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Follow-up Review of Human Resources Management

Project # 20170105
March 2017

Texas Facilities Commission

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◆ ★ *Planning and administering facilities in service to the State of Texas* ★ ◆

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Executive Summary

Overview

Overall, Texas Facilities Commission (TFC) has processes in place to provide reasonable assurance that the agency's human resources management goals are accomplished effectively, and in compliance with relevant regulations, policies, and procedures. As of January 2017, management had significantly improved the internal controls within the agency's human resources function by fully implementing 72% (26 out of 36) of the recommendations from the *Review of Human Resources Management*, Project # 20150101, issued in April 2015. The key improvements have been in the areas of human resources staffing, agency communication, hiring practices, employee training, merits and promotions, and employee separations. The agency has hired a Human Resources (HR) Director and changed the functional reporting structure so that the HR Director reports directly to the Executive Director. HR management has improved hiring practices by updating key hiring policies, implementing an applicant screening instrument and standard tools for interview documentation and reference checks. Additionally, as of September 1, 2015, all applications for employment are received through the Texas Workforce Commission's Work-In-Texas (WIT) website which now serves as the agency's applicant tracking system.

Improvements are still needed in succession planning, supervisor training, employee performance evaluations, written procedures, and the development of formal goals and performance measures for the human resources function. In addition, opportunities for improvement exist in the agency's compliance with Texas Government Code's requirement for an EEO Policy statement and the agency's policy on veteran employment preference.

Overall Auditor Comment

It is highly unusual for an audit to include "Auditor Comments." While it is even more unusual for an auditor to allow management to respond to the "Auditor Comments," the audit team did it as a courtesy – a continuation of the collaborative effort that characterized the way the audit was performed. The tone of management responses should be of great concern to the agency. Not only is the tone inconsistent with TFC's vision statement (i.e. commitment to mutual respect, collaboration and continuous improvement), it is at odds with the collaborative spirit with which the audit was performed. Of even more concern is that the character assassination and personal attacks within the management responses could be construed as an effort to intimidate the auditors, which adversely impacts auditor independence and effectiveness. However, and as always, management is entitled to its response. Management responses have been included in their entirety and without edit.

The audit team maintains that the results of the audit are "fair and accurate," as confirmed by the auditee, the HR Director. The OIA takes the quality of its work seriously and, as with other audits, brought a systematic, disciplined approach in its evaluation of the agency's human resources management.

Summary of Management's Response

Management appreciates the work of the Office of Internal Audit (OIA) in performing a Follow-up Review of Human Resources Management (Project #20170105). Management agrees that TFC generally has processes in place to provide reasonable assurance that the agency's human resources management goals are accomplished effectively, and in compliance with relevant regulations, policies, and procedures.

Item # 1

As of March 1, 2017, Management has fully implement 89% (32 out of 36) of the recommendations from the Review of Human Resources Management (Project #20150101), issued in April 2015. Four recommendations (out of the initial 36) are still outstanding and are in the process of being fully implemented, specifically:

- 1. The performance management training for supervisors is projected to be completed by August 2017; a monitoring mechanism will also be implemented by August 2017.*
- 2. Soft skills training (i.e., teambuilding, customer service, etc.) for supervisors are scheduled to be provided by August 2017.*
- 3. All outstanding performance evaluations are projected to be completed by December 2017.*
- 4. Updating Human Resources policies and procedures is an ongoing process.*

Auditor Comment

The audit team maintains that as of January 24, 2017, management had fully implemented 72% (26 out of 36) of the recommendations from the original audit, a conclusion which was agreed to by the HR Director at the Exit Conference, on January 24, 2017, and at a follow-up meeting on March 3, 2017. The audit team discussed and agreed all audit findings (reportable and non-reportable) with the HR Director at the January 24, 2017 Exit Conference. As discussed and agreed with the HR Director, the Exit Conference marks the end of the evidence-gathering phase of the audit.

Management Response II (3-09-2017)

Management disagrees. As of March 1, 2017, management has fully implement 89% (32 out of 36) of the recommendations from the Review of Human Resources Management (Project #20150101), issued in April 2015. Four recommendations (out of the initial 36) are still outstanding and are in the process of being fully implemented. Furthermore, management maintains that an audit report should be objective and contain accurate, reliable, and complete information. In light of the misstatements identified in the follow-up audit, management respectfully ask the auditors to be amenable to receiving supplementary information to improve the quality, clarity, accuracy, and objectivity of the final audit report.

Item # 2

Under the Detailed Issues and Management Responses, sections 1 through 6 of the follow-up review, the auditors itemized 10 potential findings. Management maintains that none of the 10 potential findings amount to a statutory violation or are statistically, sufficiently significant to impede the Human Resources function or the agency's ability to effectively fulfill its core

functions. Also, Management would like to highlight a misstatement under section 3.1, where the auditors subjectively stated that “Many of the supervisors were promoted to their positions because they were good workers.” – This statement is not accurate and not based on actual data.

Auditor Comment

The objective of this Follow-up Review of Human Resources Management, as with the original Review of Human Resources Management, was not to seek “statutory violations” but rather “to determine the extent to which strategic and operational results and outcomes are achieved in an efficient and effective manner and to determine compliance with laws, policies, regulations and rules.

The statement “Many supervisors are promoted to their positions because they were good workers,” is consistent with information published by the Society for Human Resource Management (SHRM) and is generally accepted by HR professionals, including TFC’s own HR Director. SHRM is a highly reputable society which provides resources and education on workplace trends (based on workplace surveys). Other sources within the HR profession have published information that is consistent, including TLNT Talent Management and HR’s statement “too often people are promoted because they are good at their current job, not because they have the skill set to do well in a management position,” published in August 2014. It is important to note that the HR Director agreed that this statement was applicable to TFC during the Audit Entrance Conference (on December 1, 2016), the Audit Exit Conference (on January 24, 2017) and at a follow-up meeting on March 3, 2017.

Management Response II (3-09-2017)

Under the Scope and Methodology section of the audit report, the auditors noted that “The review was based upon standards as set forth in Texas Government Codes, State Auditor’s Office State Classification Office’s Texas Human Resources Management Statutes Inventory, and the Texas Workforce Commission “Especially for Texas Employers” manual, and agency policies and other sound administrative practices.” Accordingly, it is management’s understanding that one of the objectives of the original (and follow-up) audit was to seek compliance with applicable statutes/regulations/rules.

We appreciate the fact that the auditors have revised, and have appropriately quoted and attributed the following sentence to the Society for Human Resource Management: “Many of the supervisors were promoted to their positions because they were good workers.”

However, management still disagrees that this statement is applicable to TFC. This statement is not accurate and not based on actual data; the statement appears to suggest that TFC’s supervisors do not possess any supervisory skills and were solely promoted because “they were good workers.” Management respectfully requests that the sentence be removed from the audit report unless the auditors could obtain sufficient, appropriate audit evidence/documentation to provide a reasonable basis to support their conclusion.

Item # 3

Under the Objectives and Conclusions, section 1.4 of the follow-up review, the auditors failed to exercise due professional diligence:

- *The auditors stated that “The agency’s employee turnover for FY 2016 was **14.6%**. For an agency of our size, this appears too high.” – The auditors failed to benchmark the agency’s employee turnover rate against statewide data. In An Annual Report on Classified Employee Turnover for Fiscal Year 2016, the State Auditor’s Office concluded that the fiscal year 2016 statewide turnover rate was **17.6%** for classified, regular, full- and part-time employees based on 26,760 separations. TFC’s employee turnover rate is therefore relatively low in comparison to the statewide turnover rate.*
- *The auditors further specified that “**30%** (22 out of 73) of the employees that left the agency during the testing period (April 1, 2015 to November 31, 2016) had not reached their first anniversary at TFC and **15%** (11 of 73) stayed at the agency less than three months.” – Data provided to the auditors shows that nine employees (out of 22) who left before their first anniversary with TFC were transfers from TSD/TSBVI (i.e., these employees may have had many years of state service but were transferred effective September 1, 2015 to TFC); therefore, the adjusted turnover rate is **17.8%** (13 out of 73) for employees who had not reached their first anniversary at TFC. The data also shows that seven employees (out of 11) who left before 90 days were interns. Per the agency’s policies, interns may not work more than 90 days; therefore, the adjusted turnover rate is **5.48%** (4 out of 73) for employees who stayed at the agency for less than three months.*

Management is committed to continuously improving human resources management processes. Accordingly, Management has designed an Operational Plan, a framework that TFC will utilize systematically to ensure better operational efficiency, effectiveness, transparency, and accountability in the Human Resources department and agency-wide.

Auditor Comment

The State Auditor’s Annual Report on Classified Employee Turnover for the Fiscal Year 2016 shows an improvement in overall employee turnover over the previous year (per SAO’s report numbers 16-702 and 17-704), from 19.2% to 13.7%. However, it is important to note that the turnover in maintenance specialist-type positions (27.3% in FY 2015) continues to be a concern. Discussions at the February 14, 2017, Commission meeting indicate that management is aware of this issue, and is working to address it.

The audit rates recommendations as ‘fully implemented’ only when the original risk has been adequately addressed i.e. the original condition no longer exists. Thus, in situations where audit follow-up testing results in a high exception rate, (despite whatever action management has taken) the audit does not consider the issue resolved. This was the case in 27% (10 out of 36) of the original audit issues.

Management Response II (3-09-2017)

We appreciate the fact that the auditors have revised the audit report and have heeded management’s recommendation to benchmark TFC’s Employee Turnover Ratio against statewide data. However, the auditors failed to underscore the improvement TFC made in the maintenance specialist-type position. Per the Texas State Auditor’s Office’s Electronic Classification Analysis System (E-Class), turnover in maintenance specialist-type positions has improved from 27.3% (FY15) to 9% (FY16).

Background

This report represents the results of the follow-up of the Office of Internal Audit's *Review of Human Resources Management*, issued in April 2015. This follow-up review focused primarily on the verification of management's implementation of the recommendations from the *Review of Human Resources Management*.

HR's functions include overseeing the hiring process, new employee orientation training, processing of personnel actions (such as promotions, demotions, resignations and terminations), preparing various required reports, updating and retaining personnel files, conducting termination interviews, and maintaining all the documentation of human resources management processes.

Closing

We would like to thank HR staff, and agency employees that were interviewed as part of this review for the cooperation and assistance provided to the audit staff. For questions or additional information concerning this audit report, please contact Amanda Jenami at 512-463-1438.

Detailed Issues with Management Responses

1. Operational Effectiveness

1.1 Management of the Human Resources Function

The agency has hired an HR Director and changed the functional reporting structure so that the HR Director reports directly to the Executive Director. HR has developed a mission statement to communicate the purpose of the HR function. However, HR's divisional goals have not yet been finalized. Discussions with the HR Director indicated that HR is awaiting the completion of the agency's Operational Plan to ensure its final goals are appropriately aligned with the agency's Operational Plan. As of the Audit Exit Conference, held on January 24, the agency's Operational Plan had not yet been finalized. In addition, as of the follow-up meeting held with the HR Director on March 3, 2017, HR goals had not yet been finalized.

Recommendation

HR should develop formalized goals, performances measures, and targets for the HR function.

Management Action Planned

In addition to developing a mission statement, the Human Resources Division developed program objectives and program initiatives. These initiatives and associated timelines serve to outline the division's current and ongoing programmatic goals. Management believes that the mission statement, program objectives, and program initiatives satisfy the original recommendation and no further action is required.

At this time, the agency's Operational Plan is in the final stages of development. SMART goals have been developed for the human resources function at the agency; however, these goals and their associated targets are still under review.

Responsible Parties

Executive Director

Estimated Completion Date

Fully Implemented

Auditor Comment

The HR Director informed the audit that HR goals would be finalized following finalization of the agency's Operational Plan at the Audit Entrance Conference (on December 1, 2016), and confirmed that HR goals still had to be finalized at the Audit Exit Conference on

January 24, 2017 and at a follow-up meeting on March 3, 2017. This outstanding audit issue has not been “fully implemented” but rather remains “outstanding.”

Management Response II (3-09-2017)

Management disagrees that this “issue is not fully implemented and remains outstanding.” As stated in management’s original response, the Human Resources goals have been finalized although management is still fine-tuning the agency’s Operational Plan. The agency’s Operational Plan is a dynamic document that is routinely and continuously amended.

1.2 Work Environment

The agency conducted a Survey of Employment Engagement (SEE) from January 11 through February 5, 2016 via a contract with the University of Texas’ Institute for Organizational Excellence. Seventy-one percent (234 out of 329) of agency employees responded to the survey. Management received a report on the survey results in March 2016. The executive summary of the report suggests that management should share the survey results with all employees by May 2016, engage the employees in formulating change strategies by June 2016, and move forward with change by August 2016. However, management has not shared the results or created a formal plan to address the issues arising from the survey. The high response rate (71%) suggests that the survey is a good indicator of employee perceptions.

Recommendation

Management should promptly share the results of the survey with all Commission members and employees, and develop a formal action plan on addressing the issues raised by the survey.

Management Action Planned

The original recommendation from the Review of Human Resources Management Audit was that “management should cultivate a more positive work environment by (iv) seeking anonymous employee feedback on the work environment through periodic employee engagement surveys.” Management agreed to and completed this recommendation by contracting with the University of Texas at Austin’s Institute for Organizational Excellence (IOE) to conduct the Survey of Employee Engagement (SEE) in January and February 2016.

Through analysis of the results of the survey, management developed and deployed several agency-wide initiatives. The formation of the Organizational Culture Committee, the development of the agency’s vision statement, and the deployment of an agency newsletter were in response to the results of the SEE. In addition, the agency’s Operational Plan utilized the results of the SEE in order to develop the following list of goals.

- 1. Develop an effective and timely communication plan with other agency programs.*
- 2. Execute team-building and team training exercises to encourage communication and teamwork.*
- 3. Improve the agency’s capacity to promote and compensate staff in a consistent manner.*
- 4. Provide training and professional development to all employees.*

5. *Ensure all employees have the resources needed within available funding to perform their jobs safely and efficiently.*

The executive summary document provides a template as a suggested guideline for the implementation of initiatives as a result of the survey. Discussions with the IOE confirm that these suggestions are flexible based on the organization, its culture, and business model.

Prior to the release of this report, management provided the results of the survey to all of the Commissioners. In addition, the agency-level Executive Summary report has been posted on the agency's web portal. Management believes that these actions satisfy the original recommendation and no further action is required.

Responsible Parties

Executive Director

Estimated Completion Date

Fully Implemented

Auditor Comment

At the January 24, 2017, Exit Conference (which serves as the official end to the evidence gathering phase of the audit), the HR Director agreed with the audit team that the results of the SEE had not yet been shared with the agency (including Commissioners). The HR Director also agreed that the SEE results had not yet been posted on the agency's intranet. At the follow-up meeting (on March 3, 2017) the HR Director notified the audit team that management had posted the SEE executive summary on the agency's intranet "a few days ago."

Management Response II (3-09-2017)

Management disagrees that this issue is not fully implemented and remains outstanding. Management maintains that an audit report should be objective and contain accurate, reliable, and complete information. In light of the misstatements identified in the follow-up audit, management respectfully ask the auditors to be amenable to receiving supplementary information to improve the quality, clarity, accuracy, and objectivity of the final audit report.

1.3 Succession Planning

While management has implemented a succession planning policy, the agency still has to create a formalized succession plan. The HR Director informed the auditors that she has had informal discussions with the Executive Director pertaining to some key positions.

Succession planning is the purposeful and systematic effort made by an organization to develop and retain knowledge and intellectual capital to ensure the continuity of key operations in the event of employee turnover. Within state government, effective, proactive succession planning is not about identifying and developing an "heir apparent." It is about identifying key tasks and

mitigating strategies (that address key risks) whose disruption would threaten the continuity of agency operations, and developing (through cross-training) backups.

While approximately 19% of the agency's current workforce is eligible to retire within the next five years, effective, proactive succession planning that leaves the organization well prepared for contingencies should address all key operations/tasks not just those that are being performed by baby boomers.

The auditors continue to believe that a formal succession plan is necessary to mitigate the risk of a disruption in operations due to key personnel leaving the agency.

Recommendation

Mitigate the risk of a disruption in agency operations from key personnel leaving the agency by developing and implementing a formal succession plan.

Management Action Planned

Succession planning is defined in the Review of Human Resources Management audit as "the process whereby an organization ensures that employees are recruited and developed to fill each key role within the agency." Management recognized this gap and, in response, developed the agency's Succession Planning policy which became effective September 1, 2016. The policy outlines the procedures for succession planning efforts at the agency. Pursuant to this policy, the Executive Director has the latitude to determine critical positions and appoint internal candidates to serve in an interim capacity should a vacancy occur. The Executive Director has completed this task and management believes that these actions satisfy the recommendation. No further action is required.

Management concurs that knowledge transfer is critical to succession planning efforts at the agency. Management will continue to encourage all programs within the agency to document business processes and cross-train personnel for continuity of operations purposes.

Responsible Parties

Executive Director and program management

Estimated Completion Date

Fully Implemented

Auditor Comment

While a policy on Succession Planning is a good way to communicate management expectations, it does not adequately address the risk of not having a succession plan. Management's comments under the section "Management Action Planned" do not indicate that management has systematically considered the risk of not having a succession plan and found it (the risk) to be "acceptable" i.e. within management's risk tolerance. Thus, this issue is not fully implemented and remains outstanding.

Management Response II (3-09-2017)

Management disagrees that this “issue is not fully implemented and remains outstanding.” Please see management’s original’s response. Also, the existence of a detailed succession planning policy and other policies and procedures agency-wide collectively and reasonably diminish the likelihood of loss of continuity and disruption of key operations in the event of employee turnover.

1.4 Written Procedures

The agency’s human resources management processes do not ensure HR policies and procedures are kept up-to-date. Forty-one percent (29 out of 71) of the policies in the HR Manual and forty-six percent (74 out of 162) of the files in the “smart” book have not been updated in more than five years. HR’s written procedures are maintained in the HR manual and the HR “smart” book. The HR manual consists of agency’s human resources related policies including EEO, hiring, health and safety, employee conduct, compensation, and benefits, and is located on the TFC Portal. The “smart” book is a secure shared folder containing procedures, standard forms, and checklists to guide HR staff in performing its day-to-day duties.

Recommendations

HR management should continue to review, and update, when necessary, the HR Policy Manual and the HR "smart" book on a regular and routine basis.

Management Action Planned

The Human Resources Division will continue to review, revise, and update the Human Resources Manual utilizing the two-year schedule developed as a guideline for this process. The Human Resources Division will continue to review, revise, and update the Procedures Manual or “smart book” as necessary.

Responsible Parties

Director of Human Resources

Estimated Completion Date

Ongoing

2. Hiring Practices

2.1 Performance Plans and Probationary Period Evaluations

Performance management continues to be an issue at the agency. Further improvement is needed to ensure new hires are provided with performance plans within 30 days of their employment. Fifteen percent (3 out of 20) of the new hires tested did not have a performance plan. The agency’s Initial Employment Probationary Period Policy requires supervisors to establish an employee performance plan with new employees within 30 calendar days of hire. A performance

plan assists in setting and discussing performance standards, expectations, goals, and provides a record of the discussion. A formal performance plan and a record that the new hire discussed (and understands) their duties with their supervisor would go a long way in setting them up for success.

In addition, current practice does not ensure compliance with the agency's policy regarding employee probationary period evaluations. Sixty percent (12 out of 20) of the new hires tested had not received a 6 month end-of-probationary period evaluation, as required. The probationary period should be used to ensure that the applicant selected is qualified to perform the job. During this period, the agency should carefully evaluate the employee's performance and general suitability for employment. To make this decision, the supervisor should develop and communicate performance standards and objectives, set aside time to observe the employee, provide the employee with feedback.

The HR Director informed the auditors that performance management training had been developed and delivered to agency supervisors. However, the review found that 45% (27 out of 60) of the agency's supervisors have not been provided with performance management training. This and the 60% noncompliance on probationary evaluations suggest that improvement is needed in the agency's performance management processes.

Recommendations

Management should improve compliance with the initial employment probationary period policy by:

- (i) Making attendance to performance management training mandatory for all agency supervisors.
- (ii) Developing a compliance monitoring mechanism that systematically sends supervisors periodic (30 days) reminders before and after performance plans are due. Such a monitoring mechanism could begin copying the supervisor's supervisor once the performance plan is overdue by more than 30 days.
- (iii) Developing a compliance monitoring mechanism that systematically sends supervisors periodic (30 days) reminders before and after probationary evaluations are due. Such a monitoring mechanism could begin copying the supervisor's supervisor once the performance plan is overdue by more than 30 days.

Management Action Planned

Management fully implemented the original recommendations outlined in the Review of Human Resources Management audit. Performance management training was developed and delivered to agency supervisors, performance plans are required within the first 30 days of employment, and an end-of-period review is required for all employees who complete the initial employment probationary period.

Management agrees that performance management training is important for agency supervisors. The Human Resources Division will continue to provide this training to agency supervisors in

order to educate and instruct them on the agency's performance management process and existing policy; however, management does not agree that mandatory attendance is required in order to improve compliance with agency policy. Management will facilitate participation and encourage the attendance of all agency supervisors.

The Human Resources Division believes that better tracking and notification are the keys to successful compliance with existing agency policy. At present, the Human Resources Division uses an entirely manual process to notify, track, and maintain compliance records. Management concurs with the recommendations to develop a compliance monitoring system and has initiated discussions with the Information Technology Division in order to design a technology-based solution.

Responsible Parties

Director of Human Resources and program management

Estimated Completion Date

August 2017

3. Employee Training

3.1 Supervisory Training Program

The agency does not have a formal supervisory training program to train supervisors in hiring, coaching, teambuilding, customer service and other relevant topics. Discussions indicate that this is partly because the agency cannot afford it. Supervisors are in the forefront of the action and could, if not trained, create risk for the agency or, if trained, develop and nurture very productive teams. Surveys consistently show that strong front line supervisors, more than the top-level managers, are the most critical factor in engaging an organization's workforce. Research on workplace trends performed by the Society for Human Resource Management (SHRM) indicates that many supervisors are promoted to their positions because they are good workers. This statement is "generally accepted" by HR professionals, including TFC's own HR Director. SHRM is a highly reputable society which is a leader in providing resources and education on workplace trends (based on workplace surveys) to HR professionals. Other sources within the HR profession have published information that is consistent, including TLNT Talent Management and HR's statement "too often people are promoted because they are good at their current job, not because they have the skill set to do well in a management position," published in August 2014. It is important to note that the HR Director agreed that this statement is applicable to TFC at the Audit Entrance Conference (on December 1, 2016), the Audit Exit Conference (on January 24, 2017,) and the follow-up meeting on March 3, 2017.

Supervising requires different skills – coaching, counseling, caring, and building credibility with the staff by showing both functional expertise and relational competence. All of these do not come naturally – they are learned and developed. With good training, lots of coaching and mentoring, along with experience and time, one can become good at it.

The auditors understand that resources are limited. However, such a program could be developed and performed with the use of in-house talent. The agency has many experienced supervisors who could be willing to not only mentor new supervisors but also assist with teaching some of the classes.

The training should be relevant, timely and linked to agency strategies and day-to-day behavior, including hiring, coaching, teambuilding, performance evaluations, performance plans, and customer service.

Recommendations

In consultation with supervisors, management should develop a training program for supervisors. The training should include such areas as hiring, coaching, teambuilding, employee performance planning and evaluation, and customer service.

Management Action Planned

Management agrees that a supervisory training program is a good idea. Management has identified an employee who will be able to provide a pilot supervisor training program. At this time, based on the employee's workload, this training will be provided during June and July 2017. Management will continue to seek out additional resources, both internal and external, to provide cost-efficient training to agency supervisors within the constraints of time, workload, and appropriated funds. Management is also developing a formal mentorship program as part of the agency's Operational Plan.

Responsible Parties

Executive Director and Director of Human Resources

Estimated Completion Date

August 2017

Management Response II (3-09-2017)

We appreciate the fact that the auditors have revised, and have appropriately quoted and attributed the following sentence to the Society for Human Resource Management: "Many of the supervisors were promoted to their positions because they were good workers."

However, management still disagrees that this statement is applicable to TFC. This statement is not accurate and not based on actual data; the statement appears to suggest that TFC's supervisors do not possess any supervisory skills and were solely promoted because "they were good workers." Management respectfully requests that the sentence be removed from the audit report unless the auditors could obtain sufficient, appropriate audit evidence/documentation to provide a reasonable basis to support their conclusion.

4. Employee Separations

4.1 Safeguarding Agency Assets

While use of the checklist is a good improvement to the employee separation process, it is not being utilized consistently. Twelve percent (2 out of 17) of the resignations tested did not have a separation checklist in their personnel file. The separation checklist is a good control. It facilitates the return of agency assets and provides a record that computer access has been revoked, passwords changed, accounts terminated, and that the final weekly time report has been submitted. In addition, it provides an opportunity for the separating employee to donate their unused sick leave to the sick leave pool.

The agency's Separation from Agency Policy does not require employees to complete the checklist on their separation from the agency. The policy was last updated on 9/19/2007 i.e. before the checklist was implemented (on June 2015). The requirement to complete the checklist is listed only on the checklist. Updating the Separation from Agency Policy with the requirement for all separating employees to complete the separation checklist would enhance controls within this area.

Recommendations

Management should update the *Separation from Agency Policy* to require completion of the checklist. HR should implement a mechanism to send employees reminders a few days before their last day.

Management Action Planned

The Transfer/Separation Checklist was developed for agency use in 2009. As of June 2015, the Human Resources Division had instituted a process to remind supervisors of their responsibilities upon the separation of an employee from the agency. The separation checklist is included as a step in this process and the form is attached to this email reminder.

The Human Resources Division concurs with the recommendation to update the existing Separation from Agency policy to reflect the requirement that the separation checklist be completed and returned to the Human Resources Division. In both instances noted above, the employee left the agency without being out-processed by either their supervisor or the Human Resources Division. Revisions to agency policy now specify that if the employee leaves prior to out-processing, then the separation checklist will be completed in absentia and included with the employee's records. These revisions became effective March 15, 2017.

Responsible Parties

Director of Human Resources

Estimated Completion Date

Fully Implemented

5. Policies

5.1 Policies and Practices

The agency has reinstated its Employee Evaluations Policy, as recommended in the original audit. However, even with the policy in place, agency processes do not ensure that all employees receive a performance evaluation annually. Thirty-one percent (31%) (5 out of 16) of the personnel files tested did not have a current annual performance evaluation as required by the policy. The employee evaluations policy is a good way to communicate management's expectations. However, the 31% exception rate suggests that more needs to be done to address the risk that was identified in the original report (including the use of monitoring tools).

Recommendation

Management should consider making compliance with agency policy regarding employee evaluations (i.e. performance plans, six month end-of-probationary period evaluations, and annual performance evaluations) a part of supervisor performance criteria.

Management Action Planned

Management fully implemented the original recommendations outlined in the Review of Human Resources Management audit. The practice of performing employee evaluations has been reinstated at the agency and completion of the nepotism data form is again required of all employees.

Management concurs with the recommendation and will work with program managers to ensure that supervisors are held accountable for compliance with agency policy. The Human Resources Division has scheduled a review the agency's performance management process for fiscal year 2018. At that time, the Human Resources Division will incorporate this requirement into the annual performance appraisal form.

Responsible Parties

Program management and Director of Human Resources

Estimated Completion Date

December 2017

6. Compliance with Texas Government Code

6.1 Equal Employment Opportunity (EEO) Policy Statement

Texas Government Code Section 2152.109(b)(2) requires that an Equal Employment Opportunity (EEO) Policy Statement must be prepared, maintained, and updated at least annually. As of January 31, 2017, the agency's policy statement from the Executive Director was dated June 23, 2015 and was signed by the former Executive Director.

Recommendation

The Executive Director should update the EEO Policy Statement timely and controls should be designed and implemented to ensure it is updated as required.

Management Action Planned

The EEO Policy Statement had, in fact, been updated and posted annually in 2015 and 2016. Due to an administrative oversight, the current statement was replaced by the 2014 version. This has been corrected and the current statement is posted on the agency's web portal.

The EEO Policy Statement, which was already included in the Commission's "List of Required Reports," has been updated with a due date of June 30, 2017. With this due date specified, the system will automatically notify the Human Resources Division to update the EEO Policy Statement in the Human Resources Manual preface. The due date will be updated annually upon completion thus ensuring compliance

Responsible Parties

Director of Human Resources

Estimated Completion Date

Fully Implemented

Auditor Comment

As confirmed by the above management's response, as of the Audit Exit Conference, the agency's 2017 EEO Policy Statement was not posted on the website.

Management Response II (3-09-2017)

Management disagrees that this issue is not fully implemented and remains outstanding. Due to a computer error, an earlier version of the agency's Equal Employment Opportunity (EEO) policy was posted on the agency's intranet; however, an up-to-date policy has been uploaded since. A recent audit conducted by the Texas Workforce Commission (TWC) did not note any exceptions or identified any non-compliance issues; TWC's audit included a review of the agency's EEO statement.

6.2 Veteran's Employment Preference

The agency's hiring practices do not ensure compliance with its Screening Applications Policy. For 45% (9 out of 20) of job postings tested, the agency did not interview any veterans. In two instances "qualified" veterans were not interviewed. In the other seven instances, the veteran applicants had been classified as "unqualified" on the application scoring tool. The agency's Screening Applications Policy requires that if six or fewer applicants are selected for an interview, then at least one applicant who qualifies for a veterans' employment preference must be interviewed. The policy does not provide an exception for instances where a veteran applicant does not qualify for the position.

Additionally, Texas Government Code Section 657.004 (a) requires each state agency to establish a goal of hiring, in full-time positions at the agency, a number of veterans equal to at least 20% of the total number of employees at the state agency. The agency's Veteran Workforce Summary Report for FY 2016 shows that the agency is currently not meeting the 20% goal (and is at 9.21%).

HR is researching Texas Government Code 657 for guidance regarding instances when a veteran applicant is considered "not qualified."

Recommendations

Management should ensure veterans are interviewed in compliance with Texas Government Code and agency policy.

Should Texas Government Code allow an exception, management should update the agency policy.

Management Action Planned

The Texas Government Code Section 657.003 states that an individual who qualifies for a veteran's employment preference is entitled to a preference in employment with a state agency "over other applicants for the same positions who do not have a greater qualification." The Texas Government Code Section 657.047 Subsection (a) requires that state agencies interview at least one applicant who qualifies for a veteran's employment preference (if the number of applicants selected for interview equals six or fewer) or 20 percent (if the number of applicants selected for interview is greater than six); however, Subsection (b) states that a state agency that does not receive any application from individuals who qualify for a veteran's employment preference under Section 657.003 is not required to comply with Subsection (a).

The agency's Screening Applications policy outlines the process by which the hiring authority determines which applicants qualify for interview. The process utilizes two screening phases—initial and secondary—in order to make this determination. The initial screening determines which applicants meet the minimum qualifications of the job posting. On the screening instrument, it is during this initial screening phase that the hiring authority also determines whether or not the applicant is entitled to a veteran's employment preference. Only applicants that meet the minimum qualifications of the job posting, regardless of their qualification for a veteran's employment preference, are moved into the secondary screening phase.

Upon completion of the secondary screening phase, the applicants are ranked by their overall points and the interview pool is determined. As required by law and outlined in the Screening Applications policy, the hiring authority, with guidance from the Human Resources Division, determines whether or not applicants who qualify for a veteran's employment preference must be interviewed.

In order to further clarify these points, the Human Resources Division has updated the Screening Applications policy to reflect the distinction in the Texas Government Code. This update became effective March 15, 2017.

Responsible Parties

Director of Human Resources

Estimated Completion Date

Fully Implemented

Objectives and Conclusions

The overall objective of this review was to determine the extent to which recommendations associated with the issues identified in the *Review of Human Resources Management*, Project # 20150101, issued in April 2015, have been implemented.

The review focused primarily on human resources management activities from April 1, 2015 to November 30, 2016. Fieldwork was conducted from December 2016 through January 2017. The detailed audit objectives and conclusions are described next.

Objective 1 – Operational Effectiveness

1.1 Determine the extent to which the agency’s processes ensure human resources management goals are accomplished in an effective manner.

The agency has hired an HR Director who reports directly to the Executive Director. HR has developed a mission statement and some draft goals, but development of formal goals, performance measures, and targets has been delayed, pending completion of the agency’s Operational Plan.

1.2 Determine the extent to which the agency’s human resources function has the knowledge, skills, abilities, and resources necessary for optimal accomplishment.

The addition of an HR Director improved the overall knowledge, skills, and abilities within the HR function.

1.3 Determine the extent to which agency processes cultivate a positive work environment.

The agency performed a *Survey of Employee Engagement* (SEE) to gage the level of employee satisfaction at the agency. The survey was conducted by the University of Texas’ Institute for Organizational Excellence from January 11th through February 5, 2016. All TFC employees, as of December 11, 2015, were invited to participate. Although survey results were received in March 2016, management has not shared the results or created a formal plan to address the issues arising from the SEE. Information loses value for decision making as it ages. Timely distribution of information is highly desirable since knowledge presented promptly is generally more relevant to users while conversely, delay in the distribution of information tends to render it less relevant to the decision making needs of the users.

1.4 Determine the extent to which agency processes ensure employee retention.

The Employee Activities Committee (EAC) works to improve the working environment at the agency by coordinating agency-wide social events like the Texas Facilities Commission Employee Appreciation Holiday Reception held in November 2016.

The State Auditor's Annual Report on Classified Employee Turnover for the Fiscal Year 2016 shows an improvement in overall employee turnover over the previous year (per SAO's report numbers 16-702 and 17-704), from 19.2% to 13.7%. However, it is important to note that the turnover in maintenance specialist-type positions (27.3% in FY 2015) continues to be a concern. Discussions at the February 15, 2017, Commission meeting indicate that both executive and program management are aware of the issue and in the process of addressing it.

High employee turnover is costly i.e. the loss of institutional knowledge, the cost of finding and training suitable replacements, and the damaged morale among the remaining employees. Of particular concern to the agency is that 17.8% (13 out of 73) of the employees that left the agency during the testing period (April 1, 2015 to November 31, 2016) had not reached their first anniversary at TFC.

Management Response (3-09-2017)

We appreciate the fact that the auditors have revised the audit report and have heeded management's recommendation to benchmark TFC's Employee Turnover Ratio against statewide data. However, the auditors failed to underscore the improvement TFC made in the maintenance specialist-type position. Per the Texas State Auditor's Office's Electronic Classification Analysis System (E-Class), turnover in maintenance specialist-type positions has improved from 27.3% (FY15) to 9% (FY16).

1.5 Determine the extent to which the agency's succession planning processes ensure continuity of operations.

The agency does not have a formal succession plan. The average age of a TFC employee is 49 years 4 months and employees over the age of 40 make up 79% of the agency's workforce. Furthermore, approximately 19% of the agency's current workforce will be eligible to retire prior to 2021. Many of the pending retirements over the next five years are either managers or staff with senior-level technical expertise. The agency should address this risk by ensuring all areas have well-developed written procedures, adequate to provide staff with guidance on its day-to-day duties. In addition, management should develop and implement formal cross-training strategies and an agency succession plan.

1.6 Determine the extent to which Human Resources' processes ensure personnel files, records and systems are adequately maintained to ensure data accuracy, completeness and integrity while complying with the State's Records Retention Schedule.

HR processes reasonably ensure that personnel files, records, and systems are maintained to ensure data accuracy, completeness, integrity, and compliance with the State's record retention schedules. The audit reviewed personnel files for evidence of information security form, outside employment authorization, driver's license check, offer letter, EEO and ethics training, and employee separation checklist.

1.7 Determine the extent to which management has developed and implemented written policies and procedures sufficient to guide staff in carrying out its human resources management duties.

The agency has a schedule to review and (where necessary) update HR policies every two years to be in-line with the Texas Legislative Session schedule. However, the review found 41% of HR policies (located on the TFC portal) have not been updated within the previous five years. Although this is an improvement from the more than 60% that were identified in the initial audit, management should continue to review and (where necessary) update Human Resources policies in-line with their schedule. As of January 31, 2017, the agency's Equal Employment Opportunity (EEO) policy statement was last updated on June 23, 2014 and was signed by the previous Executive Director. The Texas Government Code Chapter 2152, Section 2152.109, requires the EEO policy statement to be updated on an annual basis.

HR has written procedures, including system user instructions, checklists, and standard forms to help guide HR staff in carrying out its day-to-day duties. This information is housed in a secure share folder and is referred to as the "smart" book. HR has a schedule to review and (where necessary) update the "smart" book every two years to be in-line with the Texas Legislative Session schedule. The review found evidence that a significant portion of the "smart" book has been updated within the past two years, however, 46% of the contents have not been updated in more than five years and **19.75%** have not been updated in 8 years or more. Additionally, although HR has developed detailed instructions on the hiring process to guide supervisors, the agency's *Performance Evaluations Policy* was last updated in 2008.

Management Response (3-09-2017)

Management disagrees that this issue is not fully implemented and remains outstanding. Due to a computer error, an earlier version of the agency's Equal Employment Opportunity (EEO) policy was posted on the agency's intranet; however, an up-to-date policy has been uploaded since. A recent audit conducted by the Texas Workforce Commission (TWC) did not note any exceptions or identified any non-compliance issues; TWC's audit included a review of the agency's EEO statement.

1.8 Determine the extent to which management has provided supervisors with training to enable them to carry out their day-to-day supervisory duties in a positive work environment.

The agency does not have a formal supervisory training program. In response to requests, HR has conducted supervisor performance management training to 56% of the agency's supervisors. Thus, 44% of the agency's supervisors have not been provided with performance management training. Additionally, testing for the completion of performance plans, end of six month

probationary period evaluations, and annual evaluations showed high levels of noncompliance to the agency's *Employee Evaluations Policy* (as discussed in the *Detailed Issues and Management Responses* above) and highlight the need for this training. Management should develop and implement supervisory training that is relevant, timely, and linked to agency strategies and day-to-day behavior, including hiring, coaching, teambuilding, performance evaluations, customer service, and performance planning.

Management Response (3-09-2017)

Management respectfully requests that the following paragraph be removed from Section 1.8:

“Additionally, testing for the completion of performance plans, end of six month probationary period evaluations, and annual evaluations showed high levels of noncompliance to the agency's Employee Evaluations Policy (as discussed in the Detailed Issues and Management Responses above) and highlight the need for this training.”

Management does not believe that the above statement needs to be rehashed under Section 1.8; the auditors have thoroughly discussed this finding under Section 3.8.

Objective 2 – Hiring Practices

2.1 Determine the extent to which the agency has developed and implemented hiring policies and procedures to ensure compliance with federal and state laws and agency requirements.

The agency's compliance with EEO requirements has significantly improved. For 100% (20 out of 20) new hires and (16 out of 16) current employees tested, EEO training was completed in compliance with Texas Labor Code 21 and agency requirements. For 10% (2 out of 20) of the job posting files reviewed, the position was posted for less than the 10 working days required by the agency's *Posting Job Vacancies Policy*. These positions were posted for 8 and 9 days. HR management is aware of these instances and has already added additional controls to ensure positions are posted for the required length of time per agency policy.

The review found opportunities for improvement in the agency's compliance with federal, state and agency requirements. For 45% (9 out of 20) of the job posting files tested, veterans were not interviewed as required by TFC's *Screening Applications Policy*. Additionally, Senate Bill 805 (84th Legislature) amended Texas Government Code, Section 657.004, set a goal for state agencies of employing veterans in full-time positions equal to at least 20% of the total number of agency employees, effective September 1, 2015. Review of the *Veteran Workforce Summary Report by Agency*, Fiscal Year 2016 shows 9.21% (35 out of 380) of the total agency employees qualify for the veteran status (i.e. a deficit of 10.79%).

2.2 Determine the extent to which the agency’s hiring practices ensure the best qualified candidate is selected in an objective and unbiased evaluation of the candidate’s knowledge, skills, education, abilities and experience.

Significant improvement was noted in the agency’s hiring process. As of September 1, 2015, all applications are received through the Texas Workforce Commission’s Work-In-Texas (WIT) website. WIT serves as the agency’s applicant tracking system and only applications received through this system are considered. The review found evidence of an applicant screening tool and standardized interview scoring sheets in use.

2.3 Determine the extent to which the agency’s hiring processes provide reasonable assurance that confidential information is protected, and processes are performed efficiently and effectively.

Improvement was noted in HR’s protection of confidential information. All HR staff have signed employee non-disclosure agreements to help protect the confidentiality of the agency’s personnel information. Further, staff from other program areas do not have access to personnel information without a legitimate reason, the approval of the HR Director, and the individual signing a non-disclosure agreement prior to access being granted.

2.4 Determine the extent to which vacancies are filled in a timely manner.

Agency hiring procedures have shown improvement in ensuring key vacancies are filled in a timely manner. Two director positions were reviewed. These positions required an average of one month to fill.

Objective 3 – Employee Training

3.1 Determine the extent to which the agency’s processes ensure employees are provided with the state-required training.

There has been significant improvement in the agency’s compliance with state-required training. 100% (20 out of 20) of new hires and (16 out of 16) of current employees tested received EEO training in compliance with Texas Labor Code, Section 21.010 requirement that employees of a state agency shall attend EEO training not later than the 30th day of employment and attend supplemental training every two years thereafter.

3.2 Determine the extent to which the agency provides employees with ethics training.

The agency has experienced significant improvement in providing ethics training, as required. Five percent (1 out of 20) of new hires tested had not been provided with ethics training, as required by the agency’s *Training Development* Policy. While the agency does provide employees with ethics training, the training is only offered in English. For an agency whose

workforce is 29.8% Hispanic, management should consider also offering the ethics training in Spanish.

Management Response (3-09-2017)

Management respectfully requests that the following paragraph be removed from Section 3.2:

“While the agency does provide employees with ethics training, the training is only offered in English. For an agency whose workforce is _ Hispanic, management should consider also offering the ethics training in Spanish.”

First, the Texas Ethics Commission (TEC) designs the Ethics training for State Officers and Executive Branch Employees; TEC confirmed to management that the Ethics training is only available in English; a Spanish translation is not currently available.

Second, the auditors left a place-holder in the paragraph above; we would like to understand whether the auditors need supplementary information from management.

3.3 Determine the extent to which the agency provides new hires with training on policies and procedures.

New employees are expected to attend new employee orientation within the first 30 days of employment. When this is not feasible, new employees are expected to attend the following month’s orientation.

Review of updated TFC *Training Development* policy establishes only that new employees should attend a session of New Employee Orientation within the first 30 days of employment with the agency. Review of sign-in sheets for New Employee Orientation provided sufficient evidence that management consistently made available the ability to attend new employee orientations within the first 30 days of employment or the following month.

Objective 4 – Employee Performance Evaluations

Determine the extent to which agency processes ensure employees are provided with formal periodic performance evaluations.

Management has reinstated the employee performance evaluation policy. However, current practice does not comply with this policy. For 31% (5 out of 16) of the current employees tested, the review did not find a recent annual evaluation in their personnel file. Two files tested did not have any performance evaluation even though the employees were hired in 2012 and 2014. Further, the only performance evaluation in another personnel file was performed in 2009. Furthermore, 15% (3 out of 20) and 60% (12 out of 20) of the new hires tested had not received a performance plan and a 6 month end-of-probationary period evaluation, respectively. The agency’s *Employee Evaluations* Policy states, “Performance plans must be updated and adopted for new employees to the agency within 30 calendar days from their first day on the job, at the end of their six-month initial probationary period, and twelve months after hire. Plans must also be updated and adopted for all employees on an annual basis.”

Objective 5 – Employee Separations

Determine the extent to which the agency’s separation processes include controls to ensure compliance with federal, state and agency requirements.

Management has made improvements in the agency’s separation processes. For 100% (20 out of 20) of the separated employees tested, the employee was removed promptly from the Uniform Statewide Payroll/Personnel System (USPS) and not allowed to remain on the agency payroll for their sick leave balance to run out. Management has developed and implemented a *Separation/Transfer Checklist*. The checklist provides an opportunity for the separating employee to donate their unused sick leave to the sick leave pool. In addition, it facilitates the return of agency assets and provides a record that computer access has been revoked, passwords changed, accounts terminated, and that the final weekly time report has been submitted. However, the agency’s *Separation from Agency Policy* was last updated (in 2007) before the separation checklist was implemented and, thus, does not require completion of the checklist. Since the requirement is not listed in agency policy, its use may be limited. For 12% (2 out of 17) of personnel files of separated employees tested the separation checklist was not completed.

Objective 6 – Merits and Promotions

Determine the extent to which agency processes ensure merits and promotions comply with agency requirements.

Management has made improvements in the agency’s merits and promotions processes. HR management conducts periodic analyses of employee payroll actions including merit increases and one-time merit payments to ensure alignment with the agency's EEO program as required by the agency’s *Merit Salary Increase Policy*. For 100% (10 out of 10) promotions tested a current performance evaluation was present to support the action. However, even though each promotion tested was supported by a current evaluation, it is notable that 31% (5 out of 16) of the current employees tested did not have a current evaluation in their personnel file and were not eligible for merits or promotions. This appears to suggest that the performance evaluations are being performed to justify merits and raises, and not as a way to provide every employee with feedback on their performance.

Management Response (3-09-2017)

Management respectfully requests that the following paragraph be removed from Section 6:

“This appears to suggest that the performance evaluations are being performed to justify merits and raises, and not as a way to provide every employee with feedback on their performance.”

The auditors’ inference that “the performance evaluations are being performed to justify merits and raises” is not accurate. Management respectfully requests that the sentence be removed from the audit report unless the auditors could obtain sufficient, appropriate audit evidence/documentation to provide a reasonable basis to support their conclusion.

Auditor Comment

The statement “This appears to suggest that the performance evaluations are being performed to justify merits and raises, and not as a way to provide every employee with feedback on their performance,” was specifically agreed to by the HR Director at the Exit Conference on January 24, 2017. Her comments included the statement, “The evaluation is currently being used as a carrot and a stick.”

Scope and Methodology

The overall objective of this audit was to determine the extent to which recommendations associated with the issues identified in the *Review of Human Resources Management*, Project # 20150101, issued in April 2015, have been implemented.

The review focused primarily on human resources management activities from April 1, 2015 to November 30, 2016. Fieldwork was conducted from December 2016 through January 2017.

The review was based upon standards as set forth in Texas Government Codes, State Auditor's Office State Classification Office's Texas Human Resources Management Statutes Inventory, and the Texas Workforce Commission "Especially for Texas Employers" manual, and agency policies and other sound administrative practices.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our evidence-gathering methods included the following:

- We reviewed applicable laws, rules, and established procedures.
- We tested 20 selection folders for job posting information, applicant screening, interview documentation, selection justification, and reference and credential checks.
- We tested personnel files of 20 new hires for evidence of a signed offer letter, agency in-processing paperwork (information security, outside employment, nepotism data form, etc.), initial performance plan, orientation training, EEO training, ethics training, background checks and probationary period evaluation.
- We tested the personnel files of 16 current employees (that have been at the agency for more than 2 years) for evidence of supplemental EEO training, supplemental ethics training, and signed annual performance evaluation.
- We tested 20 employee separation files.
- We tested payroll actions (April 2015-November 2016) for approval.
- We tested 10 promotions for compliance with agency policy.
- We conducted interviews with staff.
- We reviewed the *Review of Human Resources Management*, Project # 20150101.

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TFC Mission Statement

The Texas Facilities Commission (TFC) mission is to support state government through strategic planning, asset management, design, construction, maintenance, and leasing of state facilities and the reallocation and/or disposal of state and federal surplus.

Office of Internal Audit's Mission Statement

Our mission is to assist the agency in achieving its operational goals by using innovative and disciplined methods to objectively evaluate the effectiveness, efficiency, and integrity of agency operations and governance processes and making recommendations to improve operational performance and governance processes.

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