-B:

Include Waiver Procedures In Texas Leverage Fund Program Guidelines

Program guidelines do not include procedures for granting eligibility waivers. Four of the five program participants tested received waivers because they did not meet program eligibility requirements. There were a total of eight participants in the program as of June 1994.

Eligibility requirements are necessary to assess the ability of applicants to repay the loan. By approving participants who do not meet these requirements, the risk of loan defaults could be increased. Program personnel have stated that the risk of loan defaults is not increased because applicants must have compensating factors which ensure loan repayment.

Waiver procedures are necessary to help ensure that waivers are only granted to applicants who possess the ability to repay the loan.

The Texas Leverage Fund program provides loans to eligible cities to fund economic development projects. The program is funded through the issuance of commercial paper to investors. The commercial paper proceeds received by the Department are then loaned to the cities. Loan repayment is made from city sales tax collections. A bank provides a letter of credit that guarantees the repayment of the commercial paper in the event of a default. The bank also determines some eligibility requirements and reviews applicants. As of June 1994, the Department has issued \$25 million in commercial paper out of the total \$300 million authorized.

Recommendation:

Since waivers have been used for four out of five loans reviewed (as of June 1994, eight loans have been approved since the inception of the program), procedures for granting waivers should be agreed upon with the bank and included in the program guidelines. All program guidelines should be reviewed, and any unnecessary requirements should be eliminated.

Management's Response:

Meetings have occurred recently with BankOne to determine the process to incorporate the waiver topics into the program guidelines and thereby reduce the number of waiver requests. The expectation is that this process will be completed quickly.

The TLF represents an agreement between BankOne and Commerce and a negotiated set of program guidelines. The Fund is a customer driven program designed as an innovative tool to provide communities a way to leverage local funds with state funds to be used to assist small business expansions, business recruitment, and export opportunities.

The guidelines allow the waiver of certain requirements to accommodate a particular customer's needs and situations which could not have been reasonably anticipated. Only projects which do not increase the risk of the portfolio are approved by BankOne. BankOne is ultimately at risk, not Commerce, to honor payments to bondholders.

Section 5:

Organization Structure Meets Current Needs

The Departmental organizational structure supports the accomplishment of goals and objectives through the four program areas: Work Force Development, Smart Jobs, Business Development, and Tourism. The administrative function is carried out through three support areas: Administration, Human Resources, Legal, and Public Information. (See Appendix 2.2 for the Organization Chart.)

Government Code, section 481.0831 requires the creation of an Office of Rural Affairs. The office was created in fiscal year 1994 and has been grouped within the Business Development Division. This alignment should allow the Department to assist rural communities and businesses through participation in the various business development programs.

Objective, Scope, and Methodology

Objective

Our audit objective was to evaluate selected management control systems at the Texas Department of Commerce and to identify strengths and opportunities for improvement. The audit evaluated the control systems in place as of June 1994.

The evaluation focused on answering the following questions:

- Do information systems provide internal and external customers with useful information and is the information managed efficiently?
- Is oversight over revenues and expenditures adequate to ensure the efficient use of funds?
- Has the Department grouped and assigned responsibility for functions and tasks in order to operate most efficiently?
- Do human resource policies and procedures promote a productive workforce?
- Is the foreign office performance monitoring system providing useful information?

Scope

The scope of this audit included consideration of the Department's management information systems, financial controls, performance monitoring and evaluation, organizational structure, and human resource management.

Consideration of the management information systems included a review of:

- Local Area Network planning and implementation
- Systems development methodology
- Customer satisfaction

Consideration of the financial control systems included a review of :

- Controls over the Texas Leverage Fund Program
- Controls over revenues and expenditures
- Controls over contract monitoring

Consideration of the performance monitoring and evaluation system included a review of:

- Foreign office performance monitoring and evaluation systems
- Compliance with General Appropriations Act requirements for foreign offices

Consideration of the organizational structure included a review of:

- Current organizational structure's ability to produce expected services
- Creation of the Office of Rural Affairs
- Current reporting relationships and span of control

Consideration of human resource management included a review of :

- Documentation of personnel actions
- Recruitment, hiring, training, performance evaluation, and compensation policies and procedures

Methodology

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

Information collected to accomplish our objectives included the following:

- Interviews with Department management and staff
- Documentary evidence such as:
 - State statutes and regulations
 - Various management reports
 - Foreign office quarterly reports
 - Performance measurement reports
 - Departmental policies and procedures manuals, documents, memoranda, and publications
 - Current Strategic Plan for the Department of Commerce
 - Fiscal Year 1993-1994 Legislative Appropriations Request
 - Third party information on foreign offices and Texas Leverage Fund

Procedures and tests conducted:

- Texas Leverage Fund participant eligibility
- Accuracy of various fees paid
- Compliance with various state statutes
- Examination of selected expenditure vouchers
- Validity of applicant interview questions and ranking criteria
- Internal user satisfaction with information systems

Analysis techniques used:

- Control review
- Trend analysis

- Process flowcharting and review
- Fluctuation analysis

Criteria used:

- Service Efforts and Accomplishments report by the Governmental Accounting Standards Board (GASB) on performance measures
- Management Information System standards issued by the Department of Information Resources
- Principles for organizational design issued by the Association of Management Organization Design
- Information on human resource management issued by the American Compensation Association, American Society for Training and Development, International Personnel Management Association, and the Society for Human Resource Management
- Fiscal Year 1993 General Appropriations Act
- Texas Government Code, Section 481

Fieldwork was conducted from March 1, 1994, through June 15, 1994. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

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

- Leslie Ashton, CPA (Project Manager)
- Clint Loeser, CPA
- Brenda Winkler, CQA
- Kelli Dan, PHR, CCP
- Randy Townsend, CPA (Audit Manager)
- Deborah Kerr, Ph.D. (Director)

Agency Profile

The Department of Commerce was established by the 70th Legislature in 1987 with the enactment of Chapter 481 of the Texas Government Code. The mission of the Department is to serve customers by building strategic partnerships that create economic opportunity and prosperity for all Texans. The Department's responsibilities include the following:

- attracting new businesses and encouraging the growth of existing businesses
- improving the economic prosperity of Texas communities
- promoting Texas as a travel destination
- improving the skill level of the Texas workforce

These responsibilities are carried out through the Work Force Development Division, Business Development Division, Tourism Division, and Central Administration Division. A description of these divisions follows.

Work Force Development Division

The Work Force Development Division is responsible for developing a quality work force in Texas by improving job skills. The Division's primary focus is the administration of the federally funded Job Training Partnership Act (JTPA) program. JTPA programs provide participants with skills assessment, training, and job search assistance. Participating businesses receive reimbursement of training costs for JTPA-eligible employees. Other programs include the Smart Jobs Plan, Texas Literacy Council, Quality Work Force Planning, and the Work Force Incentive Program.

Business Development Division

The Business Development Division is responsible for programs that improve the economic prosperity of the State and create new jobs. These programs include Texas Marketplace, Quality Texas, Business Finance, International Marketing, and Community Assistance.

Texas Marketplace is a small business assistance network available to any business or government entity. Texas Marketplace consists of a referral system and an electronic bulletin board. The referral system provides new and existing businesses with information on such topics as financing, business plan development, and business start-up services. The bulletin board offers access to trade leads, seminar calendars, vendor listings, and state procurement opportunities.

Quality Texas provides businesses and organizations with information and seminars that focus on Total Quality Management (TQM) concepts. The seminars introduce basic TQM concepts and their relationship to the growth of the Texas economy. Corporate training departments provide the instructional staff.

The Business Finance office offers financial and technical assistance to Texas businesses and governmental entities. Loans, loan guarantees, and grants are provided primarily to small, historically underutilized businesses, or rural businesses. The financial assistance is used for start-up costs, working capital, infrastructure, and real estate purchases.

Business Finance programs include the following:

Exporters Loan Guarantee Program - This program assists businesses entering the export market. Loan guarantees of up to \$350,000 are offered.

Texas Leverage Fund - The fund provides loans to cities for economic development projects. The fund is capitalized with \$25 million of commercial paper issued to institutional investors. Loan repayment is made from city sales tax collections.

Texas Capital Fund (TCF) Small and Minority Business Loan Program - This program provides loans up to \$100,000 to small or minority businesses.

TCF Loan Program - Provides loans of up to \$500,000 to businesses that are able to obtain some, but not all, financing needs from other sources.

TCF Infrastructure Grant Program - Provides grants of up to \$800,000 to improve water/wastewater facilities, public roads, natural gas line service, electric power service, and railroad spurs.

TCF Real Estate Development Program - Provides up to \$500,000 for eligible cities and counties to acquire, construct, improve, or renovate real estate.

TCF Small Business Incubator Program - Provides up to \$500,000 for eligible cities and counties to acquire, construct, improve, or renovate real estate for incubator development.

Rural Economic Development Loan Guarantee Program - Provides loan guarantees of up to \$350,000 for start-up and existing businesses in rural areas.

International Marketing programs promote Texas exports and foreign investment in Texas through coordination with foreign offices located in Mexico City, Taipei, Tokyo, and Frankfurt. The foreign offices develop international contacts, trade leads, and business opportunities for Texas companies. Financial and technical assistance is provided to technology-based companies to enhance export opportunities.

Community Assistance programs seek to provide a link between businesses and communities in order to increase capital investment and new jobs. The Texas Enterprise Zone program offers tax reductions, regulatory relief, and low-interest

loans to businesses located in areas of economic distress. Other efforts focus on industry development and recruitment, economic diversification, and rural community strategic planning.

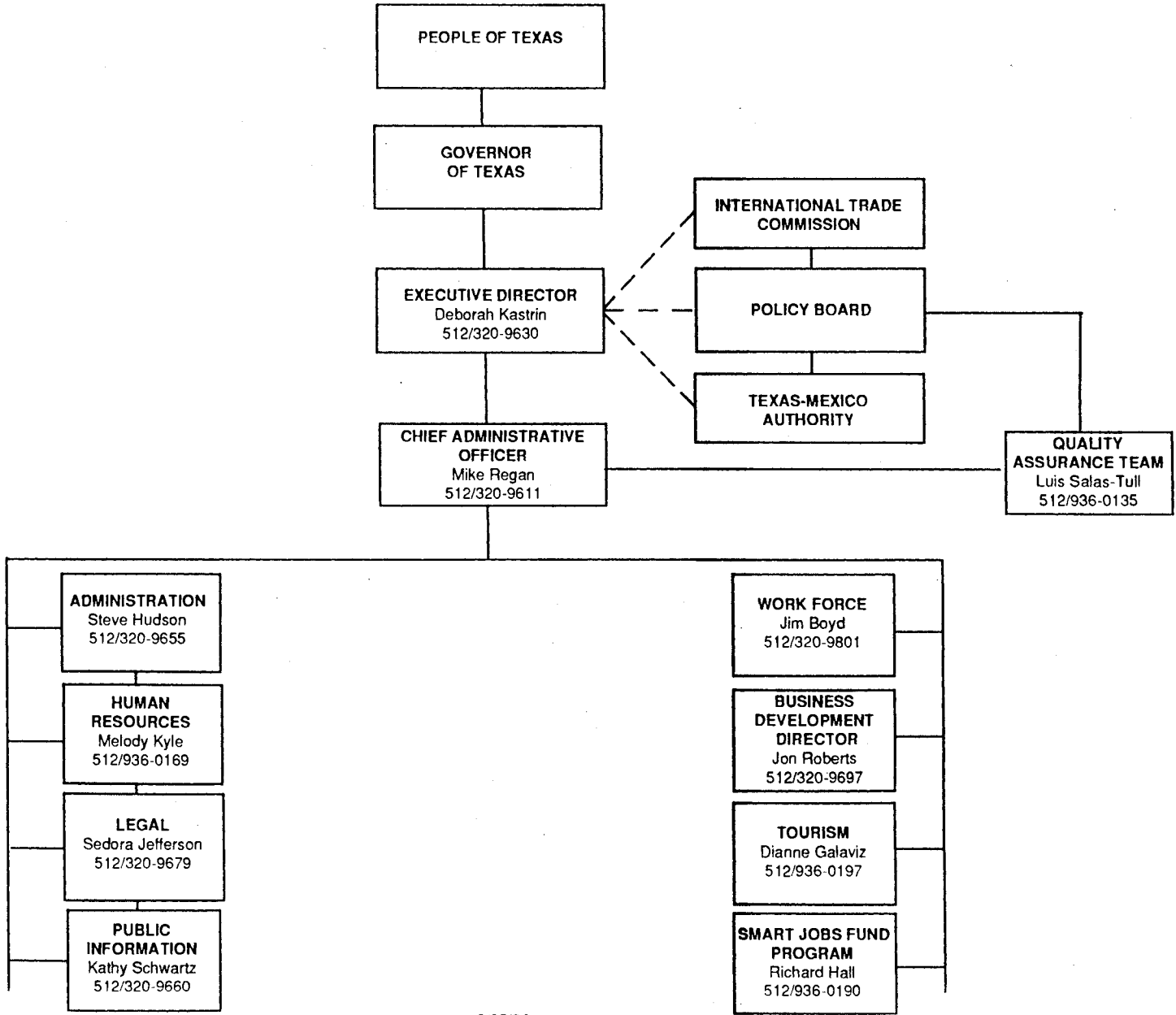
Tourism Division

The Tourism Division is responsible for promoting Texas as a destination for domestic and international travelers. The promotional effort includes coordination with travel trade professionals, media relations, advertising, and research. Travel trade professionals include major air carriers, hotels, and travel agents. Relationships are maintained with print, broadcast, and photographic media. A private advertising firm is under contract to develop the primary advertising theme of "Texas. It's Like a Whole Other Country." Travel research is carried out through both division staff and private contractors.

Central Administration Division

The Central Administration Division provides support services to the operating divisions. Support services include legal services, quality assurance, personnel services, data processing services, fiscal services, and governmental relations, research, and strategic planning services.

Appendix 2.2:
Organization Chart



8/25/94

Copies of this report have been distributed to the following:

Legislative Audit Committee

Honorable James E. "Pete" Laney, Speaker of the House, Chair
Honorable Bob Bullock, Lieutenant Governor, Vice Chair
Senator John Montford, Chair, Senate Finance Committee
Senator Kenneth Armbrister, Chair, Senate State Affairs Committee
Representative Robert Junell, Chair, House Appropriations Committee
Representative Tom Craddick, Chair, House Ways and Means Committee

Governor of Texas

Honorable Ann W. Richards

Legislative Budget Board

Sunset Advisory Commission

Texas Department of Commerce Policy Board

Mr. Kenneth Carlile, Chair
Mr. Gerald Grinstein, Vice Chair
Mr. Vernon E. Faulconer, Secretary
Mr. J. David Bamberger
Mr. Tom C. Frost
Mr. Murphy George
Ms. Renee Higginbotham-Brooks
Ms. Sonia Perez
Mr. J. Jorge Verduzco

Texas Department of Commerce

Ms. Deborah Kastrin, Executive Director
Mr. Luis Salas-Tull, Manager, Quality Assurance Division