

Key Points of Report

An Audit Report on Management Controls at the Texas Workers' Compensation Commission

February 1998

Overall Conclusion

The Commission has management control systems in place which provide some assurance that the \$42.2 million in appropriations is used efficiently and effectively. However, ongoing, high-level attention is required to correct weaknesses noted with human resources practices and management information systems. Improvements are also needed to Ombudsman Program functions and the Commission's organizational structure.

Key Facts and Findings

- Executive management does not provide sufficient oversight for human resource management. Other levels of management do not consistently monitor and enforce compliance with human resource policies and procedures.

As of August 31, 1997, there were 1,120 full-time employees employed by the Commission. Salary- and payroll-related costs totaled \$38.8 million, representing 78 percent of the Commission's total expenditures. Lack of attention and adherence to human resource management controls can affect employee productivity and morale, and can increase legal costs.

- Risks exist for the Commission's management information systems (MIS). The Commission's eight-year old mainframe computer is nearing full capacity and has high operating costs and slow response times. Our follow-up of issues from SAO Report No. 92-046 (*A Review of Management Controls Guiding Implementation of the Workers' Compensation Act*, February 1992) indicates that some policies and procedures for MIS have not been finalized or implemented. Current plans do not provide constituents and employees with a clear and common understanding of the technical direction in which the Commission is headed. A comprehensive data management process for collecting, storing, retrieving, and archiving data does not exist. The Commission has taken steps to address some of these issues.

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Executive Summary

The Texas Workers' Compensation Commission (Commission) has management control systems in place which provide some assurance that appropriations totaling \$42.2 million are used efficiently and effectively. However, the Commission's human resource management practices and management information systems contain weaknesses that require ongoing, high-level attention to correct. Additionally, improvements are needed to the Ombudsman Program and the Commission's organizational structure.

The Commission has met many challenges since it replaced the former Industrial Accident Board in April 1990. It implemented new programs and developed an organizational and operational framework for administering the 1989 Texas Workers' Compensation Act. Additionally, the Commission developed the Annual International Workers' Compensation Foundation Educational Conference for all parties to the workers' compensation system, which draws more than 600 attendees each year.

Improving Human Resource Management Practices Should Be a Priority for the Commission

Executive management does not provide sufficient oversight for human resource management. As of August 31, 1997, there were 1,120 full time employees. Salary- and payroll-related cost totaled \$38.8 million, representing 78 percent of the Commission's total expenditures. Our review of human resource activities found the following conditions:

- Inadequate controls over the leave accounting system

- Uncorrected errors due to the payroll system conversion
- Untimely employee performance evaluations and job description reviews
- Inconsistent application of compensatory time and overtime policies
- Inadequate evaluation of training

Executive management should become more involved with planning, implementing, enforcing, and evaluating human resource controls.

Risks Exist for the Commission's Management Information Systems

The Commission's eight-year old mainframe computer is nearing full capacity and has high operating costs and slow response times. It is estimated that the mainframe can only support capacity until June 1998. High turnover and adequate staffing have also been challenges for the Management Information Systems Division.

The Commission has taken steps to address some of the issues. For instance, the Commission is negotiating with a new vendor for mainframe services at the West Texas Disaster Recovery Center in San Angelo. The new vendor has agreed to perform the services required for a cost within the appropriated amount.

The Commission is also beginning several major projects aimed at modernizing its basic hardware configuration. Appropriations for these projects amount to \$6.4 million.

Recommendations made five years ago (*A Review of Management Controls Guiding Implementation of the Workers' Compensation Act*, SAO Report No. 92-046, February 1992)

Executive Summary

that relate to establishing and formalizing certain policies and procedures have not been implemented. Long-term plans for information technology are not clear in terms of what the Commission intends to do with COMPASS, the largest and oldest software system on the Commission's mainframe. Additionally, the Commission lacks a comprehensive data management process for collecting, storing, retrieving, and archiving data.

The Overall Management of the Ombudsman Program Needs Improvement

The Ombudsman Program is meeting its objectives, which are to:

- Review the claimants' disputed issues.
- Give an overview of the dispute resolution process.
- Discuss workers' compensation statutes, rules, and appeals panel decisions.

However, overall management of the Ombudsman Program could be improved. For example, Ombudsman Program workload data is not used by management to make resource allocation decisions and ombudsman training is not adequately monitored or documented.

The Commission's Current Organizational Structure Does Not Promote Efficient Performance of all Necessary Functions

The Commission's flat organizational structure is inefficient for its size and complexity. The large span of control has increased the number of operating plans, cross-functional teams, standards, and rules. Because of organizational demands, the Executive Director cannot, with any

efficiency, interact with constituents and the six-member governing board, or focus on relevant environmental factors. The Commission's governing board recognized and expressed concern about the span-of-control issue. On June 5, 1997, the board sent a letter to the Governor's office requesting approval to establish three Deputy Executive Director positions.

Summary of Management's Responses

We concur with almost all of the recommendations and view them as a well thought out road map for implementing management controls to keep us moving forward. We have initiated corrective measures, or expanded work in progress, to ensure we maximize the benefits of your review. We will continue to track all actions through completion and keep your office informed of our progress.

In addition to requested responses, Commission management provided clarification for some audit issues and estimated completion dates for improvements. See the full text of Management's Responses beginning on page 41.

Summary of Audit Objective and Scope

The objective of this audit was to evaluate the existing management control systems within the Texas Workers' Compensation Commission and identify both strengths and opportunities for improvement. The scope of the audit included consideration of the Commission's organizational structure, its policy management process, its management of human resources and information resources, the Ombudsman Program, and use of HUB vendors.

Improving Human Resource Management Practices Should Be a Priority for the Commission

Accountability for effective human resource management lies ultimately with executive management, not with the Commission's Human Resource and Staff Development Department. Upper management's attitude toward human resource activities sets the tone for effective human resource management at all levels in the organization. Lack of attention and adherence to human resource management controls can affect employee productivity and morale as well as the Commission's legal liability.

Our review of the Commission's human resource activities found the following conditions:

- Executive management does not provide sufficient oversight of human resource management.
- Management at various levels does not consistently monitor and enforce compliance with human resource policies and procedures.
- The Commission's Human Resource and Staff Development Department is not operating at its full potential.

Ongoing and high-level attention to human resource management is critical to safeguard the ability of the Commission to accomplish its mission. Executive management's attention to planning for human resource needs, its implementation and enforcement of adequate human resource controls, and its evaluation of results are needed to improve human resource management practices at the Commission.

Recommendation: Executive management should provide sufficient oversight of human resource management and ensure that managers, supervisors, and employees have a clear understanding of human resource policies and procedures.

Management's Response: *Concur. Executive management has initiated action that will provide effective oversight to human resource management. Human Resources staff have been directed to ensure that all human resource policies and procedures are clearly written and made available to all Commission employees. Additionally, key indicators involving Human Resource areas are being presented to the Executive Director at one of the regular weekly director's meetings each month. These presentations provide the forum for the Executive Director to review program status with senior*

management staff and to provide necessary guidance and direction to ensure that the programs are, and remain, on track.

Section 1-A:

Controls Over the Commission's Leave Accounting System Are Inadequate

The Commission employs an exception-type leave accounting system, meaning employees only report leave taken and compensation or overtime earned. Such a system depends on employee honesty, proper supervision by management, and enforcement of policies and procedures. Our review of the Commission's Leave Accounting System noted the following weaknesses:

- Some employees are not complying with Commission procedures in regards to timely submission of leave requests. For example, we noted forms submitted in August 1997 for leave taken October 1996 and in April and May of 1997.

Slow submission of leave forms creates problems for the Leave Accounting function, which must recalculate an employee's leave balance. In some cases, an adjustment to the employee's current pay must be made because the leave taken exceeds the employee's leave balance, resulting in an overpayment of wages.

- Division directors are not notified when noncompliance occurs except in cases when pay is impacted and an adjustment (supplemental pay action) must be processed. Without proper notification, management cannot take corrective action and counsel employees.
- Data entry of leave forms and the calculation of state compensatory and FLSA (Fair Labor Standards Act) overtime is not reviewed by supervisory personnel. We noted several instances where leave was recorded incorrectly and errors were made in the calculation of state compensatory and FLSA overtime.
- Policies and procedures are not in place to ensure leave forms are submitted to and received by the Leave Accounting function. A review of 20 employee leave records and other documentation identified six employees who took 152 hours of leave during the period of September 1, 1996, through December 31, 1996. However, Leave Accounting had no record that leave forms were submitted for the hours taken.

This resulted in leave balances for these employees to be overstated by 152 hours. A compensating control would be employees monitoring their leave balances. However, an employee who benefits from an error may have little incentive for reporting the error.

Recommendation: To ensure proper authorization and accurate reporting of time:

- The Commission should assign accountability for ongoing monitoring and enforcement of policies and procedures related to timekeeping and leave balances. Directors should be notified by the Human Resource and Staff Development Division of all violations so that corrective action can be taken.
- Procedures should be established and implemented to require a supervisory review of data entry of leave forms and calculation of state compensatory and FLSA overtime.

The Commission should also consider implementing an agencywide timekeeping system for tracking employee hours worked and leave taken.¹ A timekeeping system can provide useful information to management for planning and decision-making.

Management's Response:

Concur. A new leave accounting system has been developed. The new system utilizes positive accounting and will include verifications and controls. Supervisory review of leave reports provided by Leave Accounting will be incorporated into procedures. The new system will be piloted for two months in two divisions beginning the first quarter of this year. Needed modifications will be made and new system targeted to be completely implemented by May, 1998.

The Commission will continue to have a single agency-wide time accounting system, however, several divisions currently utilize individualized time keeping instruments where it is required to track time allocated for project management and where necessary for revenue generation. Given the implementation of the above positive leave accounting system with attendant monitoring and controls, it would not be necessary to require additional time keeping systems for all divisions.

¹ Recommended by the State Auditor in February 1992 (SAO Report No. 92-046)

Section 1-B:

Errors Caused During Conversion to New Payroll System Have Not Been Corrected

Errors caused during the Commission's conversion to a new payroll system have not been corrected. In December 1996, the Commission transferred employee information located in the Department of Information Resource's Payroll System to the Comptroller's Uniform State Payroll/Personnel System (USPS). The conversion caused errors that affected the rate of overtime and compensatory time that could be earned by employees who are not exempt from FLSA.

Errors occurred because USPS was programmed to automatically convert all FLSA non-exempt employees to an exempt status. After conversion, the Commission was required to manually override and correct the FLSA exempt status for those employees who should be non-exempt.

A quality control review was started by the Commission to identify and correct the errors in USPS, but the review was not completed. Only 2 of the 11 divisions have had their employee information reviewed and errors corrected since the conversion. Until all the information maintained in USPS is reviewed and corrected, FLSA non-exempt employees who should be earning state compensatory time or FLSA overtime will be short-changed.

Recommendation: The Commission should complete the quality control review and make corrections to USPS information. Employee Time Summary Reports for FLSA nonexempt employees should be reviewed to identify compensation or overtime earned since the conversion. Employee leave records should then be adjusted to properly reflect the amount of compensation or overtime earned by the employee.

Management's Response:

Concur. Human Resources is currently completing a review of all Commission Functional Job Descriptions to ensure that each employee is correctly classified with regard to FLSA status in the USPS system. The review is approximately 50% complete, including those reviews and corrections that were initiated prior to the audit. Leave Accounting will make any appropriate adjustments to leave balances.

Section 1-C:

The Commission Should Ensure Employee Performance Evaluations Are Timely and Functional Job Descriptions Are Reviewed

As of September 17, 1997, performance evaluations and functional job description reviews for 305 (27.2 percent) employees were past due six months or more. Eighty of the 305 evaluations were past due one year or more. One division accounted for 224 (73.4 percent) of the total past-due evaluations.

Commission policy requires that:

- Employees be evaluated annually and new hires be evaluated at the end of six months.
- Supervisors and managers review and update functional job descriptions at least annually. Reviews normally take place at the time performance evaluations are being prepared.

Monthly, a Performance Review Overdue Report is sent to the Executive and Division Directors notifying them of evaluations that are due or late. The report, however, was not distributed for six months because the employee responsible for the report resigned. A lack of documented report procedures and cross-trained staff to perform the task contributed to the delay.

If functional job descriptions are not maintained and updated, employees may not understand the specific responsibilities of their positions and may not be evaluated accordingly.

Recommendation: The Executive Director should ensure that all past-due evaluations are completed in accordance with Commission policy by monitoring the Performance Review Overdue Report. Directors, managers, and supervisors should be held accountable for not completing employee evaluations on time.

Management's Response:

Concur. Division Directors have been instructed to ensure that evaluations are accomplished for employees who have overdue performance evaluations. The Executive Director has initiated monthly reviews with division directors to ensure the program remains on track. The percentage of overdue reports has been reduced significantly and will continue to be reduced as a result of this directive and more timely reporting by Human Resources regarding overdue evaluations. Directors, managers, and supervisors will be held accountable for performing evaluations in a timely manner.

Recommendation: The Commission should ensure that all functional job descriptions are up-to-date, accurate, and communicated to employees in a timely manner.

Management's Response: *Concur. Human Resources is developing instructions for properly verifying FJDs and completing physical requirements. Human Resources will continue to provide to supervisors the most current FJDs with signature boxes to use for verification when submitting personnel requisitions and when developing performance standards.*

Recommendation: The Human Resource and Staff Development Division should cross-train its employees to ensure human resource functions are performed and to minimize the impact turnover may have on its daily operations.

Management's Response: *Concur. Human Resources Management is developing a training plan for all Human Resources personnel to ensure that all areas of operation are adequately covered in the event of unforeseen employee turnover.*

Section 1-D:

Improvements Are Needed to the Commission's Grievance Process and to Its Personnel Files

Our review of the Commission's grievance process and personnel files noted the following conditions:

- In fiscal year 1996, the Commission went from having one Grievance Administrator to a pool of managers designated as Grievance Administrators. Managers receive no formal training on Employment Law and Commission policies and have other priorities, preventing them from devoting the appropriate amount of time needed to properly investigate a grievance.
- Executive management oversight and procedural guidelines for the grievance process are lacking. The Commission did not begin compiling data on grievances, discrimination complaints, and disciplinary actions until fiscal year 1997. The process used to compile the data is informal and a database to collect the information has not been developed. Because data from prior years is not centrally collected, management's ability to identify trends, risk, inconsistencies, and training needs is limited.

- The Commission is not in compliance with federal laws² that require confidential information to be maintained separately from the employees' main personnel file. The Commission maintains one personnel file for each employee, and in the files we observed confidential information.³ If confidential information is not maintained separately, the Commission could be at risk of breaching employee confidentiality and potential lawsuits.

According to the Texas Commission on Human Rights (TCHR), an employer must be able to show job-relatedness and a legitimate business necessity for keeping confidential information in employee personnel files. In the event of an investigation by TCHR or the U.S. Equal Employment Opportunity Commission, the burden of proof is on the employer to demonstrate that such information was not used in making employment decisions.

Recommendation: The Commission should reconsider having a full-time Grievance Administrator who is well trained in Employment Law and Commission policies. Clearly defined guidelines and definitions and formalized standard actions for each offense should be developed.

Management's Response:

Concur In Part. A task force has been formed to evaluate the current Grievance Administration Process, including the reconsideration of a full time Grievance Administrator, and to make recommendations for improvement. In the interim, Human Resources has developed and implemented a training plan for all Grievance Administrators. Written investigation procedures and guidelines are being developed.

Ad hoc Grievance Administrators afford Commission management flexibility and the opportunity for fresh perspectives in complaint/grievance resolution. Commission management also views Grievance Administrator duty as valuable training for its managers in investigation, interviewing, and conflict resolution techniques.

The Commission disagrees with the recommendation to define guidelines and definitions and to develop formalized standard actions for each offense. The Commission evaluates all complaints, grievances, and actions on a case-by-case basis and

² Equal Employment Opportunity Act and the Americans with Disabilities Act (ADA)

³ Information regarding gender, race, age, marital status, veteran status, physical features, child support orders, and bankruptcy orders.

determines the appropriate action based upon the merits. The Commission considers that a formalized list of standard actions for offenses could potentially jeopardize its status as an "at will" employer. Human Resources and General Counsel play an active review role in order to assure that all actions and decisions are objective, measurable, job related, and consistently applied.

Recommendation: To effectively monitor the grievance process, management should determine its information needs and design and develop a database to capture data on grievances, discrimination complaints, and disciplinary actions. Management should also develop a plan that includes procedures on how the data will be extracted, analyzed, and distributed.

Management's Response: *Concur. The Commission has begun development of a database to capture all relevant data regarding complaints and grievances. The Commission also has begun development of procedures for analysis and appropriate dissemination of grievance and complaint data.*

Recommendation: To be in compliance with applicable laws and good human resource practices, the Commission should remove all confidential information from the personnel files. This information should be filed in a separate confidential file established for each employee with access restricted.

Management's Response: *Concur. A separate filing system has been created to contain information that documents age, race, sex, veteran's status, bankruptcy information, child support information, etc. Approximately 50% of the personnel files have been audited and such information removed to the new restricted filing system.*

Section 1-E:

Commission Policy Regarding Compensatory Time and Overtime Is Inconsistently Applied

The Commission's policy regarding overtime is applied inconsistently by divisions, causing employee confusion and dissatisfaction. For example:

- Some divisions believe employees in FLSA-exempt positions are not allowed to earn state compensatory time, while other divisions allow all positions to earn state compensatory time.

- One division expects its senior staff members to work overtime without compensation. However, on some occasions the senior staff members are allowed to take unrecorded time off.

Recommendation: The Commission should examine and consider revising its policy regarding overtime to eliminate confusion and inconsistent application. The Commission would be in violation of federal law if any FLSA non-exempt employee is not receiving earned FLSA overtime or state compensatory time.

Management's Response: *Concur in part. The Commission has clear policies regarding overtime and compensatory time for non-exempt FLSA employees, as stated in the Human Resources Manual. The Commission also has policies regarding compensatory time for FLSA exempt employees. The Commission will develop and implement improved guidelines and enforcement to ensure consistency of application.*

Section 1-F:

The Commission Should Measure, Monitor, and Evaluate Training to Ensure Efficient and Effective Personnel Development

The Commission needs to improve its human resource management controls in the area of training:

- **The Commission does not have a training plan in place to guide its training and development activities.** Agencies should have both short-term and long-range training and development plans with clearly stated objectives and a direct relationship to the agency's mission, goals, and strategic direction.⁴

The training plan should incorporate specific, measurable goals against which the Commission can measure its success at meeting its training objectives. The Commission does track several workload measures. However, none of these measures assess the Commission's success at meeting its training objectives.

The Commission has drafted a preliminary strategic training plan. However, the plan is incomplete, does not include measurable goals, and has not been approved. Progress has been delayed on developing the plan since September 1996. Without a strategic training plan in place, it is difficult for participants

⁴ Texas State Auditor's Office Methodology Manual

in the training and development process to understand the process's relationship to the Commission's mission, goals, and values.

- **The Commission does not have an effective, consistent system in place to measure the knowledge and skills employees gain from training and development.** Currently, Staff Development requests students to complete in-class evaluation forms, the results of which are averaged and reported to management in Staff Development's monthly status report. However, other groups offering training within the Commission do not solicit and report evaluations from students.

Staff Development also tracks several output measures. While these indicators are useful, they do not measure the extent to which training and development has met desired objectives.

Performance measures should link to the goals and objectives in the Commission's strategic training plan. The measures should enable the Commission's managers and others to evaluate attainment of the stated goals and objectives. The focus should be on measures that present a basic view of effectiveness, productivity, and efficiency of the Commission's training and development activities.

- **The Commission does not track continuing education credits required by certain professional staff members' job descriptions.** Additionally, course catalogues published by Staff Development do not show whether continuing education credits are available for the classes being offered. If Staff Development does not maintain records documenting continuing education credits, proving compliance with federal or state training requirements for certain jobs may be difficult.
- **Training and development activities at the Commission are significantly decentralized.** For example, the Staff Development and the Automation Training Group (part of the Management Information Systems [MIS] Division) offer classes and other development activities that benefit all Commission employees. Other divisions offer specialized training just to their respective employees. Additionally, employees are allowed to participate in external training activities, but coordination with Staff Development is not required.

Without taking steps to ensure that training is coordinated between separate departments and divisions, the Commission cannot ensure efficient and effective use of development resources. Training groups should coordinate the assessment of training needs to identify and design effective training courses and determine whether existing courses continue to meet the needs of the Commission. When possible, divisions and departments should share development and presentation resources.

Decentralization makes it difficult to determine the extent or total cost of training activities. This may account for why the Commission has not analyzed its training-related costs. Without measuring and reviewing costs associated with its training program, the Commission cannot determine the program's overall efficiency and effectiveness. A system should exist to capture all major cost elements of training for a realistic cost analysis. Typical cost elements include, but are not limited to:

- Employee salaries to prepare and present courses to other employees
- Outsourced course development and presentation
- Overhead costs for training development and presentation (rent, equipment, cost of materials)
- Course fees and course materials
- Travel cost associated with training

The Commission recently designed an employee evaluation process to gather information regarding unmet training needs; however, there is no process in place for communicating identified training needs to Staff Development.

Recommendation: The Commission should develop a long-range training and development plan linked to the Commission's strategy. In addition, the Commission should develop annual short-term plans that tie into the long-range plan. These strategic training plans should encompass all training and development activities the Commission provides to its employees, including training provided by Staff Development, the Automation Training Group, and by individual divisions.

Management's Response: *Concur. The Commission will complete the draft agency strategic training plan, including goals and the annual training plan, for review and comment by the end of January 1998. Once implemented, the plan will be maintained, reviewed and revised annually.*

Recommendation: The Commission should establish a system to measure training and development results. The system could include a combination of in-class evaluation forms, knowledge tests, performance appraisals, surveys, and interviews. The Commission should apply this measurement system to all of its training activities,

including those offered by Staff Development, the Automation Training Group, and individual divisions.

In addition, the Commission should develop outcome measures that measure the extent to which training and development has met desired objectives. These outcome measures should link to the strategic training plan and enable management and others to evaluate attainment of stated goals and objectives.

Management's Response:

Concur. The Commission will implement the provisions of the Commission strategic training plan that establish the training results tracking system. The system will include point-of-delivery, knowledge tests, skill demonstrations, performance reviews, and follow-up participant and supervisor surveys and interviews. The Commission system will require all in-house training to conform to the tracking system.

Concur. The Commission will establish a system to measure the extent to which Staff Development stated performance objectives are met. The system will identify appropriate milestones in the Commission strategic plan and relate those milestones to the Commission strategic training plan. Staff Development will make monthly reports on progress toward meeting strategic training goals.

Recommendation:

The Commission should enhance its method of tracking internal and external training and development provided to employees by including tracking of continuing education credits needed by staff professionals. Course catalogues should also show which classes qualify for continuing education credit and the amount of credit that can be earned if attended. Having this information in the catalogue could possibly reduce external training expenditures.

Management's Response:

Concur. The Commission employees are involved in several professional specialties. It has been the Commission's policy that continuing professional education (CPE) requirements are an individual professional responsibility. Policies will be formalized and disseminated to identify and advise employees whose positions require professional certification of their responsibilities to provide certification information to Staff Development to be included in the tracking system. It is also Commission policy to provide CPE credit, if authorized, when job training is provided to employees. Courses that have been approved for CPEs will be identified in the course catalog.

Recommendation: Planning, developing, and delivering training activities should be coordinated to ensure efficient and effective use of development resources. A process should also be developed for communicating identified training needs to Staff Development.

Management's Response: *Concur. The Commission strategic training plan includes provisions for coordinating division training and tying all Commission training activities together. The Commission will eliminate the administrative separation between internal and external training. Staff Development will coordinate and track all external and internal training provided by the Commission. The Performance Planning and Development System (PPDS) is designed to provide ongoing information to Staff Development on staff member training needs. Additionally, the division training plans and the training effectiveness tracking system will identify training needs.*

Recommendation: The Commission should collect and analyze the cost of agencywide training activities. Staff Development may want to contact the State Agency Coordinating Committee (SACC) Training Directors for assistance in developing a plan to analyze training cost.

Management's Response: *Concur. When the Commission strategic training plan is implemented, Staff Development will collect information on all Commission training. This information will be published monthly in the Staff Development Commission training activity report. The activity report will include categories for the number of staff-days-of-training for the current month and a running total for the year. The Standard Cost Model will be applied to all the Commission training. The quotient from the Standard Cost Model and staff-days-of-training will be used to make monthly and yearly cost comparisons.*

Section 2:

Risks Exist for the Commission's Management Information Systems

The success of the Commission hinges on its management information systems (MIS) and management's ability to use these systems. Hurried management decisions and lack of policies and procedures in the early years of operation has put the MIS Division at risk of not meeting management and user needs. The following issues could impact the Commission's mission if not adequately addressed:

- The Commission's eight-year old mainframe computer is nearing full capacity, and has high operating costs and slow response times. It is estimated that the mainframe can only support capacity until June 1998.
- Inadequate technical documentation for the Commission's largest computer system (COMPASS) may hinder the contract programmers' abilities to implement the year 2000 changes.
- Policies and procedures needed to establish an effective MIS internal control system have not been formalized and implemented.
- Retention, turnover, and difficulties in recruiting and hiring staff with the necessary skills and competencies has been a challenge for the MIS Division. The MIS Division's turnover rate for fiscal years 1995 and 1996 was 29 percent and 27 percent, respectively. The state turnover rate for automation positions in fiscal year 1996 was 23.47 percent. Attracting and retaining experienced programmers is difficult when using old technology.
- Funding was not approved for the client/server pilot.
- Fourteen programmers, hired outside the MIS Division, are not required to follow standards for programming, documentation, and security.
- New system development is constrained by the need to maintain compatibility and connectivity with the old architecture.

The Commission is taking steps to address some of the issues. For instance:

- The Commission is negotiating with a new vendor for mainframe services at the West Texas Disaster Recovery Center in San Angelo. The new vendor has agreed to perform the services required for a cost within the appropriated amount.
- The Commission is also beginning several major projects aimed at modernizing the its basic hardware configuration. Appropriations for the projects amount to \$6.4 million.

However, in our follow-up of prior audit issues, we noted that policies and procedures needed to establish an effective internal control system for MIS have not been formalized or implemented, and data problems continue to exist at the Commission. We also identified opportunities for improvement in areas of planning and data management.

The Commission Has Not Completed Establishing a Basic Foundation of Internal Controls for Information Resources

Management/Quality Improvement Projects

- Implementation of System Design Development Methodology and Project Management Methodology
- Evaluate New Application Development Technology
- MIS Quality Assurance
- Security Program Development and Implementation
- Operations Reliability
- Reorganization/Re-engineering
- Human Resources Acquisition and Utilization
- Information Resources Library
- PC Application Standards

The Commission has not formalized and implemented all policies and procedures needed to establish an effective internal control system for information resources.⁵

There are some formal processes, but there is also a variety of informal and piece-meal policies and procedures. The June 1997 MIS Monthly Report listed nine projects that would establish internal controls. As of September 1997 these projects had not been completed. (See text box at left.)

Lack of an adequate internal control system has resulted in poorly designed code, inefficient programs, and costly maintenance for the Commission. For instance, the

Commission's claim processing system (COMPASS) was implemented without adequate controls.

The notable effects include:

- **Insufficient Edits, Poor Form Design, and Reporting Constraints** - To overcome these weaknesses, the Commission is forced to duplicate and rebuild the database five times per year to produce data that can be used by management.
- **A Lack of Technical Documentation** - This may hinder the contract programmers' ability to implement the year 2000 changes and may hinder the correction of programs. Lack of documentation impacts training provided to new programmers and increases maintenance time and cost.
- **Inefficient Programming** - This has increased the processing time for many programs. For example, we noted:
 - 190 program executions (jobs) are taking over three hours each to process
 - 46 of the 190 jobs are taking over ten hours each to process

⁵ This issue was first identified by the State Auditor's Office in February 1992 (SAO Report No. 92-046).

Some efforts have been made by the Commission to correct data errors and to draft policies and procedures. However, we noted:

- Programming projects currently underway (Automated Docketing, Supplemental Benefit SIB, and Select Alternate Treating Doctor) are not using a systems design and development methodology. There is no assurance that the projects will incorporate sound programming standards or adequate technical design, development, testing, and documentation.
- Security policies are needed for personal computers and networks. The project to review, update, and complete security policies and to develop procedures for access violation reporting has been stalled because of lack of priority and resources. With the implementation of networks to field offices, access monitoring will be even more critical as more people use the computing resources.
- Removal of backup tapes to off-site storage is not timely. A weekend disaster at the computer center could result in the loss of current data, because Friday backup tapes are not removed until Monday.

Factors we believe may be impacting the Commission's ability to establish a basic foundation of internal controls include:

- Recommendations made by MIS Quality Assurance such as improvements to the Business Process Guide and the establishment of a time estimating process for system development have not been implemented.
- Some MIS policies and procedures have not been formalized or implemented.
- Quality Assurance, Systems Programming, and Internal Audit are hindered in addressing their key responsibilities because of assignments to special projects, teams, and required attendance to multiple meetings. There are 30 quality improvement projects, 8 programming projects, 9 committees, and 9 Business Process Teams that require staff attendance.
- Twelve programmer apprentices were recently hired. This effort may fill some of the vacancies for the short-term, but overall turnover may take its toll on the apprentices. The effects of the turnover situation results in difficulties in meeting the application maintenance and development needs of the Commission.

Recommendation: Completion of all management/quality improvement projects (specifically the System Design Development and Project Management Methodology project) and implementation of standards that will form a basic foundation of internal controls for

management information systems should be a priority for the Commission.

Management's Response:

Concur. The MIS division has modified the existing project that addresses the revision of the System Development Life Cycle (SDLC) and project management methodology using input from the auditor. The MIS division is committed to placing a higher priority on all management/quality improvement projects. The MIS QA analysts have taken the IEEE 1074-1995 SDLC standard and cross-footed all known procedures that are a part of the SDLC. This will facilitate the process of bringing the SDLC into compliance with industry standards.

Recommendation:

Executive management should review the process used for approving and implementing recommendations made by MIS Quality Assurance. As part of the review, executive management should consider reviewing the roles and responsibilities of the Workers' Compensation Information Planning Team (WCIPT).

Management's Response:

Concur. The role and responsibilities of the WCIPT, including the process used for approving and implementing MIS Quality Assurance recommendations, will be reviewed by Executive management.

Recommendation:

The role of Quality Assurance should be formalized and communicated to all Commission divisions. Quality Assurance should also be involved in design and development activities. Quality Assurance recommendations should be implemented, or it should be documented for executive management why the recommendations were not considered.

Management's Response:

Concur. Following a review of the role of the MIS Quality Assurance, the results will be communicated to all Commission divisions. The Commission agrees with the recommendation and will support the efforts and recommendations made by the MIS QA analysts or document reasons for not implementing the recommendations.

Recommendation:

Training should be provided to WCIPT that would update it on standards and technological advancements in system development.

Management's Response: *Concur. Based on the SAO preliminary findings, the WCIPT began using in-house training materials available from the MIS Resource Center to supplement our technical knowledge base in November 1997. This will be an extensive, long-term training effort to increase the technical skills of the WCIPT members. Additional training offered by state agencies, such as DIR, will be utilized to the greatest extent possible. This item will be incorporated into the strategic training plan.*

Recommendation: MIS policies and procedures in draft form should be formalized and implemented.

Management's Response: *Concur. The MIS division will review, formalize, and implement draft policies and procedures.*

Recommendation: The Resource Management Team should give priority to resolving audit findings and should monitor and work to reduce the number of teams, committees, and meetings.

Management's Response: *Concur. Resolving the audit findings is a high priority with the Commission. The MIS division will continue to monitor the requirement for teams and committees to optimize MIS resources.*

Recommendation: Security policies and procedures for personal computers and networks should be completed and implemented before the Commission completes its hardware upgrade.

Management's Response: *Concur. The Commission will review and formalize its policies on PC and local area network security before the Commission completes its hardware upgrade.*

Recommendation: Standards should be selected, developed, and implemented for programming, personal computers, and the network. Programmers hired by the divisions should also be subject to standards for programming, documentation, and security.

Management's Response: *Concur. As the SDLC is completed, these standards will be enforced for all Commission programmers. The Commission has established a PC Software Standardization Team to standardize*

all PC software. These software standards are being implemented as the new machines are upgraded.

Recommendation: More timely transfers of backup tapes to off-site storage should be made.

Management's Response: *Concur. The Commission has moved the full backups of its data from Saturday to Thursday night. This has allowed the Commission to have the tapes removed off-site on Friday.*

Recommendation: The Business Process Guide should be integrated with the System Design and Development Methodology. Automating the steps in the methodology would enhance timeliness and reduce paperwork.

Management's Response: *Concur. The BPDG will be updated to include additional QA suggestions, as appropriate, and any "lessons learned" to assist in system development. The updated BPDG will be integrated with the SDDM currently being developed by MIS. We will automate the steps in the methodology to speed up the documentation and development process, and reduce unnecessary paperwork.*

Section 2-B:

Commission Plans for Information Technology Could Be Improved

Long-term plans for information technology are not clear in terms of what the Commission intends to do with COMPASS, the largest and oldest software system on the Commission's mainframe. COMPASS continues to contain insufficient edits and poor form design,⁶ and it does not effectively or efficiently meet user needs.

COMPASS is mentioned in various planning documents, but the information is somewhat conflicting and incomplete. For example:

- In the Commission's Information Resources Strategic Plan, submitted to the Department of Information Resources on January 1, 1997, there is mention of extending the functionality of COMPASS and ongoing enhancements. Yet, the MIS Master Project Plan for fiscal years 1997-1999 (not dated) refers to a client/server pilot project as the initial step in the migration from COMPASS to a new replacement system.

⁶ This issue was first identified by the State Auditor's Office in February 1992 (SAO Report No. 92-046).

- The client/server pilot project does not mention what is to be transitioned. Plans for extending the functionality of COMPASS do not explain how, when, where, or what basic hardware configuration will be used.
- Short-term additions and enhancements that added functions to COMPASS were scheduled.

Ideally, long-term plans should be based on information needs. Hardware should then be selected that will support the software that meets agency information needs. The Commission's plans, however, are more hardware-oriented and contain initiatives mainly for hardware upgrades, expansions, and replacements.

Plans for information technology should:

- Maintain a strategic technology direction.
- Keep current with industry development.
- Employ selected technologies needed to reach long-term objectives.
- Be used to formulate plans for staff development.

Additionally, plans should be able to provide constituents and employees with a clear and common understanding of the technical direction in which the Commission is headed.

Recommendation: Until COMPASS is replaced or its functionality substantially improved, the Commission should ensure that all data problems identified have been corrected. The Commission should also implement a technical architecture planning process before steps are taken to develop a new information system. Such a process would:

- Create and maintain a standards-based architecture.
- Provide critical links to the reengineered business and realigned information resources.
- Help stage the migration from existing systems.

Under this architectural planning scenario, application developers, information managers, and technology designers help build the information technology infrastructure needed for the Commission's computing environment.

Management's Response: *Concur in part. The Commission will create and maintain a standards based architecture using "The Architecture Framework for Information Resources Management" from DIR. Data*

information requirements will be incorporated in any system redesign initiative. Additional actions are addressed in the response under 2C.

Recommendation: The Commission should obtain the Department of Information Resources guide, *The Architecture Framework for Information Resource Management*, which provides the guidance needed to govern changing technology.

Management's Response: *Concur. The Commission obtained "The Architecture Framework for Information Resources Management" from DIR in December of 1997.*

Section 2-C:

Costs Could Be Reduced With an Effective Data Management Process

In its early years of operation, the Commission failed to develop and implement a comprehensive data management process for collecting, storing, retrieving, and archiving data. As a result, the Commission now has an information system (COMPASS) that is large, complex, and inefficient. For example:

- Five times per year the Workers' Compensation Information Analysis Section uses approximately 150 programs to clean up and modify COMPASS data. This clean-up is required because COMPASS lacks adequate form design, edits, and the ability to aggregate data.
- In *A Proof of Coverage Feasibility Study*, problems were reported with data accuracy, reports, and accessibility to information. The study also identified data that was collected unnecessarily.
- Divisions have hired their own programmers and analysts to design programs for extracting data from COMPASS to meet their reporting needs. There are 14 programmers and systems analysts employed in user divisions.

An effective data management process could result in significant cost reductions for the Commission in areas of programming, data entry, and data processing.

The Commission has made some effort to analyze and evaluate data, forms, and archival procedures. These efforts have resulted in the drafting of a policy for form review and revision, feasibility studies, and a proposal for data element analysis. However, much work is still needed to address all data issues.

Recommendation: We encourage the Commission to continue in its efforts to evaluate and improve the data it collects and the mechanisms used to collect the data. Continued efforts should include a review of all data elements and forms in comparison to Commission information needs. We recommend that the Commission take a comprehensive approach to data management and in doing so consider the following:

- The creation and ongoing maintenance of a data model for the workers' compensation environment
- Giving priority to data problems that impact levels of service and quality of information
- Establishment of a cycle plan for performing, evaluating, and reporting on the data management process

Management's Response: *Concur. The Commission will continue its efforts to evaluate and improve the data it collects and the mechanisms used to collect the data. The WCIPT has begun efforts to review the data elements and forms needed for Commission information. The Commission will initiate an evaluation of the creation and maintenance of a data model for the Workers' compensation environment. The commission will also evaluate establishing a cycle plan for performing, evaluating, and reporting on the data management process. This will be done in conjunction with the data model.*

Recommendation: A data analysis should proceed any software system development. Data analysis also should be considered prior to the Commission making decisions on system redesigns, enhancements, or replacements.

Management's Response: *Concur. The revised version of the SDLC will incorporate data analysis prior to any software systems development. A joint project has been initiated by the MIS division and the WCIPT to analyze the data elements needed for future system redesign and system enhancements.*

The Overall Management of the Ombudsman Program Needs Improvement

The Ombudsman Program (Program) is achieving its objectives to review the claimants' disputed issues; give an overview of the dispute resolution process; and discuss workers' compensation statutes, rules, and appeals panel decisions. However, improvements are needed to the Program.

Section 3-A:

Data Does Not Confirm Full Compliance With the Texas Labor Code

Data extracted from the Commission's Dispute Resolution Proceeding System (DRPS) indicates that for hearings conducted, preparation meetings were not documented for:

The Ombudsman Program was created in 1991 to help protect the rights of injured workers (claimants) in claim disputes. The Commission significantly expanded ombudsmen's responsibilities in 1993, allowing them to assist unrepresented employers, employees, or beneficiaries who request assistance. In fiscal year 1997 there were 54 field office ombudsmen and 5 ombudsmen assigned to the central office.

Ombudsmen may provide information, assist in the preparation and presentation of facts, investigate complaints, and attend dispute resolution proceedings. In the House Business and Industry Committee report dated March 26, 1997, dispute resolution proceedings totaled 30,570 for fiscal year 1996. Ombudsman assistance was provided at 16,507 (54 percent) of these proceedings.

- 2,765 (14.7 percent) claimants in fiscal year 1996
- 1,853 (14.2 percent) claimants in the first ten months of fiscal year 1997

The Texas Labor Code, Section 409.041,(b)(5) requires an ombudsman to meet with an unrepresented claimant privately for a minimum of 15 minutes prior to any informal or formal hearing. The ombudsman is to review the claimant's disputed issues; give an overview of the dispute resolution process; and discuss workers' compensation statutes, rules, and appeals panel decisions.

We identified several factors we believe may contribute to inefficiencies in the documentation process for meetings conducted by the ombudsmen:

- Ombudsmen must enter meetings with claimants into two systems: the DRPS and the Dispute Resolution Contact Data (DRCD) system. Ombudsmen may be meeting with claimants, but time constraints and high workloads may be preventing the ombudsmen from entering the information into both systems.
- Claimant data is not monitored by management to ensure assistance meetings are held and documented. Data from the DRPS could be used to identify field or satellite offices who are not conducting or recording meetings.

- While the *Ombudsman Procedures Manual* contains references to the minimum required meeting and its documentation, it does not clearly delineate the specific mechanics of the meeting or documentation.

Recommendation: Management should monitor claimant data to identify which field or satellite offices are not holding or recording assistance meetings and initiate corrective action.

Management's Response: *Concur. Existing management reports will be enhanced to allow both the Ombudsman Services Section and the appropriate field office managers to monitor and track the actions performed by the assigned Ombudsmen. The new automated docketing system will have one screen for the Ombudsmen to use to document preparation appointments and the information regarding the appointments. This screen will update the other applications to help ensure compliance and ease of use. Timely and accurately updating all preparation appointments will also be included as a specific requirement on performance evaluations (PPDS) for Ombudsmen. Further, Quality Services will include a review of the proceedings that do not show any Ombudsman assistance for further monitoring purposes.*

Recommendation: The *Ombudsman Procedures Manual* should be updated to include a policies and procedures for holding and documenting the required minimum meeting.

Management's Response: *Concur. The Ombudsman Procedures Manual will be updated to include specific instructions on these issues.*

Section 3-B:

Ombudsman Workload Data Was Not Used in Determining the Allocation of Four Additional Ombudsmen

Ombudsman workload data was not used by management in determining which field offices would receive an additional ombudsman. Instead, criteria used to allocate the four new positions included available office space, accessibility to an airport, and docketing schedules for Benefit Review and Hearing Officers. Based on our analysis, three of the four ombudsman positions were assigned to field offices that did not have high workloads. (See Table 1.)

Table 1

Field Offices Allocated an Additional Ombudsman

Field Office	Average Monthly Workload (as computed by auditors)
Tyler	76
Dallas	44
Houston East	43
El Paso	42

Our analysis of field office workload reports covering a 22-month period (September 1, 1995, to June 30, 1997) shows the average workload for one ombudsman to be 50 assistance meetings per month. Twelve field offices (see Appendix 4) currently exceed the monthly average workload, yet only one (Tyler) was allocated an additional ombudsman.

Management stated that accessibility to an airport was a factor because a decision had been made to designate three of the four positions as traveling instead of permanently placing an ombudsman at field offices with high workloads. However, this decision was not supported by a cost-benefit analysis, and the impact to the traveling budget was also not considered. A cost-benefit analysis would determine if it was more feasible to have three ombudsmen travel full time versus permanent placement at field offices with high workloads.

Recommendation: Ombudsman workload data should be part of the criteria used by management when determining the allocation of additional ombudsman resources. A cost-benefit analysis should be conducted to determine if it is more feasible to have three ombudsmen travel and assist field offices with high workloads versus permanent placement at those locations. The impact to the Employee/Employer Field Service Division budget should also be considered.

Management's Response: *Concur. Workload data and cost/benefit considerations will be included in determinations regarding placement of staff positions in the field and satellite offices. With the addition of the new reports from the automated system, this type of analysis will be able to be performed giving the appropriate weight to the various types of assistance provided for the various types of proceedings. Further, the Commission will perform interim reviews to determine whether or not the current staffing levels of the various offices are appropriate given the impact on the Divisional budget.*

Section 3-C:

Ombudsman Workload Reports Do Not Provide Sufficient Information to Management

Management of the Employee/Employer Field Services Division uses quarterly workload reports to monitor the number of ombudsman assistance meetings conducted at each field office. These reports have not been modified to include assistance meetings coded by an ombudsman as an "015." For the period September 1, 1995, to June 30, 1997, assistance meetings coded as an "015" totaled 4,712 (14.8 percent of total claimant meetings).

Ombudsmen are required by the Texas Labor Code, Section 409.041 to meet with unrepresented claimants for a minimum of 15 minutes prior to a hearing. Ombudsmen normally contact claimants to schedule assistance meetings in advance of the informal or formal hearing. These meetings on average can take one hour to complete.

If the claimant did not meet with an ombudsman prior to the proceeding, the benefit review officer or the contested case hearing officer will recess the hearing to allow for the private meeting. These assistance meetings are coded in the DRCD as an "015."

In order for management to adequately monitor workloads and ensure compliance with the Texas Labor Code, all assistance meetings conducted by ombudsmen should be included in workload reports.

Additionally, we noted that the ombudsman workload reports do not delineate between satellite and field offices. For example, the Harlingen field office and McAllen satellite office workloads for ombudsmen are combined in the report. Combined workloads limit management's ability to properly plan for additional resources that may be needed at locations experiencing an increased demand for services.

The Hearings Division does segregate its data by location. For the period September 1, 1995, through June 30, 1997, we were able to determine that 2,500 hearings were held in the Harlingen/McAllen area with 64 percent (1,588) conducted at the McAllen satellite office.

Recommendation: Workload reports should include all assistance meetings conducted by ombudsmen. Workload reports should also delineate between satellite and field offices in order to provide management with sufficient information to determine appropriate staffing levels.

Management's Response: *Concur. While current workload measures contain some of this information, new workload reports will be developed with the automated docketing system to include all assistance meetings conducted by ombudsmen. Workload reports will be designed to provide information based on the actions of the individual*

Ombudsmen, effectively reporting performance actions regardless of proceeding location. These requirements have already been included in the specifications for the automated docketing program. The information in these management reports will provide sufficient data to help determine appropriate staffing levels and performance actions.

Section 3-D:

The Time Frame for Completion of Training Phases and Attainment of Adjuster's License Has Not Been Enforced

In 1995, the Texas Sunset Advisory Commission recommended the establishment of training guidelines and continuing education requirements for ombudsman. One of the requirements was for each ombudsman to attain certification as an insurance adjuster in workers' compensation from the Texas Department of Insurance.

The *Ombudsman Procedures Manual* establishes a time frame of 15 weeks for completion of training and the attainment of the adjusters license. The Ombudsman Training Program Progress Report dated September 15, 1997, indicated the following:

- Six ombudsmen, serving in the program before the new requirement became effective on February 2, 1996, have not completed all of the required training phases.
- Two of the six do not have an adjuster's license.

Recommendation: Management should ensure that time frames are met for the completion of ombudsman training phases and the attainment of an adjuster's license. Management should establish consequences for ombudsmen who do not meet time frame requirements.

Management's Response: *Concur. The Commission will increase the monitoring of the entire training program for new Ombudsmen as explained in the training procedures recommendation. A new internal procedure will be developed regarding the performance evaluation process which will include a specific section regarding the consequences if an Ombudsman is not compliant with the training time frames. The requirements for training and the attainment of the adjusters license will be included as a specific performance requirement for the initial and subsequent performance reviews (PPDS) of the Ombudsmen, the mentors, and Ombudsman Services.*

Section 3-E:

Policies and Procedures for Documenting Training Phases Completed by Ombudsmen Have Not Been Established

A review of training files indicated inconsistencies in the documentation of training phases completed by ombudsmen. Because of the inconsistencies, we could not validate the accuracy of the Training Program Progress Report. The progress report is used by Central Office Ombudsman Services to monitor training phases completed by ombudsmen.

Texas Administrative Codes, Chapter 125.2, Section (e) requires field office managers and Central Office Ombudsman Services to monitor the training and continuing education of each ombudsman.

A standard form was implemented beginning February 1996 to document training phases completed by ombudsmen. However, a formal policy or procedure was not developed or communicated to field office managers. As a result, the standard forms are not always completed by field office managers or forwarded to the central office for placement in the training files.

The ombudsman training program has five phases and includes mandatory classroom instruction, on-the-job training, and regularly scheduled observations by mentors and central office ombudsmen.

Proper monitoring and documentation of completed training phases is necessary to ensure that ombudsmen who are assisting unrepresented claimants are well-trained and knowledgeable.

Recommendation: A formal policy and procedure should be established and implemented to ensure that standard forms used to document training phases completed by ombudsmen are completed and properly routed.

The form should be signed and dated by authorized trainers and mentors and maintained in central office training files as support for the Training Program Progress Report. Central Office Ombudsman Services should update the progress report once forms have been received, reviewed, and approved.

Management's Response:

Concur. Staff will update and formalize the training program for Ombudsmen which will include the following:

- a. Develop and adopt a formal internal procedure documenting the training program for all Ombudsmen. This will include revision of the existing training program to ensure it properly reflects the appropriate manner to educate and instruct new Ombudsman.*

- b. *Establish a process to document the progress of each individual Ombudsman through the training program (this file can be made a part of the personnel file after completion of Phase V). The training file will include standardized forms and may include (subject to the outcome of the revision process):*
 - 1. *Documentation by the trainee and the mentor of the date each phase has been completed.*
 - 2. *Copies of the completion records of the computerized training programs (OJT-1 & OJT-2).*
 - 3. *Copies of the written examinations (or results).*
 - 4. *Copies of the observations sheets by the mentor and the Central Office Ombudsman.*
 - 5. *Documentation of the provisional designation as an Ombudsman after completion of Phase IV.*
 - 6. *Copy of the type 03 adjuster's license.*
- c. *Include specific protocol for monitoring and tracking of continuing education requirements.*

Section 3-F:

The Central Office Should Periodically Review Ombudsman Transcripts to Ensure Continuing Education Is Obtained and Documented

Ombudsmen are required to have 30 hours of continuing education every two years.

During our review of ombudsman transcripts we noted that as of August 1997 the transcripts had not been updated to include continuing education earned at the February 1997 Ombudsman Conference. Staff Development is responsible for updating employee transcripts.

Central Office Ombudsman Services was unaware that transcripts had not been updated. Regular monitoring of continuing education will help to ensure 30 hours of continuing education is obtained and ombudsman adjuster's licenses are maintained.

Recommendation: Field office managers and Central Office Ombudsman Services should monitor ombudsman transcripts periodically to ensure 30 hours of continuing education is obtained every two years and adjuster's licenses are kept current. Also, in the event an ombudsman is not able to attend biannual ombudsman conferences, a plan should be in place to obtain external training.

Management's Response:

Concur. The Commission will establish an internal procedure and the appropriate processes to monitor and track the continuing education hours completed by each Ombudsman (at the end of each bi-annual cycle, this information will become a part of the personnel file) and a manner in which to send notification letters to the individual Ombudsman if sufficient hours/ documentation of hours are not submitted. This will provide the Ombudsman notification of the need to obtain external training to secure the required continuing education. The continuing education files will include copies of completion certificates and notification letters regarding pending continuing education requirements.

Section 3-G:

A System Does Not Exist to Consolidate Ombudsman Performance Reviews

Annually, an ombudsman's technical performance is observed and evaluated by Central Office ombudsmen. Field office managers also evaluate the ombudsman's performance regarding compliance with the standards and procedures for field office operations.

Our review of the two processes used to evaluate an ombudsman identified the following:

- No system exists to coordinate and consolidate the technical observations and annual performance evaluations.
- Technical observations are not consistently documented on the required standard form, nor are the results consistently shared with the ombudsman being observed.
- Written feedback from Central Office Ombudsman Services to field office managers is not required, nor is it consistently provided prior to an ombudsman's annual performance evaluation.
- Field office managers may obtain feedback from benefit review and hearing officers who directly observe an ombudsman's performance, but this does not appear to be a common practice.

Our survey of ombudsmen, summarized and located at Appendix 5, indicates that overall the system used to evaluate ombudsmen is good but improvements could be made in the accuracy and completeness of feedback provided to the ombudsmen.

Recommendation: A system should be established for coordinating and consolidating ombudsmen evaluations. For example, technical observations

could be scheduled prior to the due date of the annual performance evaluation. The technical observation, once documented, would be shared with the ombudsman being observed and then forwarded to the field office manager.

Field office managers would then use the technical observation report in addition to their own observations and feedback obtained from benefit review and hearing officers to prepare the ombudsmen's annual performance evaluations. Technical observation forms and written feedback provide additional support for ratings assigned by the field office manager. Ratings must support merit and promotion increases.

A coordinated and consolidated effort would also help the Commission meet two of its four objectives for the Performance Planning and Development System (PPDS):

- A system that is fair to both the employee and the supervisor
- A system that gives accurate information to and about an employee

Management's Response:

Concur. The Commission will establish an internal procedure which specifically outlines the requirements and methodology for conducting technical visits by Ombudsman Services and the performance evaluation considerations for Ombudsman.

Section 3-H:

Clarification Is Needed in Procedures Manual Regarding Claimant Presence in Proceedings

Ombudsmen assist claimants who are not physically present at the Benefit Review Conferences or Contested Case Hearings. In situations where a claimant resides in another state, a speaker phone is used to communicate with the claimant. Claimants residing in Texas may also be allowed to participate by speaker phone if the hearing officer approves.

However, the *Ombudsman Procedures Manual* states that “an ombudsman cannot assist someone who is not there or participate and present evidence without the customer.” The manual does not distinguish between physical presence and appearance at proceedings.

Recommendation: The *Ombudsman Procedures Manual* should make a distinction between physically being present for a proceeding and appearing for a proceeding to alleviate any misinterpretation by outside parties.

Management's Response: *Concur. The Ombudsman Procedures Manual will be appropriately updated.*

Section 4:

The Commission's Current Organizational Structure Does Not Promote Efficient Performance of all Necessary Functions

The organizational structure of the Commission is inefficient for its size and complexity. For example:

- Executive management consists of the Executive Director, who alone must address a multitude of executive management tasks.
- The Executive Director's span of control is large: ten divisions, organized in a flat line relationship and four executive office departments report directly to the Executive Director.

The flat structure and large span of control increased the number of operating plans, cross-functional teams, standards, and rules.

Ten Core Teams (see Appendix 2.2) established by the Executive Director make recommendations that impact day-to-day operations and strategic direction. However, recommendations must be approved by the Executive Director before they can be implemented.

Because of the current structure and organizational demands, the Executive Director cannot with any efficiency:

- Focus on more relevant environmental factors and their impact on the Commission's mission
- Interact with the Commission's diverse group of constituents⁷
- Interact with the Commission's six-member governing board

⁷ Employers and their employees, insurance companies, the medical community, legislative leadership, and the Governor's office.

- Link strategic direction and policy to agency operations to achieve a better balance

Normally in a large agency there exists a layer of management between the executive director and direct service divisions. This allows for a more streamlined process, freeing up the executive director to oversee strategic and operational duties and maintain relationships with various customers.

The Commission's governing board recognized and expressed concern about the span-of-control issue. In response, the former Executive Director prepared a proposal to establish three Deputy Executive Directors within the Commission.

The deputy directors would manage the day-to-day activities of the Commission, allowing the Executive Director to concentrate on strategic direction and external constituents. On June 5, 1997, the governing board sent a letter to the Governor's office requesting approval to add the three bona fide new exempt positions.

Recommendation: We reviewed the proposal and provided suggestions to the Commission on how we thought the new structure should be organized. If the Deputy Executive Director positions are approved and filled, the Commission should consider grouping divisions under each deputy director in a fashion that would align with the Commission's goals and mission. (See Appendix 3.)

Management's Response: *Concur. The Commission is not currently authorized Deputy Executive Director positions nor are any funds currently available. Full implementation of this recommendation is dependant on favorable consideration of the requested positions and appropriate funding. In the interim, Executive Management has taken action to establish an Assistant to the Acting Executive Director. Additionally, Commission teams have been realigned, both in terms of functions and membership. These actions will assist in reducing direct management by the Acting Executive Director. Final realignments will be completed when authorizations/funding are determined and the Executive Director is selected by the Commissioners.*

Improvements Are Needed in the Commission's Policy Management Process

The Commission has a policy management process in place; however, improvements are needed in the key areas of policies, procedures, and planning. Our review of ten divisions, the Internal Audit Department, and the Office of the Executive Director noted the following:

- **Inconsistencies exist in the development, communication, enforcement, and updating of internal and administrative policies and procedures.**
 - Twenty-seven percent of the divisions and departments do not have formal, comprehensive, and documented policies and procedures.
 - Thirteen percent do not have a process for communicating their formal policies and procedures.
 - Twenty-seven percent do not have processes for enforcing compliance with their formal policies and procedures or for taking corrective action when necessary.
 - Twenty-seven percent have not reviewed or updated their policies and procedures.
 - Policies and procedures are not maintained in a secure, electronic format.

The Administrative Procedures Review Team requests divisions and departments to update their policies and procedures and submit them for review. Some divisions have responded to the Administrative Procedures Review team's request while others have not responded at all.

- **A formal process does not exist for disseminating or collecting information on strategic and operational planning.**

The Policies, Procedures, and Governmental Relations (PPGR) Department coordinates and provides assistance on strategic and operational planning. However, the process used is not documented, and formal policies and procedures have not been developed for:

- Disseminating information and directions to the divisions
- Collecting information and suggestions on strategic and operational planning

- Operating plans were not developed for some departments within the Office of the Executive Director.

Recommendation: The Commission should ensure all divisions and departments have:

- Formal, comprehensive, and documented policies and procedures
- A process for communicating formal policies and procedures to personnel
- A process for taking corrective action when personnel do not comply with established policies and procedures
- An operating plan

Management's Response:

Concur. The Commission has committed to undertake a comprehensive review of all established policies and procedures to ensure that documentation is available and current. The development of a formal agency-wide policy and procedure will be developed from this review. This new agency-wide procedure will:

- require that all agency and divisional procedures are fully reviewed, formalized, and documented,*
- require policy and procedure information, location, and access method to be fully communicated to current and new employees (as a required part of orientation),*
- install controls for periodically reviewing, updating, and communicating all new or updated procedures within the Commission and any necessary corrective actions for non-compliance with the established procedures and policies.*

As our requirements analysis progresses, other important tracking, communication, and control information will be identified and included in the procedure.

The development of formal, documented policies and procedures is recognized by the Commission as an important priority and necessary to ensure that staff receive the tools for successfully accomplishing their responsibilities.

Much work has already been done by the agency to establish guidelines and/or standards for the development of operating plans. The Commission is committed to a comprehensive review of the existing process and the development of policies, procedures, and guidelines related to the internal process for the development of operating and strategic plans. This project will:

- a. review current policies and procedures related to operating and strategic plans,*
- b. develop new policies, procedures, and a users guide and training to assist all staff in fully developing and documenting operating and strategic plans,*
- c. establish controls to ensure that all divisions and departments fully participate in this process by having operating and strategic plans,*
- d. establish controls and monitoring protocols to ensure that all divisions and departments use and maintain their operating and strategic plans to the maximum extent possible, and*
- e. maintain these plans in a secure electronic environment.*

Recommendation: A policy should be established requiring internal and administrative policies and procedures to be in an electronic format and maintained in a secured environment. The Commission should also ensure that these policies and procedures are monitored and updated on a regular basis.

Management's Response: *Concur. As part of the comprehensive policy and procedure review, the Commission will establish a secure electronic environment where procedures are maintained by selected staff, yet available to all staff for review (e.g., Read Only). As part of this secure environment, various logs will be maintained which will prompt appropriate staff to review and update procedures, track important dates related to procedures, and maintain an Office of Primary Responsibility (OPR) and Point of Contact (POC) for each procedure. As our requirements analysis progresses, other important tracking and control information will be identified and included in the procedure.*

Recommendation: The Commission should develop formal policies and procedures that outline the internal process to be used in preparing strategic and operating plans. The Executive Office should provide oversight ensuring agency-wide compliance with the policies and procedures.

Management's Response: *Concur. The comprehensive review related to operating and strategic plans discussed above will include all necessary policies and procedures that will outline the internal process used in preparing strategic and operating plans. The new policies and procedures will fully document the controls and oversight necessary to ensure compliance with agency-wide policies and procedures.*

Section 6:

Formalize Criteria and Establish Policy for Determining Appropriate Locations and Staffing for Field and Satellite Offices

Criteria for determining appropriate locations and staffing for field and satellite offices⁸ has been drafted as recommended by the Internal Audit Department in an April 8, 1996, report. However, the criteria has yet to be formalized or a policy established that outlines how the criteria is to be used. Also, a process is not in place for performing a periodic "needs assessment" to evaluate the continued existence, placement, size, and structure of a satellite or field office.

A formal and documented policy will help ensure consistency in site selection. A periodic needs assessment will help ensure that existing offices are appropriately placed to provide the level of customer service the Commission intends to provide to claimants.

For example, during a visit to one satellite office, auditors noted cramped conditions. Discussions with Commission employees indicated that additional staff members were needed to handle increases in workload. However, management in the central office indicated that additional staff could not be assigned to the satellite office due to lack of space.

Upon reviewing the lease agreement for this particular satellite office, we noted that the lease period was for five years, ending on March 31, 2001. Long lease periods can limit management's ability to be flexible and to respond quickly to changing demographics and increased workloads.

⁸ The Commission supports 23 field offices and 4 satellite offices. Each office provides injured workers with information about their rights and responsibilities, facilitates the payment of benefits, and provides informal dispute resolution services.

Recommendation: The Commission should formalize the criteria and establish a policy for determining appropriate locations and staffing for new satellite or field offices. The Commission should perform a periodic needs assessment to determine the continued existence, placement, size, and structure of existing satellite and field offices.

Management's Response: *Concur. The Commission will finalize the procedure regarding the establishment of field and satellite offices with consideration for other factors raised in the development process. This procedure will include a process to conduct interim reviews of the location, size and structure of established offices. The Commission has always planned to continually assess the effectiveness of these decisions and to make any necessary changes based on the changing environments and demands in the different regions of the state given personnel and other resource management limitations or issues.*

Recommendation: The Commission should also consider entering into leases for a period of 36 months or less with options to renew on a yearly basis. This would provide management with some flexibility if decisions are made to downsize or reallocate resources.

Management's Response: *Concur. The Commission will consider the possibility of entering into leases for shorter periods of time and conduct an analysis on the costs and benefits of this approach. If the analysis supports the benefits of a shorter time period for leases, the Commission will incorporate this requirement in any future requests for proposals with regards to leases of field and satellite offices. In addition, the Commission will communicate these unique requirements with the General Services Commission in order to ensure that both agencies understand the need for a shorter time period for leases.*

Section 7:

The Commission Is Making a Good-Faith Effort to Contract With Historically Underutilized Businesses (HUB)

Overall, the Commission is making a good-faith effort to increase its use of historically underutilized business (HUB) vendors. Although the General Services Commission's HUB goals were not met, the Commission did compare favorably with statewide results. The Commission also complied with General Service Commission guidelines and most planning and reporting requirements.

Management's Responses

ROBERT M. MARQUETTE
ACTING EXECUTIVE DIRECTOR



TEXAS
WORKERS' COMPENSATION COMMISSION
SOUTHFIELD BUILDING, MS #20, 4000 SOUTH IH-35, AUSTIN, TEXAS 78704-7491
(512) 448-7900

January 13, 1998

Mr. Lawrence F. Alwin, State Auditor
State Auditor's Office
Post Office Box 12067
Austin, Texas 78711

Dear Mr. Alwin:

We appreciate the efforts of your audit team during the management control audit of the Commission and the professional approach they took to a very complex task. Although we may not agree with all the conclusions reached by the audit team, we do believe the team has left us with a well thought out and constructive road map for implementing management controls that will keep us moving forward.


The Commission, in its first seven years of existence, has had to maintain a fast track course that ensured continued delivery of services while building the new system envisioned by the Legislature. We have accomplished that task during a period that required continual expansion of services and enforcement. In so doing, Texas has achieved recognition throughout the country as being on the leading edge of workers' compensation reform.

We are particularly proud of the reduction of workplace injuries and overall cost to the system achieved since the reform. These reductions have had a positive impact on the well being of our workforce and the workers' compensation system. We are also pleased with the increased level of service being provided to injured workers, particularly with the Ombudsman Program, the success of the dispute resolution process in resolving disputes at the earliest possible level, the effectiveness of medical cost containment initiatives, and the level of voluntary compliance by parties to the system.

With regard to the audit, we have initiated corrective measures, or expanded work in progress, to ensure that we maximize the benefits from your review. We have attached a detailed summary of the Commission's position and the specific actions being taken to put the recommended management improvements in place.

Again, we appreciate the thoroughness and fairness of the audit team and their cooperation in working with us to resolve the issues.

Sincerely,


Robert M. Marquette
Acting Executive Director

Attachment: Response to Audit Report Findings and Recommendations

**Management Responses to State Audit
of
The Texas Workers' Compensation Commission**

This information is based on the January 7,
1998 draft report provided by the State
Auditor's Office

1. Improving Human Resource Management Practices Should Be a Priority for the Commission

Management Position: Concur

SAO Recommendation:

Executive management should provide effective oversight to human resource management and ensure that managers, supervisors and employees have a clear understanding of human resource policies and procedures.

Management Response:

Concur. Executive management has initiated action that will provide effective oversight to human resource management. Human Resources staff have been directed to ensure that all human resource policies and procedures are clearly written and made available to all Commission employees. Additionally, key indicators involving Human Resource areas are being presented to the Executive Director at one of the regular weekly director's meetings each month. These presentations provide the forum for the Executive Director to review program status with senior management staff and to provide necessary guidance and direction to ensure that the programs are, and remain, on track.

OPR: Executive Management ECD: On-going

1-A. Controls Over the Commission's Leave Accounting System are Inadequate

Management Position: Concur

SAO Recommendation:

To ensure proper authorization and accurate reporting of time:

- **The Commission should assign accountability for ongoing monitoring and enforcement of policies and procedures related to timekeeping and leave balances. Directors should be notified by the Human Resource Division of all violations so that corrective action can be taken.**
- **Procedures should be established and implemented which require supervisory review of data entry of leave forms and calculation of state compensatory and FLSA overtime.**

The Commission should also consider implementing an agency-wide time keeping system for tracking employee hours worked and leave taken. A timekeeping

system can provide useful information to management for planning and decision-making.

Management Response:

Concur. A new leave accounting system has been developed. The new system utilizes positive accounting and will include verifications and controls. Supervisory review of leave reports provided by Leave Accounting will be incorporated into procedures. The new system will be piloted for two months in two divisions beginning the first quarter of this year. Needed modifications will be made and new system targeted to be completely implemented by May, 1998.

The Commission will continue to have a single agency-wide time accounting system, however, several divisions currently utilize individualized time keeping instruments where it is required to track time allocated for project management and where necessary for revenue generation. Given the implementation of the above positive leave accounting system with attendant monitoring and controls, it would not be necessary to require additional time keeping systems for all divisions.

OPR: Human Resources Development/Leave Accounting ECD: May 30, 1998

1-B. Errors Caused During Conversion to New Payroll System Have Not Been Corrected

Management Position: Concur that all required corrections have not been completed.

SAO Recommendation:

The Commission should complete the quality control review and make corrections to USPS information. Employee Time Summary Reports for FLSA nonexempt employees should be reviewed to identify compensation or overtime earned since the conversion. Employee leave records should then be adjusted to properly reflect the amount of compensation or overtime earned by the employee.

Management Response:

Concur. Human Resources is currently completing a review of all Commission Functional Job Descriptions to ensure that each employee is correctly classified with regard to FLSA status in the USPS system. The review is approximately 50% complete, including those reviews and corrections that were initiated prior to the audit. Leave Accounting will make any appropriate adjustments to leave balances.

OPR: Human Resources Development ECD: Human Resources Review -

Leave Accounting

February, 1998

*Leave Accounting Adjustments
- March, 1998*

1-C. The Commission Should Ensure Employee Performance Evaluations are Timely and All Functional Job Descriptions Are Reviewed

Management Position: Concur

SAO Recommendation:

The Executive Director should ensure that all past due evaluations are completed in accordance with Commission policy by monitoring the Performance Review Overdue Report. Directors, managers and supervisors should be held accountable for not completing employee evaluations on time.

Management Response:

Concur. Division Directors have been instructed to ensure that evaluations are accomplished for employees who have overdue performance evaluations. The Executive Director has initiated monthly reviews with division directors to ensure the program remains on track. The percentage of overdue reports has been reduced significantly and will continue to be reduced as a result of this directive and more timely reporting by Human Resources regarding overdue evaluations. Directors, managers, and supervisors will be held accountable for performing evaluations in a timely manner.

OPR: Executive Management

ECD: On-going

SAO Recommendation:

The Commission should ensure that all functional job descriptions are up-to-date, accurate and communicated to employees in a timely manner.

Management Response:

Concur. Human Resources is developing instructions for properly verifying FJDs and completing physical requirements. Human Resources will continue to provide to supervisors the most current FJDs with signature boxes to use for verification when submitting personnel requisitions and when developing performance standards.

OPR: Human Resources Development

ECD: March, 1998 and on-going

SAO Recommendation:

The Human Resource Division should cross-train its employees to ensure human resource functions are performed and to minimize the impact turnover may have on its daily operations.

Management Response:

Concur. Human Resources Management is developing a training plan for all Human Resources personnel to ensure that all areas of operation are adequately covered in the event of unforeseen employee turnover.

OPR: Human Resources Development

ECD: April 30, 1998 and on-going

1-D. Improvements are Needed to the Commission's Grievance Process and to Personnel Files

Management Position: Concur

SAO Recommendation:

The Commission should reconsider having a full time Grievance Administrator who is well trained in Employment Law and Commission policies. Clearly defined guidelines and definitions, and formalized standard actions for each offense should be developed.

Management Response:

Concur In Part. A task force has been formed to evaluate the current Grievance Administration Process, including the reconsideration of a full time Grievance Administrator, and to make recommendations for improvement. In the interim, Human Resources has developed and implemented a training plan for all Grievance Administrators. Written investigation procedures and guidelines are being developed.

Ad hoc Grievance Administrators afford Commission management flexibility and the opportunity for fresh perspectives in complaint/grievance resolution. Commission management also views Grievance Administrator duty as valuable training for its managers in investigation, interviewing, and conflict resolution techniques.

The Commission disagrees with the recommendation to define guidelines and definitions and to develop formalized standard actions for each offense. The Commission evaluates all complaints, grievances, and actions on a case-by-case basis and determines the appropriate action based upon the merits. The Commission

considers that a formalized list of standard actions for offenses could potentially jeopardize its status as an "at will" employer. Human Resources and General Counsel play an active review role in order to assure that all actions and decisions are objective, measurable, job related, and consistently applied.

OPR: Human Resources Development ECD: April 30, 1998

SAO Recommendation:

To effectively monitor the grievance process, management should determine its information needs and design and develop a database to capture data on grievances, discrimination complaints, and disciplinary actions. Management should also develop a plan that includes procedures on how the data will be extracted, analyzed, and distributed.

Management Response:

Concur. The Commission has begun development of a database to capture all relevant data regarding complaints and grievances. The Commission also has begun development of procedures for analysis and appropriate dissemination of grievance and complaint data.

OPR: Human Resources Development ECD: February 28, 1998

SAO Recommendation:

To be in compliance with the applicable laws and good human resource practices, the Commission should remove all confidential information from the personnel files. This information should be filed in a separate confidential file established for each employee with access restricted.

Management Response:

Concur. A separate filing system has been created to contain information that documents age, race, sex, veteran's status, bankruptcy information, child support information, etc. Approximately 50% of the personnel files have been audited and such information removed to the new restricted filing system.

OPR: Human Resources Development ECD: February 28, 1998

1-E. Commission Policy Regarding Compensatory Time and Overtime is Inconsistently Applied

Management Position: Concur

SAO Recommendation:

The Commission should examine and consider revising its policy regarding overtime to eliminate confusion and inconsistency in its application. The Commission would be in violation of federal law if any non-exempt employee is not receiving earned FLSA overtime or state compensatory time.

Management Response:

Concur in part. The Commission has clear policies regarding overtime and compensatory time for non-exempt FLSA employees, as stated in the Human Resources Manual. The Commission also has policies regarding compensatory time for FLSA exempt employees. The Commission will develop and implement improved guidelines and enforcement to ensure consistency of application.

*OPR: Human Resources Development ECD: April 30, 1998
Leave Accounting*

1-F. The Commission Should Measure, Monitor, and Evaluate Training to Ensure Efficient and Effective Personnel Development

Management Position: Concur

SAO Recommendation:

The Commission should develop a long-range training and development plan linked to the Commission's strategy. In addition, the Commission should develop annual short-term plans that tie into the long-range plan. These strategic training plans should encompass all training and development activities the Commission provides to its employees, including training provided by Staff Development, the Automation Training Group, and by individual divisions.

Management Response:

Concur. The Commission will complete the draft agency strategic training plan, including goals and the annual training plan, for review and comment by the end of January 1998. Once implemented, the plan will be maintained, reviewed and revised annually.

OPR: Human Resources Development ECD: April 30, 1998

SAO Recommendation:

The Commission should establish a system to measure training and development results. The system could include a combination of in-class evaluation forms, knowledge tests, performance appraisals, surveys, and interviews. The Commission should apply this measurement system to all its training activities, including those offered by Staff Development, the Automation Training Group, and by individual divisions.

Management Response:

Concur. The Commission will implement the provisions of the Commission strategic training plan that establish the training results tracking system. The system will include point-of-delivery, knowledge tests, skill demonstrations, performance reviews, and follow-up participant and supervisor surveys and interviews. The Commission system will require all in-house training to conform to the tracking system.

OPR: Human Resources Development ECD: April 30, 1998

SAO Recommendation:

The Commission should develop outcome measures that measure the extent to which training and development has met desired objectives. These outcome measures should link to the strategic plan and enable management and others to evaluate attainment of stated goals and objectives.

Management Response:

Concur. The Commission will establish a system to measure the extent to which Staff Development stated performance objectives are met. The system will identify appropriate milestones in the Commission strategic plan and relate those milestones to the Commission strategic training plan. Staff Development will make monthly reports on progress toward meeting strategic training goals.

OPR: Human Resources Development ECD: April 30, 1998

SAO Recommendation:

The Commission should enhance its method of tracking internal and external

training and development provided to employees by including tracking of continuing education credits needed by staff professionals. Course catalogues should also show which classes qualify for continuing education credit and the amount of credit that can be earned if attended. Having this information in the catalogue could possibly reduce external training expenditures.

Management Response:

Concur. The Commission employees are involved in several professional specialties. It has been the Commission's policy that continuing professional education (CPE) requirements are an individual professional responsibility. Policies will be formalized and disseminated to identify and advise employees whose positions require professional certification of their responsibilities to provide certification information to Staff Development to be included in the tracking system. It is also Commission policy to provide CPE credit, if authorized, when job training is provided to employees. Courses that have been approved for CPEs will be identified in the course catalog.

OPR: Human Resources Development ECD: September 30, 1998

SAO Recommendation:

Planning, developing, and delivering training activities should be coordinated to ensure efficient and effective use of development resources. A process should also be developed for communicating identified training needs to Staff Development.

Management Position:

Concur. The Commission strategic training plan includes provisions for coordinating division training and tying all Commission training activities together. The Commission will eliminate the administrative separation between internal and external training. Staff Development will coordinate and track all external and internal training provided by the Commission. The Performance Planning and Development System (PPDS) is designed to provide ongoing information to Staff Development on staff member training needs. Additionally, the division training plans and the training effectiveness tracking system will identify training needs.

OPR: Human Resources Development ECD: September 30, 1998

SAO Recommendation:

The Commission should collect and analyze the cost of Commission wide training activities. The Staff Development department may want to contact the State Agency Coordinating Committee (SACC) Training Directors for assistance in

developing a plan to analyze training cost.

Management Response:

Concur. When the Commission strategic training plan is implemented, Staff Development will collect information on all Commission training. This information will be published monthly in the Staff Development Commission training activity report. The activity report will include categories for the number of staff-days-of-training for the current month and a running total for the year. The Standard Cost Model will be applied to all the Commission training. The quotient from the Standard Cost Model and staff-days-of-training will be used to make monthly and yearly cost comparisons.

OPR: Human Resources Development ECD: September 30, 1998

2. Risk Exists for the Commission's Management Information Systems

2-A. The Commission Has Not Completed Establishing a Basic Foundation of Internal Controls For Information Resources

Management Position: Concur

We agree that there is room for improvement and continually work to do so. However, there is a basic foundation for policies, procedures, and internal controls.

The Commission will review the need and cause for rebuilding the Report database.

The MIS division has been working with the user divisions on resolving the long running SAS jobs. This has included rewriting programs, modifying data extraction and manipulation processes, and archiving old medical database records. Many hours have been saved in this effort. The Commission will continue to monitor and evaluate long running jobs and work to reduce the time required to process these jobs.

The Commission concurs with the theme of the auditor's conclusion on the importance of Quality Assurance (QA). The Commission is committed to total quality and has several continuous improvement projects on its MIS master project list.

SAO Recommendation:

Completion of all management/quality improvement projects (specifically the System Design Development and Project Management Methodology Project)

and implementation of standards that will form a basic foundation of internal controls for management information systems should be a priority for the Commission.

Management Response:

Concur. The MIS division has modified the existing project that addresses the revision of the System Development Life Cycle (SDLC) and project management methodology using input from the auditor. The MIS division is committed to placing a higher priority on all management/quality improvement projects. The MIS QA analysts have taken the IEEE 1074-1995 SDLC standard and cross-footed all known procedures that are a part of the SDLC. This will facilitate the process of bringing the SDLC into compliance with industry standards.

OPR: Management Information Systems

ECD: December 31, 1998

SAO Recommendation:

Executive management should review the process used for approving and implementing recommendations made by MIS Quality Assurance. As part of the review, executive management should consider reviewing the roles and responsibilities of the Workers' Compensation Information Planning Team (WCIPT).

Management Response:

Concur. The role and responsibilities of the WCIPT, including the process used for approving and implementing MIS Quality Assurance recommendations, will be reviewed by Executive management.

OPR: Executive Management

ECD: August 31, 1998

SAO Recommendation:

The role of Quality Assurance should be formalized and communicated to all Commission divisions. Quality Assurance should be involved in design and development activities. Quality Assurance recommendations should be implemented, otherwise documented for executive management why the recommendations were not considered.

Management Response:

Concur. Following a review of the role of the MIS Quality Assurance, the results will be communicated to all Commission divisions. The Commission agrees with the recommendation and will support the efforts and recommendations made by the MIS QA analysts or document reasons for not implementing the recommendations.

OPR: Management Information Systems ECD: October 31, 1998

SAO Recommendation:

Training should be provided to WCIPT that would update them on standards and technological advancements in system development.

Management Response:

Concur. Based on the SAO preliminary findings, the WCIPT began using in-house training materials available from the MIS Resource Center to supplement our technical knowledge base in November 1997. This will be an extensive, long-term training effort to increase the technical skills of the WCIPT members. Additional training offered by state agencies, such as DIR, will be utilized to the greatest extent possible. This item will be incorporated into the strategic training plan.

*OPR: WCIPT Core Team ECD: Ongoing
Human Resources Development*

SAO Recommendation:

MIS Policies and procedures in draft form should be formalized and implemented.

Management Response:

Concur. The MIS division will review, formalize and implement draft policies and procedures.

OPR: Management Information Systems ECD: June 30, 1998

SAO Recommendation:

The Resource Management Team should give priority to resolving audit findings and should monitor and work to reduce the number of teams, committees, and meetings.

Management Response:

Concur. Resolving the audit findings is a high priority with the Commission. The MIS division will continue to monitor the requirement for teams and committees to optimize MIS resources.

OPR: Management Information Systems ECD: On-going

SAO Recommendation:

Security policies and procedures for personal computers and networks should be completed and implemented before the Commission completes its hardware upgrade.

Management Response:

Concur. The Commission will review and formalize its policies on PC and local area network security before the Commission completes its hardware upgrade.

OPR: Management Information Systems ECD: August 31, 1998

SAO Recommendation:

Standards should be selected, developed, and implemented for programming, personal computers, and the network. Programmers hired by the divisions should also be subject to standards for programming, documentation and security.

Management Response:

Concur. As the SDLC is completed, these standards will be enforced for all Commission programmers. The Commission has established a PC Software Standardization Team to standardize all PC software. These software standards are being implemented as the new machines are upgraded.

OPR: Management Information Systems ECD: December 31, 1998

SAO Recommendation:

More timely transfers of backup tapes to offsite storage should be made.

Management Response:

Concur. The Commission has moved the full backups of its data from Saturday to Thursday night. This has allowed the Commission to have the tapes removed off-site on Friday.

OPR: Management Information Systems ECD: Completed

SAO Recommendation:

The Business Process Guide should be integrated with the technical phases of a System Design and Development Methodology (SDDM). Automating the steps in the methodology would enhance timeliness and reduce paperwork.

Management Response:

Concur. The BPDG will be updated to include additional QA suggestions, as appropriate, and any "lessons learned" to assist in system development. The updated BPDG will be integrated with the SDDM currently being developed by MIS. We will automate the steps in the methodology to speed up the documentation and development process, and reduce unnecessary paperwork.

*OPR: WCIPT Core Team ECD: December 31, 1998
Management Information Systems*

2-B. Commission Plans For Information Technology Could Be Improved

Management Position: Concur.

The Commission's intent to do major enhancements to its existing systems is well documented. It was determined that this would provide the most return on investment for the Commission at this time. The Commission agrees that long-term plans (3-5 years) are still in the early vision stage.

The Commission agrees that long term plans should be based on information needs ideally, and hardware should then be selected to support the software that meets Commission information needs. In reality, industry specialist agree that because it takes so long to implement hardware technology enhancements and business processes change every eighteen months, the Commission must select hardware solutions that are flexible. In the past, the Commission has allowed itself to fall behind in implementing new technologies by not requesting funding. The Commission has taken several steps to improve this situation. It has implemented an infrastructure upgrade project that will be flexible enough to handle future technologies. Additionally, the Commission is implementing a life cycle replacement strategy. This will allow the Commission to keep current with industry standards and develop a more constant information resources budget.

SAO Recommendation:

Until COMPASS is replaced or its functionality substantially improved, the Commission should ensure that all data problems identified have been corrected. The Commission should also implement a technical architecture planning process before steps are taken to develop a new information system. Such a process would:

- Create and maintain a standards based architecture.
- Provide the critical linkages to the re-engineered business and realigned information resources.
- Help stage the migration from existing systems.

Under this architectural planning scenario, application developers, information managers, and technology designers help build the information technology infrastructure needed for the Commission's computing environment.

Management Response:

Concur in part. The Commission will create and maintain a standards based architecture using "The Architecture Framework for Information Resources Management" from DIR. Data information requirements will be incorporated in any system redesign initiative. Additional actions are addressed in the response under 2C.

OPR: Management Information Systems ECD: December 31, 1998

SAO Recommendation:

The Commission should obtain the Department of Information Resources guide, "The Architecture Framework for Information Resources Management" which provides the guidance to govern the changing technology.

Management Response:

Concur. The Commission obtained "The Architecture Framework for Information Resources Management" from DIR in December of 1997.

OPR: Management Information Systems ECD: Completed

2-C. Costs Could Be Reduced with an Effective Data Management Process

Management Position:

The Commission concurs with the conclusion that the Commission rushed to develop the COMPASS system in the early years which resulted in a large and complex system. Major strides have been made in the area of data integrity. Data reconciliation

projects have been completed and data edit checks strengthened in the Commission's applications since the 1992 SAO Audit. However, The Commission recognizes that there is still work to be done to improve the data integrity. Currently, approximately ten percent of the Commission's systems, most located in the original COMPASS code, need to be reviewed.

SAO Recommendation:

We encourage the Commission to continue in its efforts to evaluate and improve the data it collects and the mechanisms used to collect the data. Continued efforts should include a review of all data elements and forms in comparison to agency information needs. We recommend that the Commission take a comprehensive approach to data management and in doing so consider the following:

- **The creation and ongoing maintenance of a data model for the Workers' Compensation environment.**
- **Priority should be given to data problems that impact levels of service and quality of information.**
- **Establishment of a cycle plan for performing, evaluating, and reporting on the data management process.**

Management Response:

Concur. The Commission will continue its efforts to evaluate and improve the data it collects and the mechanisms used to collect the data. The WCIPT has begun efforts to review the data elements and forms needed for Commission information. The Commission will initiate an evaluation of the creation and maintenance of a data model for the Workers' compensation environment. The commission will also evaluate establishing a cycle plan for performing, evaluating, and reporting on the data management process. This will be done in conjunction with the data model.

*OPR: Management Information Systems
WCIPT Core Team*

ECD: December 31, 1998

SAO Recommendation

A data analysis should proceed any software system development. Data analysis also should be considered prior to the agency making decisions on system redesigns, enhancements, or replacements.

Management Response:

Concur. The revised version of the SDLC will incorporate data analysis prior to any software systems development. A joint project has been initiated by the MIS division and the WCIPT to analyze the data elements needed for future system redesign and system enhancements.

OPR: Management Information Systems ECD: December 31, 1998
WCIPT Core Team

3. The Overall Management of the Ombudsman Program Needs Improvement

3-A. Data Does Not Confirm Full Compliance With The Texas Labor Code

Management Position: Concur.

Regarding the statistics provided by the SAO, it should be noted that some percentage of the total number of claimants will never be documented as having a preparation appointment. The presiding officer of a proceeding may conduct the proceeding if he or she finds that an absent party did not have good cause for their failure to attend the proceeding. In these cases, there will be no documentation of a preparation appointment because one was never conducted. Another area where there will not be an Ombudsman preparation appointment documented is the situation where the injured employee is represented by a lay person and the representation is not properly updated. While the documentation of preparation appointments has been repeatedly stressed during the Ombudsman Educational Conferences, the comments and findings by the SAO are accurate.

SAO Recommendation:

Management should monitor claimant data to identify which field or satellite offices are not holding or recording assistance meetings and initiate corrective action.

Management Response:

Concur. Existing management reports will be enhanced to allow both the Ombudsman Services Section and the appropriate field office managers to monitor and track the actions performed by the assigned Ombudsmen. The new automated docketing system will have one screen for the Ombudsmen to use to document preparation appointments and the information regarding the appointments. This screen will update the other applications to help ensure compliance and ease of use. Timely and accurately updating all preparation appointments will also be included as

a specific requirement on performance evaluations (PPDS) for Ombudsmen. Further, Quality Services will include a review of the proceedings that do not show any Ombudsman assistance for further monitoring purposes.

OPR: Employee/Employer Field Services ECD: June 30, 1998

SAO Recommendation:

The Ombudsman Procedures Manual should be updated to include a policy and procedure for holding and documenting the required minimum meeting.

Management Response:

Concur. The Ombudsman Procedures Manual will be updated to include specific instructions on these issues.

OPR: Employee/Employer Field Services ECD: August 31, 1998

3-B. Ombudsman Workload Data Was Not Used In Determining the Allocation of Four Additional Ombudsman

Management Position: Concur in part.

The Commission supports the SAO recommendation that workload considerations be given a higher priority in the determination process regarding the placement of new positions, however, other factors were required to be considered by the Commission in making the business decision of where to locate the new positions. The placement of the four new Ombudsmen positions was determined by considering the availability of space and resources, accessibility of transportation for state wide travel, and certain workload considerations based on the docket rotation schedule. The docket rotation schedule is based on the actual number of proceedings that are scheduled for a particular office and dictates what dates dockets can be scheduled. Since an Ombudsman must be available at anytime a proceeding is scheduled, there is a correlation between the docket rotation schedule and the need for an Ombudsman. The Ombudsmen placement decision was made in conjunction with the placement of several other positions that support or impact the activities of the Ombudsmen. The docket rotation schedule showed that the Tyler and Houston East Field Offices were the only offices where the Ombudsmen were not always available if proceedings were scheduled on all available docket days.

Accessibility of transportation is an extremely important factor in human resource management of the Ombudsmen program. Since the time of the review by the SAO, the Dallas Field Office has effectively lost three Ombudsmen and extensive coverage is being provided to the Dallas Field Office by the new positions that were located in

Dallas and El Paso, given the ability to quickly respond through access to the transportation system.

SAO Recommendation:

Ombudsman workload data should be part of the criteria used by management when determining the allocation of additional ombudsman resources. A cost-benefit analysis should be conducted to determine if it is more feasible to have three ombudsman travel and assist field offices with high workloads versus permanent placement at those locations. The impact to the Employee/Employer Field Services Division budget should also be considered.

Management Response:

Concur. Workload data and cost/benefit considerations will be included in determinations regarding placement of staff positions in the field and satellite offices. With the addition of the new reports from the automated system, this type of analysis will be able to be performed giving the appropriate weight to the various types of assistance provided for the various types of proceedings. Further, the Commission will perform interim reviews to determine whether or not the current staffing levels of the various offices are appropriate given the impact on the Divisional budget.

OPR: Employee/Employer Field Services ECD: August 31, 1998

3-C. Ombudsman Workload Reports Do Not Provide Sufficient Information to Management

Management Position: Concur.

While the Commission concurs with the conclusions, further information is beneficial in understanding these conclusions. Current management reports have been expanded to include additional performance levels performed by the individual Ombudsman. One of the problems with the previous reports is that claim files are not handled by the satellite field offices and the service location designation in the automated claims system only reflects the handling field office. For example, even though a proceeding is scheduled in McAllen, the servicing location in the automated system is the Harlingen Field Office. Enhancements to the current reports and the new automated system will allow further information to be gathered for management purposes.

SAO Recommendation:

Workload reports should include all assistance meetings conducted by ombudsmen. Workload reports should also delineate between satellite and field

offices in order to provide management with sufficient information to determine appropriate staffing levels.

Management Response:

Concur. While current workload measures contain some of this information, new workload reports will be developed with the automated docketing system to include all assistance meetings conducted by ombudsmen. Workload reports will be designed to provide information based on the actions of the individual Ombudsmen, effectively reporting performance actions regardless of proceeding location. These requirements have already been included in the specifications for the automated docketing program. The information in these management reports will provide sufficient data to help determine appropriate staffing levels and performance actions.

OPR: Employee/Employer Field Services ECD: June 30, 1998

3-D. Time Frame For Completion Of Training Phases and Attainment Of Adjuster's License Has Not Been Enforced

Management Position: Concur.

SAO Recommendation:

Management should ensure that time frames are met for the completion of ombudsman training and the attainment of an adjusters license. Management should establish consequences for ombudsman who do not meet time frame requirements.

Management Response:

Concur. The Commission will increase the monitoring of the entire training program for new Ombudsmen as explained in the training procedures recommendation. A new internal procedure will be developed regarding the performance evaluation process which will include a specific section regarding the consequences if an Ombudsman is not compliant with the training time frames. The requirements for training and the attainment of the adjusters license will be included as a specific performance requirement for the initial and subsequent performance reviews (PPDS) of the Ombudsmen, the mentors, and Ombudsman Services.

*OPR: Employee/Employer Field Services ECD: August 31, 1998
Human Resources Development*

3-E. Policies and Procedures For Documenting Training Phases Completed By Ombudsman Have Not Been Established

Management Position: Concur.

While the Commission concurs with the findings and recommendations, it should be noted that the Commission has tracked the training completed by Ombudsmen and the training process is documented in the Ombudsman Procedures Manual. Ombudsman Services has continued to ensure that the new Ombudsmen properly progress through the established five phase training program and reports the results of the progress on a regular basis at staff meetings. The procedures regarding the training program will be formalized and new tracking systems for documentation purposes will be established.

SAO Recommendation:

A formal policy and procedure should be established and implemented to ensure standard forms, used to document training phases completed by ombudsmen are completed and properly routed. The form should be signed and dated by authorized trainers and mentors and maintained in central office training files as support for the Training Program Progress Report. Central Office Ombudsman Services should update the progress report once forms have been received, reviewed and approved.

Management Response:

Concur. Staff will update and formalize the training program for Ombudsmen which will include the following:

- a. Develop and adopt a formal internal procedure documenting the training program for all Ombudsmen. This will include revision of the existing training program to ensure it properly reflects the appropriate manner to educate and instruct new Ombudsman.*
- b. Establish a process to document the progress of each individual Ombudsman through the training program (this file can be made a part of the personnel file after completion of Phase V). The training file will include standardized forms and may include (subject to the outcome of the revision process):*
 - 1. Documentation by the trainee and the mentor of the date each phase has been completed.*
 - 2. Copies of the completion records of the computerized training programs (OJT-1 & OJT-2).*
 - 3. Copies of the written examinations (or results).*
 - 4. Copies of the observations sheets by the mentor and the Central Office Ombudsman.*

5. *Documentation of the provisional designation as an Ombudsman after completion of Phase IV.*
 6. *Copy of the type 03 adjuster's license.*
- c. *Include specific protocol for monitoring and tracking of continuing education requirements.*

OPR: Employee/Employer Field Services ECD: August 31, 1998
Human Resources Development

3-F. Central Office Should Periodically Review Ombudsman Transcripts To Ensure Continuing Education Is Obtained And Documented

Management Position: Concur.

SAO Recommendation:

Field office managers and Central Office Ombudsman Services should monitor ombudsman transcripts periodically to ensure thirty hours of continuing education is obtained every two years and adjusters' licenses are kept current. Also, in the event an ombudsman is unable to attend bi-annual ombudsman conferences, a plan should be in place to obtain external training.

Management Response:

Concur. The Commission will establish an internal procedure and the appropriate processes to monitor and track the continuing education hours completed by each Ombudsman (at the end of each bi-annual cycle, this information will become a part of the personnel file) and a manner in which to send notification letters to the individual Ombudsman if sufficient hours/ documentation of hours are not submitted. This will provide the Ombudsman notification of the need to obtain external training to secure the required continuing education. The continuing education files will include copies of completion certificates and notification letters regarding pending continuing education requirements.

OPR: Employee/Employer Field Services ECD: August 31, 1998
Human Resources Development

3-G. A System Does Not Exist Which Consolidates Ombudsman Performance Reviews

Management Position: Concur.

SAO Recommendation:

A system should be established for coordinating and consolidating ombudsmen evaluations.

Management Response:

Concur. The Commission will establish an internal procedure which specifically outlines the requirements and methodology for conducting technical visits by Ombudsman Services and the performance evaluation considerations for Ombudsman.

*OPR: Employee/Employer Field Services ECD: August 31, 1998
Human Resources Development*

3-H. Clarification Is Needed In Procedures Manual Regarding Claimant Presence in Proceedings.

Management Position: Concur.

SAO Recommendation:

The Ombudsman Procedures Manual should make a distinction between physically being present for a proceeding and appearing for a proceeding to alleviate any misinterpretation by outside parties.

Management Response:

Concur. The Ombudsman Procedures Manual will be appropriately updated.

OPR: Employee/Employer Field Services ECD: August 31, 1998

4. Commission's Current Organizational Structure Does Not Promote Efficient Performance of All Necessary Functions

Management Position: Concur.

SAO Recommendation:

We reviewed the proposal and provided suggestions to the Commission on how we thought the new structure should be organized. If the deputy executive

director positions are approved and filled, the Commission should consider grouping divisions under each deputy executive director in a fashion that would align with the Commission's goals and mission.

Management Response:

Concur. The Commission is not currently authorized Deputy Executive Director positions nor are any funds currently available. Full implementation of this recommendation is dependant on favorable consideration of the requested positions and appropriate funding. In the interim, Executive Management has taken action to establish an Assistant to the Acting Executive Director. Additionally Commission teams have been realigned, both in terms of functions and membership. These actions will assist in reducing direct management by the Acting Executive Director. Final realignments will be completed when authorizations/funding are determined and the Executive Director is selected by the Commissioners.

OPR: Executive Management

ECD: August 31, 1998

5. Improvements Are Needed in the Commission's Policy Management Process

Management Position: Concur.

SAO Recommendation:

The Commission should ensure all divisions and departments have:

- **formal, comprehensive and documented policies and procedures.**
- **a process for communicating formal policies and procedures to personnel.**
- **a process for taking corrective action when personnel do not comply with established policies and procedures.**
- **an operating plan.**

Management Response:

Concur. The Commission has committed to undertake a comprehensive review of all established policies and procedures to ensure that documentation is available and current. The development of a formal agency-wide policy and procedure will be developed from this review. This new agency-wide procedure will:

- a. require that all agency and divisional procedures are fully reviewed, formalized, and documented,*

- b. require policy and procedure information, location, and access method to be fully communicated to current and new employees (as a required part of orientation),*
- c. install controls for periodically reviewing, updating, and communicating all new or updated procedures within the Commission and any necessary corrective actions for non-compliance with the established procedures and policies.*

As our requirements analysis progresses, other important tracking, communication, and control information will be identified and included in the procedure.

The development of formal, documented policies and procedures is recognized by the Commission as an important priority and necessary to ensure that staff receive the tools for successfully accomplishing their responsibilities.

Much work has already been done by the agency to establish guidelines and/or standards for the development of operating plans. The Commission is committed to a comprehensive review of the existing process and the development of policies, procedures, and guidelines related to the internal process for the development of operating and strategic plans. This project will:

- a. review current policies and procedures related to operating and strategic plans,*
- b. develop new policies, procedures, and a users guide and training to assist all staff in fully developing and documenting operating and strategic plans,*
- c. establish controls to ensure that all divisions and departments fully participate in this process by having operating and strategic plans,*
- d. establish controls and monitoring protocols to ensure that all divisions and departments use and maintain their operating and strategic plans to the maximum extent possible, and*
- e. maintain these plans in a secure electronic environment.*

OPR: Policy, Planning, & Governmental Relations Administration ECD: December 31, 1998

SAO Recommendation:

A policy should be established requiring internal and administrative policies and procedures to be in electronic format and maintained in a secure environment.

The Commission should also ensure that these policies and procedures are monitored and updated on a regular basis.

Management Response:

Concur. As part of the comprehensive policy and procedure review, the Commission will establish a secure electronic environment where procedures are maintained by selected staff, yet available to all staff for review (e.g., Read Only). As part of this secure environment, various logs will be maintained which will prompt appropriate staff to review and update procedures, track important dates related to procedures, and maintain an Office of Primary Responsibility (OPR) and Point of Contact (POC) for each procedure. As our requirements analysis progresses, other important tracking and control information will be identified and included in the procedure.

OPR: Administration

ECD: December 31, 1998

SAO Recommendation:

The Commission should develop formal policies and procedures that outline the internal process to be used in preparing strategic and operating plans. The Executive Office should provide oversight ensuring agency-wide compliance with policies and procedures.

Management Response:

Concur. The comprehensive review related to operating and strategic plans discussed above will include all necessary policies and procedures that will outline the internal process used in preparing strategic and operating plans. The new policies and procedures will fully document the controls and oversight necessary to ensure compliance with agency-wide policies and procedures.

OPR: Policy, Programs, & Governmental Relations ECD: December 31, 1998

6. Formalize Criteria and Establish Policy For Determining Appropriate Locations And Staffing For Field and Satellite Offices

Management Position: Concur

SAO Recommendation:

The Commission should formalize the criteria and establish a policy for determining appropriate locations and staffing for new satellite and field offices. The Commission should perform a periodic "needs assessment" to determine the continued existence, placement, size and structure of existing satellite and field offices.

Management Response:

Concur. The Commission will finalize the procedure regarding the establishment of field and satellite offices with consideration for other factors raised in the development process. This procedure will include a process to conduct interim reviews of the location, size and structure of established offices. The Commission has always planned to continually assess the effectiveness of these decisions and to make any necessary changes based on the changing environments and demands in the different regions of the state given personnel and other resource management limitations or issues.

OPR: Employee/Employer Field Services ECD: August 31, 1998
Human Resources Development

SAO Recommendation:

The Commission should also consider entering into leases for a period of 36 months or less with options to renew on a yearly basis. This would provide management with some flexibility if decisions are made to downsize or reallocate resources.

Management Response:

Concur. The Commission will consider the possibility of entering into leases for shorter periods of time and conduct an analysis on the costs and benefits this approach. If the analysis supports the benefits of a shorter time period for leases, the Commission will incorporate this requirement in any future requests for proposals with regards to leases of field and satellite offices. In addition, the Commission will communicate these unique requirements with the General Services Commission in order to ensure that both agencies understand the need for a shorter time period for leases.

OPR: Employee/Employer Field Services ECD: August 31, 1998
Administration

Objective, Scope, and Methodology

Objective

Our audit objective was to evaluate the existing management control systems at the Texas Workers' Compensation Commission (Commission), which enable the Commission to accomplish its mission, goals, and strategies. We evaluated the control systems in place as of October 1997.

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

- Goals are met.
- Assets are safeguarded and efficiently used.
- Reliable data are reported.
- Laws and regulations are complied with.

Scope

The scope of this audit included consideration of the Commission's organizational structure; policy management process; management of human resources; information resources; the Ombudsman program; and utilization of HUB vendors.

The consideration of the Commission's organizational structure and policy management process included a review of:

- The Commission's organizational and operational structure
- The Executive Operational Plan
- The process used to develop, document, communicate, monitor, and adjust planning and operating policies and procedures
- Processes used to determine and implement changes to the organizational structure

The consideration of the Commission's management of human resources included a review of:

- Human resource planning, classification, and salary administration
- Human resource selection and recruiting

- The employee performance appraisal, training, and professional development processes
- Compliance with human resource policies and procedures and state and federal laws (relating to topics such as personnel files, timekeeping, leave balances, and overtime)

The consideration of the Commission's management of information resources included a review of:

- Documentation on current and planned operations of information resource management strategic and biennial operating plans
- Plans and controls for managing the acquisition of hardware, software, and a new LAN system
- Processes used to set priorities and allocate information resources within the Commission
- Implementation of prior year audit recommendations

The consideration of the Commission's Ombudsman Program included a review of:

- Workload data collected in the Dispute Resolution Information System (DRIS)
- Compliance with the Texas Labor Code
- The policies and procedures used to monitor training provided to ombudsmen
- Process used to allocate additional ombudsman resources
- Working conditions and general operations of five field offices and one satellite office

The consideration of the Commission's use of HUB vendors included a review of:

- HUB expenditures compared to the General Services Commission's state HUB goals
- The policies and procedures used to ensure that adequate HUB bids are obtained
- The Commission's outreach efforts to identify and contact HUB vendors

Methodology

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

Information collected to accomplish our objectives was obtained from the following:

- Interviews with top management of both the Commission and the Research and Oversight Council on Workers' Compensation, the Commission's governing board, legislative staff, and central/field office personnel
- Management reports generated and used; existing policy and procedures manuals; management information systems; and reports generated by the State Auditor's Office, the Legislative Budget Board, and the Sunset Commission
- Newspaper articles and other literature on current workers' compensation issues
- Observations of selected operations within the central office and at field/satellite offices
- An ombudsman survey on communication, morale, compensation, and overtime
- Documentary evidence such as:
 - State and federal statutes and regulations
 - Commission publications, documents, memoranda, contracts, and internal audit reports
- Enabling legislation

Information used to prepare Appendix 4 (Ombudsman Caseload):

- The Commission's internal ombudsman workload reports for the period September 1, 1995, to June 30, 1997

These reports capture the number of meetings ombudsmen held with claimants. Meetings consist of Benefit Review (BRC) and Contested Case Hearing (CCH) preparations, assistance at BRCs and CCHs, and "015" preparations. NOTE: Workload reports do not track time spent with each claimant.

The analysis was limited because:

- Workloads for field offices and their associated satellite offices are combined.
- The reports do not capture duration of each client assistance meeting or preparation.

Procedures and tests conducted:

- Review of divisional operating plans, policies, and procedures
- Examination of functional job descriptions, grievance process, performance review overdue report, and the FLSA status of 24 employees
- Review of personnel files, leave accounting, and training performance measures
- Examination of workload production reports and performance measures used by Employee/Employer Field Services (EEFS) management

Analytical techniques:

- Trend analysis
- Process review
- Comparative analysis of ombudsmen workloads at field and satellite offices.

Criteria used:

- State Auditor's Office Accountability Project Methodology general and specific criteria
- State Auditor's Office Management Control Methodology

Other Information

Fieldwork was conducted from June 1997 to October 1997. We did not verify or review the accuracy of the data provided by the Commission. Other than this exception, the audit was performed in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

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

- Debra L. Weyer, CGFM (Project Manager)
- Brian Boone
- Judith A. Hatton, CISA, CGFM
- Mattye Keeling, CFE, CGFM
- Walton Persons, CPA
- Pamela Spencer, CGFM
- Tracy Tran, CPA
- Charlie Hrnrcir, CPA, CGFM (Audit Manager)
- Deborah L. Kerr, Ph.D. (Director)

Other Information

Background Information

The Texas Workers' Compensation Commission was created in 1990 to replace the Industrial Accident Board as the first step toward major reform of the workers' compensation system in Texas. The Commission's six-member governing board was appointed by the Governor and confirmed by the Senate.

Chapter 402, Section 402.021, of the Texas Workers' Compensation statute established the Commission's organizational structure. The statute required the Commission to have the following divisions:

- Workers' Health and Safety
- Medical Review
- Compliance and Practices
- Hearings
- Risk Management

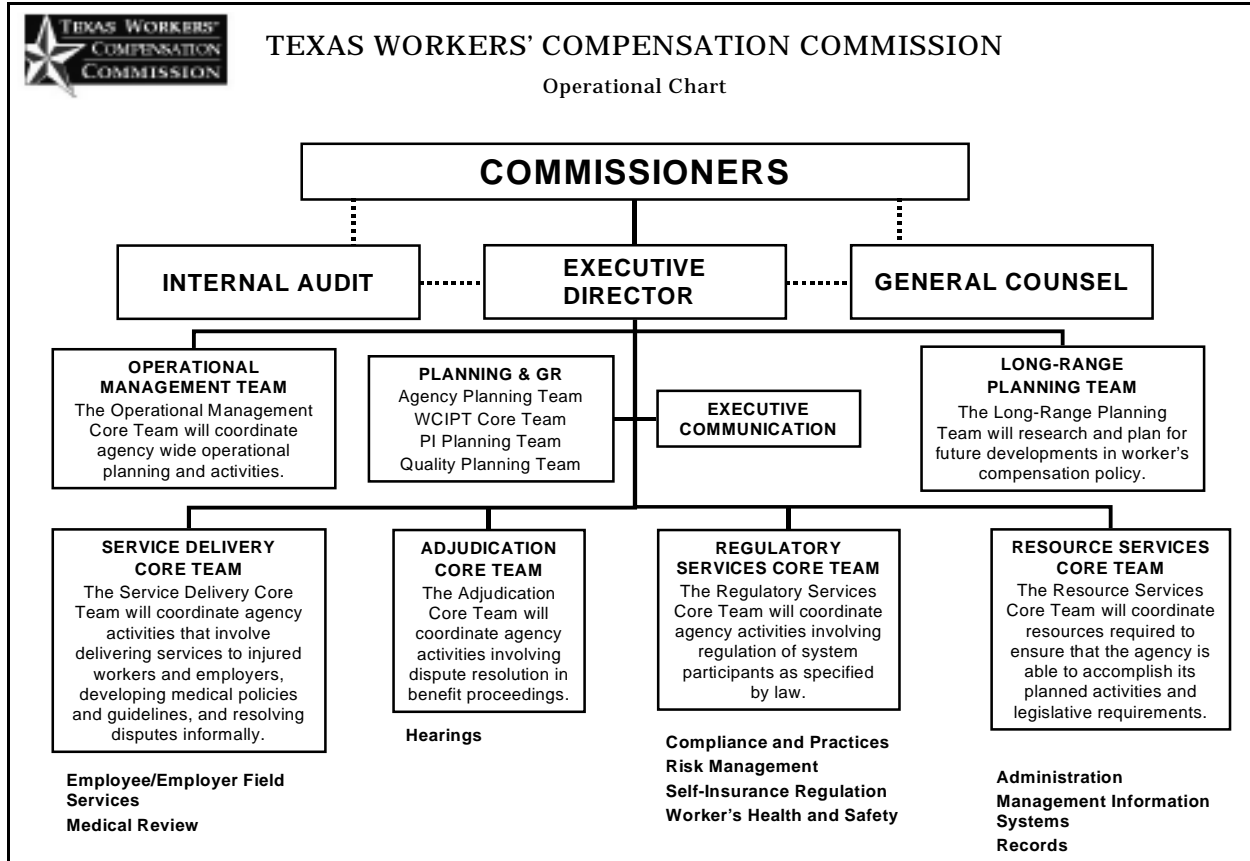
The statute also allowed the Executive Director, with the approval of the governing board, to establish divisions for purposes of administering and performing other Commission functions. Divisions established include:

- Administration
- Records
- Management Information Systems
- Employee and Employer Field Services
- Self-Insurance Regulation

In addition to a central office, the Commission supports 23 field offices and 4 satellite offices. Each office provides injured workers with information about their rights and responsibilities, facilitates the payment of benefits, and provides informal dispute resolution services. As of August 31, 1997, the Commission had 1,120 FTEs. Appropriations for fiscal year 1997 totaled \$42.2 million.

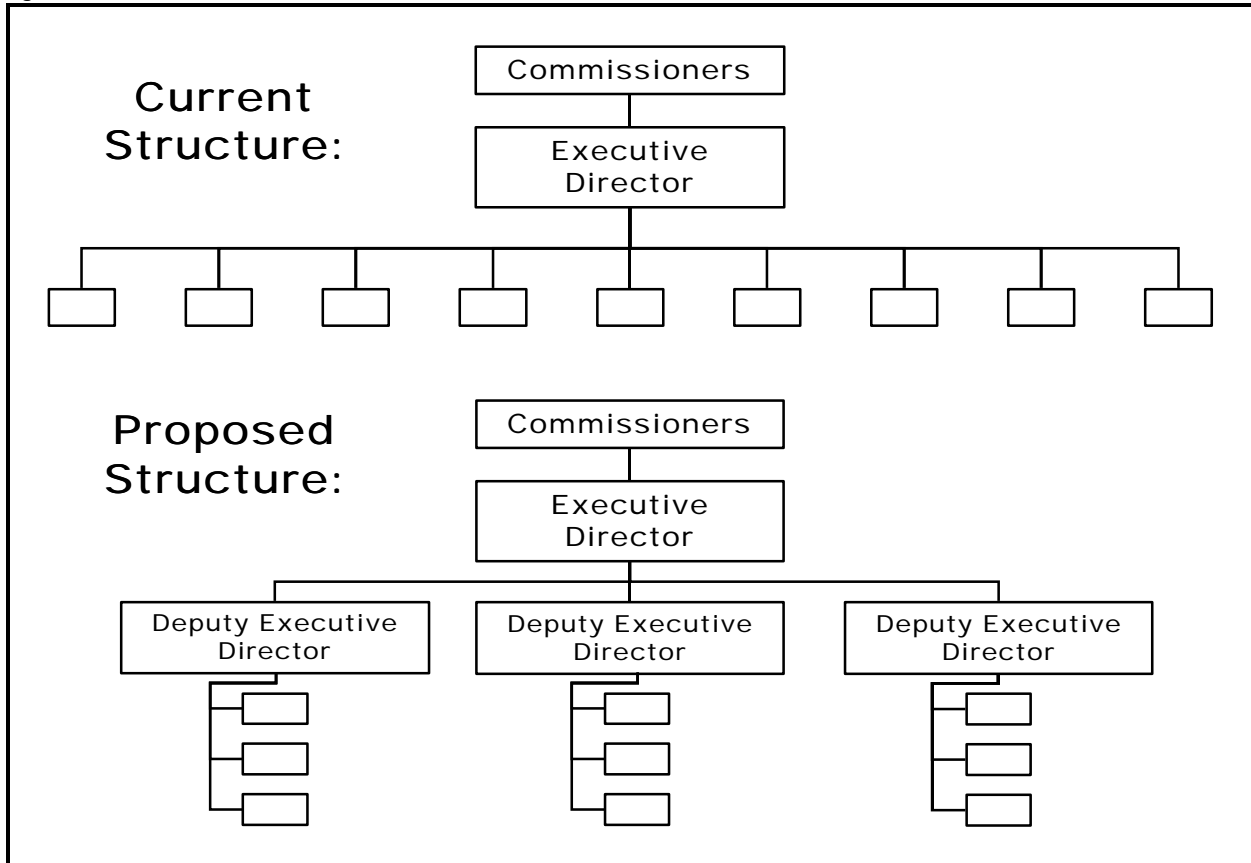
Appendix 2.2
Operational Chart

Figure 1



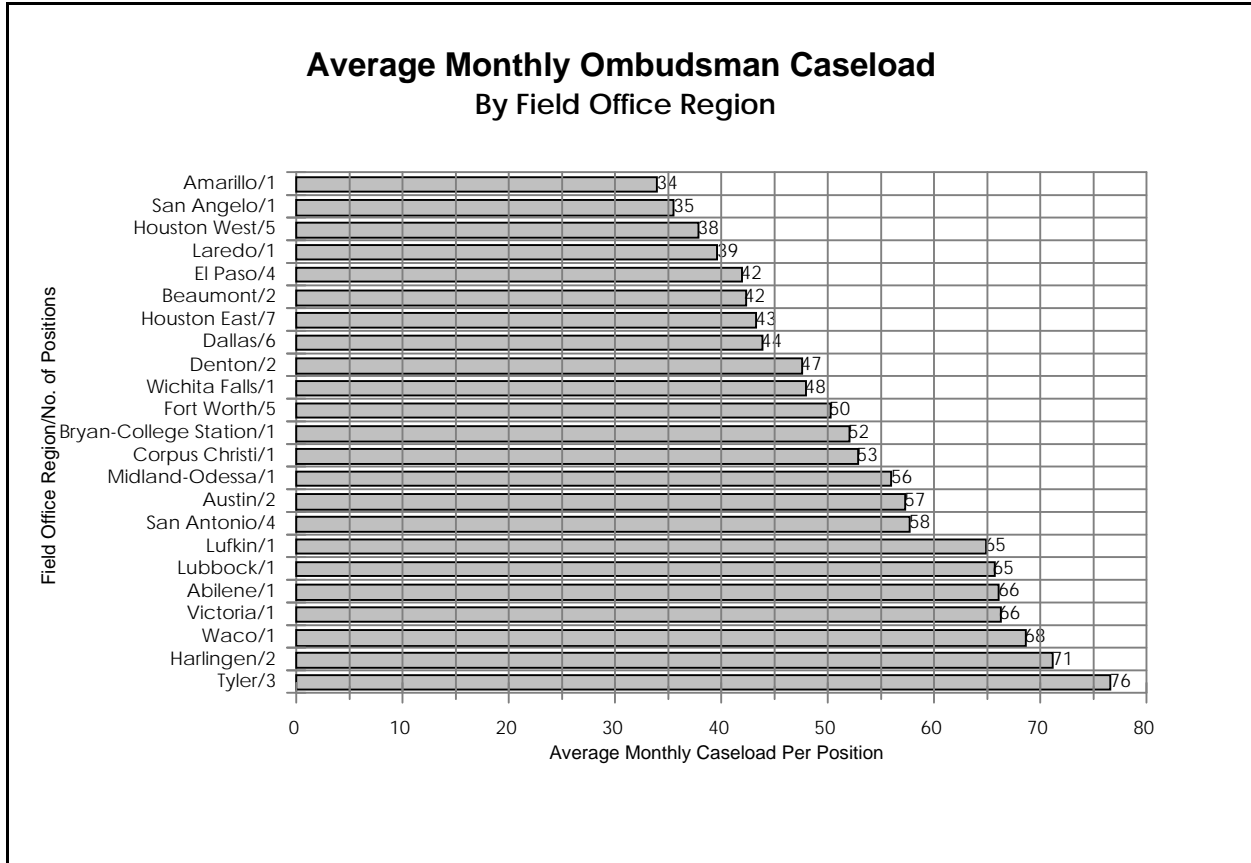
Current Organizational Structure - Proposed Organizational Structure

Figure 2



Average Monthly Ombudsman Caseload as Computed by Auditors

Figure 3



Ombudsman Survey

Table 2

Ombudsman Information/Communication						
Please rate the following:	Poor	Fair	Average	Good	Excellent	N/A
1. Responses to information you request from Central Office						
a. Timeliness of response	1	3	6	23 (60.5%)	5	-
b. Consistency of information provided	1	4	5	21 (55.3%)	7	-
c. Clarity of information provided	1	5	4	19 (50%)	9	-
2. Effectiveness of your field office in providing needed administrative support	1	7	7	4	11 (29%)	8
3. The system for evaluating the ombudsman position regarding						
a. Accuracy of feedback	1	4	12 (32%)	9 (24%)	8	4
b. Timeliness of feedback	2	6	8	9 (24%)	10 (26%)	3
c. Completeness of feedback	1	7	8 (21%)	12 (32%)	7	3
d. Overall quality	1	6	7	14 (36%)	7 (18%)	3
4. Changes to policies and procedures						
a. Timeliness of changes	3	5	12 (31%)	13 (34%)	4	1
b. Timeliness of communication of changes	3	3	12 (31%)	15 (39%)	5	0
c. Clarity of communication	2	5	10 (26%)	15 (39%)	6	-

Table 2, completed

Morale in the Ombudsman Office				
5. Currently, morale in the Ombudsman Office is (circle one):	Low	Medium	High	N/A
	5	19 (50%)	12 (31%)	11
6. Indicate which of the reasons listed contribute to the current morale level. Indicate all that apply, and rank them in order of importance with 1 being the most important.				
<u>1</u> Compensation level (35.7%)	<u>3</u> Staffing level (39.3%)			
<u>2</u> Workload (42.9%)	<u>4</u> Other (42.8%)			
Compensation				
Please check "yes" or "no" and explain your responses below.	Yes	No	NA	
7. Will the recent pay increase reduce employee turnover?	16	17 (45%)	5	
8. Is the pay increase competitive with private industry salaries?	4	30 (79%)	4	
Employee Overtime				
Please check "yes" or "no."	Yes	No	NA	
9a. Are you restricted by your field office manager from working overtime? If "yes," please answer 9b.	13	25 (66%)	-	
9b. Are you working overtime anyway?	13 (34%)	7	18 (47%)	
10. Please provide suggestions for improving the Ombudsman Program:				
<ul style="list-style-type: none"> • A fully cross-referenced retrieval system that is kept current with any new landmark appeals decisions would greatly assist the ombudsman and benefit review and hearing officers. • Offer more specialized training on areas such as the AMA guides and the paralegal field. • More staff - Customer Assistance Support Staff can be utilized to help stop the dispute before it gets to the conference level. • Combine conferences for ombudsmen, benefit review officers and hearing officers. • Require field office manager to attend ombudsmen conferences. We are instructed to perform our job one way at the ombudsman conference. When we return to the field office the field office manager tells us something different. • Better communication between field office and central office ombudsmen 				

Auditor Review/Comments on Request for Proposal for Major Procurements

The Request for Offers (RFOs) for major MIS projects were reviewed as requested by the Executive Director. Recommendations were made to the technical coordinators of the contracts during the week of August 30, 1997.

RFOs reviewed included:

- RFO for the purchase and lease of microcomputer equipment
- RFO for the LAN, WAN upgrade, and network redesign
- RFO for the network management system
- RFO for the printer subsystem upgrade

Additionally, we reviewed a preliminary contract for requirements, terms, and conditions for year 2000 remediation services for Natural programs.

We were looking for adequate inclusion of deliverables, project management responsibilities, training, description of what was needed, and what internal controls the vendor would be responsible for.

The following observations and recommendations about the RFOs were made:

- To the technical coordinator for the RFO for the purchase and lease of microcomputer equipment:
 - Document was not dated (technical coordinator indicated a dated cover letter would be added)
 - Document mentions 1,200 microcomputers are needed for 3 years, but does not specify how many of each type are needed
- To the technical coordinator for the RFO for the network management system:
 - This RFO does not reference the other RFO for the network. The vendors for the network and network management system should know about each other's contracts, plans, etc.
- To the technical coordinator for the RFO for the LAN, WAN upgrade, and network redesign:
 - Document not dated
 - Does not mention explicit expectations for redundancy, fire walls, or physical security features, during installation (Redundancy helps facilitate backup and recovery controls.)

Other weaknesses noted which could impact these projects:

- There is some evidence that the PC Lease Allocation Team is not adequately communicating information to key users.
- There is no formal standardized project management methodology.
- The MIS Satisfaction Survey indicated several concerns with the help desk, especially with PC support. Improvements are needed in training, customer service, and consistency in procedures.
- Planning and consideration for network security can be improved.
- There are too many teams and too many meetings for MIS staff members to adequately address their tasks.
- There is inadequate involvement by Quality Assurance in reviewing project deliverables and plans for automation.
- PC support personnel are increasingly hampered from downloading patches to network software because Internet access is only allowed for standalone PC's.

Strengths impacting these projects:

- There is a process for the technical RFO/contract coordinators to coordinate their projects with each other.
- There was a reasonable assessment of the Year 2000 needs and requirements by the Commission.
- There is a Master Project Planner.
- Contract deliverables appear reasonable.

Disclaimer: We can not audit intentions, only documentation of the expectations as listed in the RFOs and contracts. We have reviewed the first phase of the acquisitions and place no guarantee of success on subsequent phases, how well the Commission can manage the projects, or the how well the vendor will perform.

Positive comments

- There is substantial user involvement in system design and modifications.
- Preparation and planning in MIS for year 2000 appears reasonable.
- RFOs and contracts mention deliverables so that the Commission can monitor vendor progress.

- Contract for the West Texas Disaster Recovery Center appears to have adequate controls to be able to monitor services if the Commission chooses that processing center.