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Executive Director
Harvey Hilderbran

Mailing address:
P. O. Box 13047
Austin, TX 78711-3047
(512) 463-3446
www.tfc.state.tx.us

Review of the Budget Process

Project #20170214
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Texas Facilities Commission

Physical address: 1711 San Jacinto Blvd, Austin, Texas 78701

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

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Executive Summary

Overview

Texas Facilities Commission (the agency) has processes in place to provide reasonable assurance that the agency's budget goals are accomplished efficiently, effectively, and in compliance with relevant regulations, policies, and procedures. Extensive guidance from both the Legislative Budget Board (LBB), and the Texas Comptroller of Public Accounts (CPA) assist in ensuring timely reporting. Agency policies and procedures (including a prescribed budget methodology) not only assist with setting management expectations but also ensure consistency.

The agency's budget process has controls in place to ensure that budget reporting is accurate, reliable, and timely. Budget staff's multiple-level quality assurance reviews assist with ensuring budget reports are accurate and reliable. The budget review processes include procedures to verify data sources and to identify departures from management's prescribed budget projection methodology. The budget adjustment process includes segregation of duties between the Financial Analyst (the originator), the Budget Director (the approver), and the Director of Accounting and Payroll or Chief Financial Officer (the individuals who report the revised budget to the Commission). Budget staff's quarterly reconciliations between the Uniform Statewide Accounting System (USAS) and the Automated Budget and Evaluation System of Texas (ABEST), and Accounting staff's monthly reconciliation between USAS and the agency's GUI Fund Accounting System (GFAS) are good controls designed to detect material adjustments and errors.

Budget staff has developed good relationships with its key external and internal customers. The Budget Director works closely with the agency's budget analyst at the LBB and the Governor's Office. Feedback from both the LBB and the Governor's Office on the quality, accuracy, and timeliness of TFC's Budget reporting was overwhelmingly positive. In addition, internal customers (i.e. agency programs) applauded Budget staff for its good understanding of the legislative appropriations process and how that process translates into funding for individual TFC programs. Internal customers commended Budget management for having staff specialize in certain programs, as it has resulted in the budget team's strong working relationships with key agency program managers, which has, in turn, assisted with ensuring their needs are met.

An opportunity for improvement exists in Budget staff's communication with internal customers. Four out of ten of the internal customers interviewed indicated that they would like additional information on the budget process, and to be more included in the process.

Summary of Management's Response

Management feels the OIA conducted the review in an efficient and professional manner. The processes, procedures, and controls that received positive accolades will continue to be given the proper attention and due diligence to ensure sustained success. Management intends to focus on strengthening its approach to comprehensive communication in an effort to address deficiencies identified in the review and satisfy initiatives aimed at continual improvement.

Background

TFC's Budget area is the analytical arm of the agency's Finance Division. It's external stakeholders include the Texas taxpayers and their elected officials, the Commission, the LBB, State Auditor's Office (SAO), CPA, and tenant agencies. Internal customers primarily consist of program managers with budget authority and agency management.

The budget process is driven by the two year legislative cycle. Analysts prepare the biennial Legislative Appropriations Request (LAR) and submit it to the LBB and the Governor's Office in even numbered years. The Budget area is responsible for the agency's operating budget. The Budget team comprises of a director and five analysts. Between legislative sessions, analysts monitor expenditures against the budget, assist operating divisions manage the fiscal impact of daily operations and cost recovery programs, and report status to the Commission on a regular basis.

The agency uses LBB's detailed LAR instructions to develop its budget request. LBB's Operating Budget Instructions are used to develop and report the operating budget.

Closing

We would like to thank Budget management and staff 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 - Communication

An opportunity for improvement exists in Budget staff's communication with internal customers. Forty percent (4 out of 10) of the internal customers interviewed indicated that they would like additional information on the budget process, and that they would like to feel more included in the process. In addition, an Integrated Workplace Management System, coupled with an upgraded financial system, would assist not only in eliminating data redundancy issues but also put reliable integrated budget information at their customers' fingertips. Budget staff routinely utilize information from USAS, ABEST, GFAS, Personnel Action Form (PAF) database, Automated Procurement System (APS), the hosted construction project management system, IMPACT, and the work order system, Micromain.

Agency management is aware of the limitations of decentralized and non-integrated systems and has been requesting funding for an Integrated Workplace Management System for the last few legislative sessions. TFC has requested to be included in the Comptroller's Accounting Payroll and Personnel System (CAPPS). In the meantime, Budget staff has come up with solutions that are satisfactory in the short-term.

Recommendation:

Working closely with key customers, devise ways to make the budget process more inclusive and transparent, especially for those areas that do not have an earmarked budget.

Management Action Planned

Increase outreach to ensure managers understand the constraints and limitations that exist with respect to their budget, and offer reasonable and available short, mid, and long-term solutions if applicable.

Responsible Parties

Budget Director

Estimated Completion Date

August 31, 2018.

Objectives and Conclusions

The overall audit objective was to determine the extent to which the agency's budget process has adequate controls to ensure the budget is established efficiently, effectively and in compliance with state regulations and guidelines. In addition, determine the extent to which reporting processes ensure the accuracy, reliability, and timeliness of budget information.

The review focused primarily on budget process activities from September 1, 2015 to May 31, 2017. Fieldwork was conducted in July 2017. The detailed audit objectives and conclusions are described next.

Objective 1 – Regulatory Compliance

1.1 Determine the extent the agency's LAR was submitted to the LBB and the Governor's Office by the deadline from the LAR Submission Schedule.

The budget process has sufficient controls in place to ensure timely budget submission. Extensive guidance from both the LBB, and the Governor's Office assist in ensuring timely reporting.

1.2 Determine the extent to which the agency's LAR conforms to the Legislative Appropriations Detailed Instructions for State Agencies from the LBB and the Governor's Office.

The agency has sufficient controls in place to ensure the LAR conforms to the detailed instructions. In the spring or early summer before the legislative session, the LBB sends out the detailed instructions which Budget staff utilizes to develop the agency's LAR. LARs are submitted in the LBB's ABEST system by a specified deadline and copies are provided to the LBB, Governor's Office, SAO, and the CPA. Controls within ABEST ensure the submitted amounts are within tolerance limits and that the report is formatted correctly.

1.3 Determine the extent to which the agency's Operating Budget was submitted to the LBB and the Governor's Office by the deadline specified in the LBB's Operation Budget Instructions.

The agency has implemented procedures to ensure the Operating Budget is developed and submitted in the LBB's ABEST system prior to the deadline.

1.4 Determine the extent to which the agency's budget processes ensure the operating budget conforms to reporting guidelines published by the LBB and the Governor's Office.

The agency has implemented procedures to be followed in developing, monitoring, and adjusting TFC's operating budget. Additionally, extensive guidance from both the LBB and the Governor's Office and controls within the ABEST system assist in ensuring the operating budget submitted to the LBB conforms to the reporting guidelines.

1.5 Determine the extent to which the Budget Director maintains key contacts at oversight agencies.

The agency's Budget Director maintains positive relationships with key contacts at oversight agencies including the LBB and the Governor's Office. The Budget Director and his staff received overwhelmingly positive feedback from the LBB and the Governor's Office.

Objective 2 – Operational Effectiveness

2.1 Determine the extent to which the budget process meets the needs of its internal customers in a timely manner.

The budget process has sufficient controls to ensure internal customer needs are met in a timely fashion. Budget staff's strong working relationships with program managers assist with ensuring program needs are met. Internal customer feedback (obtained as part of this review) was overwhelmingly positive.

2.2 Determine the extent to which computer systems used in the budget process are able to communicate with each other in a centralized and integrated manner.

Budget staff routinely utilize information from USAS, ABEST, GFAS, PAF database, APS, the hosted construction project management system, IMPACT, and the work order system, Micromain. An Integrated Workplace Management System, coupled with an upgraded financial system, would assist not only in eliminating data redundancy issues but also allow program staff to look up budget information in real time.

2.3 Determine the extent to which the budget process provides management with periodic robust reporting appropriate for decision making.

The budget process includes periodic robust reporting to the Commission, executive and program management. Budget staff has, working closely with program management, designed monthly reporting for each program area with a budget. The reports are based on individual program needs. Key internal customers indicated they find budget reports to be consistently accurate, easy to follow, and relevant to their decision-making.

2.4 Determine the extent to which the Budget staff forms strong working relationships with key program managers.

Having individual Budget staff specialize in specific programs has allowed them (Budget staff) to forge strong working relationships with key agency program managers, which has, in turn, assisted with ensuring program needs are met. However, there is room for improvement. Forty percent (4 out of 10) of the internal customers interviewed would like to be included in the process a little more and also obtain more information on the process.

2.5 Determine the extent to which Budget staff has the requisite skills to meet agency budgeting needs.

The Budget Director's informal mentoring program (where the lower level staff works closely with a more experienced peer) is an effective knowledge transfer tool, as evidenced by the positive feedback from the team's internal customers. The key customers interviewed applauded the agency's Budget staff for its understanding of the legislative appropriations process and how that process translates into funding for individual TFC programs.

2.6 Determine the extent to which budget work is reviewed.

Budget staff's work is adequately reviewed. The budget process includes quality assurance reviews at several levels, including at the financial analyst, Budget director and Chief Financial Officer levels.

2.7 Determine the extent to which consistency of Budget staff can be maintained to facilitate a consistency of methodology to assist in accuracy.

Budget staff's written procedures are detailed enough to assist with consistency and accuracy. Additionally, the Budget staff cumulatively have approximately 18.5 years of budget experience at the agency.

Objective 3 – Operational Efficiency

3.1 Determine the extent to which the budget process has internal budget processes to guide staff through their day-to-day duties and to serve internal customers.

The agency's written procedures are adequate to provide Budget staff guidance in its day-to-day duties. Budget management has developed detailed procedures regarding managing TFC's operating funds. Other procedures include instruction on how to perform such tasks as monthly projections, executive management and Commission reporting, and how to run specific reports.

Objective, Scope and Methodology

The overall audit objective was to determine the extent to which the agency's budget process has adequate controls to ensure the budget is established efficiently, effectively and in compliance with state regulations and guidelines. In addition, determine the extent to which reporting processes ensure the accuracy, reliability, and timeliness of budget information.

This audit served as a reserve project in the Audit Plan for Fiscal Year 2017 and was performed in the place of the Review of Facilities Maintenance. The review focused primarily on budget process activities from September 1, 2015 to May 31, 2017. Fieldwork was conducted in July 2017.

The audit was based upon reporting standards as set forth by the LBB, CPA, and the Governor's Office, agency policies and other sound administrative practices. The audit was performed in compliance with the Institute of Internal Auditors' "International Standards for Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. 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, including the Comptroller's *2016 Appropriation Allocation Schedule*, LBB's *Legislative Appropriation Request Detailed Instructions for Agencies*, and *2016 Operating Budget Instructions for Executive and Administrative Agencies, Appellate Courts, and Judicial Branch Agencies*, and agency procedures.
- We reviewed and verified the effectiveness of internal controls, including system to system reconciliations and budget management review of analyst work.
- We reviewed profit and loss statements, construction ledgers, and construction reports for usability and accuracy.
- We reviewed supporting schedules, including aging reports, outstanding encumbrances, and external vendor reports.
- We reviewed detailed written procedures, including: *Encumbrance Notes*, *Monthly Projections and Commissioner's and Executive Reports*, *Reports to Run for Collected Revenue in ABEST*, and *Internal Operating Budget Procedures*.
- We reviewed reporting to the Commission, TFC management, and external agencies.

- We observed staff as well as Commission procedures regarding the LAR and operating budget.
- We interviewed key stakeholders, including internal and external customers.

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Governor's Office of Budget, Planning, and Policy

internalaudits@governor.state.tx.us

Legislative Budget Board

audit@lbb.state.tx.us

State Auditor's Office

iacoordinator@sao.state.tx.us

Sunset Advisory Commission

sunset@sunset.state.tx.us

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 enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

Project Team

Amanda G. Jenami, CPA, CISA, CFE, CIA, CGAP, CCSA, MBA, Director
M. Betsy Schwing, CPA, CFE, CGMA
Donna M. Steadman, CPA, CISA, CIA

**To obtain a hard copy of this TFC Audit Report, please e-mail
amanda.jenami@tfc.state.tx.us or call 512-463-1438**