

February 22, 1995

Ms. Deborah C. Kastrin
Executive Director
Texas Department of Commerce
Stephen F. Austin State Office Building
1700 North Congress, Suite 100
Austin , Texas 78711

Dear Ms. Kastrin:

The Department of Commerce has established systems to ensure compliance with requirements for the *Job Training Partnership Act* (\$212 million) and bonds outstanding (\$99 million). The systems are generally working. However, the Department did not comply with a new federal regulation which requires that state agencies minimize the amount of time federal funds are held. Additionally, a disaster recovery plan for automated systems has not been developed, which increases the risk of delays in recovering information should a disaster occur. The Department is continuing to improve operations by addressing prior audit issues.

The attached findings and Department responses will appear in the *1994 Financial and Compliance Audit Results* report. This report contains the audit results of all agencies and universities we visited during the statewide financial and compliance audit.

When this report is published in May 1995, copies will be distributed to the board chairperson and chief executive officer for each agency included. Additional copies can be obtained from Production Services at 479-4700.

A copy of this letter has been sent to each board member. If you have any questions, please call me at 479-4700.

Sincerely,

Ed Dorotik, CPA
Project Manager

ELD:ggh

cc: Luis Salas-Tull, CPA, Internal Audit

Key Points of Report

Texas Department of Commerce 1994 Statewide Financial and Compliance Audit

February 1995

Overall Conclusion

The Department has established systems to ensure compliance with requirements for the Job Training Partnership Act (\$212 million) and bonds outstanding (\$99 million), and the systems are generally working.

Key Facts And Findings

The Department did not comply with a new federal regulation which requires that state agencies minimize the amount of time federal funds are held.

The Department has not developed a disaster recovery plan for its automated systems, which increases the risk of delays in recovering information should a disaster occur.

Management is continuing to improve operations by addressing prior audit issues:

- It has resolved prior recommendations for obtaining and reviewing audit reports of other agencies helping administer its federal programs.
- The Department is also resolving prior year recommendations for strengthening internal audit coverage. It has increased oversight and support of the internal audit function. However, since changes were made close to year-end, few internal audit reports were issued during fiscal year 1994. We will continue to monitor the Department's progress in future audits.
- The Department is also developing policies and procedures for its automated systems. It has developed a security and risk management manual, and it is beginning to develop standard procedures for its computer networks. We will continue to monitor the Department's progress in future audits.

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Related Audit Report

We issued a report in October 1993, titled *A Review of Management Controls at the Texas Department of Commerce* (SAO Report No. 94-013). The report contains recommendations which could impact the *Job Training Partnership Act*, administered by the U.S. Department of Labor.

Federal Compliance Issue

The Department's most significant federal program, the Job Training Partnership Act (CFDA 17.246 and 17.250), is administered by the U.S. Department of Labor. Recommendations addressed in other sections of this report could impact controls over this program.

Comply With Federal Cash Management Funding Technique Requirements

The Department did not comply with a federal cash management funding technique requirement for the Job Training Partnership Act Program (CFDA 17.250). The Department had excess federal funds on hand for 7 of 20 state working days tested. The State incurs an interest liability for each day the Department holds federal funds.

Five of the seven days of noncompliance were due to the Department not having adequate procedures in place to minimize cash requests and prevent excess federal funds on hand. During the five days of noncompliance, the funds were on hand for four to five days rather than the three days required by federal regulation. The remaining two days of noncompliance were due to interagency transfers.

Title 31 Code of Federal Regulations (CFR), part 205.7 (c)(4) states that federal funds shall not be requested more than three business days prior to disbursement.

During fiscal year 1994, the Department reviewed and revised its cash management procedures to comply with the new regulation. However, the procedures need further revision in order for the Department to comply with the requirements.

Recommendation: We recommend the Department comply with federal cash management funding technique requirements by revising current procedures. In addition, the Department should continue its efforts to resolve cash management issues relating to interagency transfers.

Management's Response: *At the beginning of FY 1994, Commerce reviewed and revised its cash management procedures to comply with the new regulations. In spite of these revisions, situations occurred which we did not anticipate. Commerce will continue to improve its cash management procedures to ensure that we are in full compliance with the requirement that cash be disbursed within three days of request of funds. Commerce currently waits for notification from the State Treasury that the Department of Labor's wire transfer of funds has been received before releasing*

transactions for data entry and submission to the Comptroller. In order to expedite the process, Commerce will release the transactions before notification from the State Treasury. If problems with the wire transfer occur, this change in procedure will cause transactions to go into error status due to insufficient funds in the State Treasury.

Commerce processed all interagency transfers of pass through funds according to the Comptroller's Accounting Policy Statement 14. Accounting Policy Statement 14 requires that federal pass through transactions between agencies be entered in the statewide accounting system by the Comptroller as central entry documents. Due to the requirement for central entry, Commerce has experienced delays of up to several weeks in processing these transactions. Without some type of modification by the Comptroller to the procedure for central entry, Commerce cannot disburse these funds within the required three days. Concerns about the delay in processing central entry documents have been communicated to the Comptroller. The Department will continue to work with the Comptroller to resolve processing delays relating to interagency transfers.

Internal Control Issue

Develop Disaster Recovery Plan for Automated Data

(Prior Audit Issue)

The Department does not have a disaster recovery plan for its current processing environment, which increases the risk of delays in recovering information should a disaster occur. Risks to information processing and the steps necessary to resume processing after a disaster have not been identified. Automated systems have not been prioritized, and no provisions exist for processing at another location.

In our fiscal year 1992 report, we recommended that the Department establish a centralized data processing division and develop formal policies and procedures addressing critical automated functions such as planning, security, and disaster recovery. In our fiscal year 1993 report, we commented that management planned to address this issue by implementing a local area network.

The Department has made progress in addressing the recommendations. It now has several networks. The network administrators are meeting frequently, and the Department plans to develop procedures to address common issues. A manual addressing security and risk management has also been developed; however, it does not contain a disaster recovery plan.

Recommendation: We recommend that the Department develop a written disaster recovery plan which covers the current processing environment and includes types of risks, priority for recovering data, and provisions for processing at another location.

Management's Response: Within the past several months the Department of Commerce has changed its automation environment and physical location. The agency replaced the Data General minicomputer with a DEC Alpha 2100, installed a fourth local area network, and changed the Internet provider. This transition took place as the agency was in the process of relocating its operation to two separate locations. The new automated environment completes the long-range plan of having the agency on a common platform to share information and to eliminate redundant processes. We concur that in light of the many changes, both in terms of physical location and automated equipment, all former documentation needs to be reviewed and updated to reflect the new environment. This includes the disaster recovery plan, the development of policy and procedures for the local area networks, and an update of the system backup and archive procedures. Also the risk management manual needs to be updated.

These issues will be addressed as soon as Data Services relocates to permanent facilities. A local area network policy and procedure manual will be published, a disaster recovery plan will be developed, a data services request form will be finalized, the procedures for system backups and archives will be updated, and the risk management manual will be reviewed to comply with the Department of Information Resources mandates.

Audit Scope

- The Department's *Job Training Partnership Act Program*, with expenditures of \$212 million, was the primary focus of this audit. This federal program is the State's principal job training and employment program.
- In addition, we tested bond-related disclosures in the annual financial report and verified compliance with significant bond covenants. The Department had one bond issue outstanding at August 31, 1994, totaling \$99 million.
- We gained an understanding of the overall control environment and the administrative controls relevant to the federal program and significant bond covenants. We performed procedures to determine whether the Department complied with established requirements for its federal program. We also followed up on prior audit issues.