

March 1, 1995

Mr. Pat Westbrook, Executive Director
Texas Commission for the Blind
4800 North Lamar Blvd.
Austin, Texas 78756

Dear Mr. Westbrook:

The Commission has not monitored subrecipients of the *Rehabilitation Services - Basic Support* program since 1990. In addition, for the third consecutive year, the Commission has not obtained an approved indirect cost allocation plan. However, the Commission met other federal requirements for administering its \$30.7 million of federal assistance.

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

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

A copy of this letter has been sent to each board member. If you have any questions, please call me at 479-4844. I appreciate the cooperation and support provided by you and your staff.

Sincerely,

Donna K. Todd
Project Manager

DKT:ggh

cc: Tonya Netzley, CPA, Director, Internal Audit/Evaluation

Key Points of Report

Texas Commission for the Blind
1994 Statewide Financial and Compliance Audit

March 1995

Overall Conclusion

The Commission has not monitored subrecipients of the Rehabilitation Services program since 1990, and for the third consecutive year, has not obtained an approved indirect cost allocation plan. However, the Commission met other federal requirements for administering its \$30.7 million of federal assistance.

Key Facts And Findings

- The Commission has not monitored subrecipients of the *Rehabilitation Services - Basic Support* program since 1990. This results in over \$1.3 million in questioned costs for funds provided to subrecipients during the past five years.
- For the third consecutive year, the Commission has not obtained an approved plan to allocate its indirect costs among federal programs. All indirect costs are being improperly charged to the *Rehabilitation Services* program.

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Federal Compliance Issues

Federal Compliance Issue 1:

Implement A Subrecipient Monitoring System

The Texas Commission for the Blind has not monitored subrecipients of the *Rehabilitation Services - Basic Support* Program (CFDA 84.126) since 1990, as required by federal regulations. The regulations require the Commission to review subrecipient audit reports and ensure that all findings are resolved.

The review of subrecipient audit reports ensures proper spending of federal funds. No adequate audit reports have been received or reviewed for fiscal years 1990 through 1994. This results in over \$1.3 million in questioned costs for funds provided to subrecipients during the five years.

Office of Management and Budget (OMB) Circulars A-128 and A-133 require subrecipients to submit audit reports no later than 13 months after their fiscal year end. The regulations also require the Commission to review the reports for adequacy and obtain corrective action for all audit findings within six months of report receipt.

Recommendation: We recommend that the Commission implement a subrecipient monitoring system in accordance with federal regulations.

Management's Response: *The Texas Commission for the Blind maintains extensive controls over its grant process. All grants over \$100,000 issued since 1990 have required subrecipients to submit audited financial reports. Payments under the grants are not made until subrecipients furnish invoices, evidence of payment, and pay their match amount. Grant purchases requiring competitive bidding must also include written evidence of the solicitation of bids. This documentation is reviewed by the grant administrator and the Deputy Director for Administration and Finance before payments are made.*

However, the TCB acknowledges that for the period 1990-1994 it was not in compliance with all the grant monitoring provisions of OMB Circulars A-128, and A-133. The Commission has not performed reviews of subrecipient audit reports in accordance with the provisions of Circular A-133. Additionally, the Commission has not appropriately required subrecipients receiving grant awards between \$25,000 and \$100,000 to have either program or institutional audits.

To bring the grant monitoring process into compliance with the federal regulations, TCB will take the following actions:

- *Require subrecipients receiving over \$25,000 to submit appropriate audit reports.*
- *Perform appropriate reviews of audit reports and follow up on any exceptions.*

- *Request all subrecipients that received grants over \$25,000 during the period 1990-1994 submit available audit reports.*
- *Conduct reviews on those reports to determine if grant funds were expended in accordance with grant provisions.*
- *Conduct field reviews of subrecipients not having obtained appropriate audits.*

We appreciate the cooperation of the SAO in working with the TCB on this finding. All future grants will be in compliance with the full provisions of the federal regulations.

Federal Compliance Issue 2:

Obtain An Approved Indirect Cost Allocation Plan

(Prior Audit Issue)

For the third consecutive year, the Commission did not have an approved plan to allocate its indirect costs among federal programs. Indirect costs are costs incurred for a common purpose and which cannot be directly attributable to one particular program, such as expenditures incurred by accounting, purchasing, or human resources.

As required by the *Office of Management and Budget (OMB) Circular A-87*, the Commission must develop a plan to allocate indirect costs, due to its participation in federally funded programs. All indirect costs are currently being charged to the *Rehabilitation Services - Basic Support* program (CFDA 84.126). The amount of indirect costs that should have been charged to this and other federally funded programs is undeterminable.

During fiscal year 1994, the Commission submitted two different plans for approval. The first plan was complex and difficult to comprehend, and the second plan did not include sufficient supporting documentation. Neither plan was approved.

Recommendation: We recommend that the Commission work to submit an approved plan by the February 25, 1995, deadline. The plan should include all necessary aspects, as outlined in *OMB Circular A-87* in a clear and concise manner to ensure approval.

Management's Response: *The TCB has worked diligently to develop an approved indirect cost plan. To accomplish this the Commission employed a nationally recognized firm with extensive experience in developing plans for Texas agencies.*

The first indirect cost plan developed by the contractor was submitted to our cognizant agency, the Department of Education, on March 30, 1994. This plan was rejected as being too complex and not in a format they were accustomed to. A second plan was submitted on September 23, 1994. On November 15, 1994 we received a letter from the Department of Education requesting additional information.

Our contractor is currently negotiating with the Department of Education to determine the format of the additional information. We have recently met with the contractor to determine the additional documentation that the agency needs to provide. TCB will continue to work toward obtaining an acceptable indirect cost plan.

Audit Scope

The primary focus of our audit was the Commission's administrative controls over its major federal program, the *Rehabilitation Services - Basic Support* program which received \$27.7 million. This program represents 90 percent of the Commission's \$30.7 million of total federal assistance. We gained an understanding of the internal control structure, including the general control environment and federal program. We tested the internal control structure related to the major federal program. Specific procedures were used to test compliance with the major federal program.