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State Auditor

An Audit Report on
**Internal Control and Financial Processes at the
Commission on the Arts and the
Funeral Service Commission**

June 24, 2002

Members of the Legislative Audit Committee:

The Commission on the Arts (COA) and the Funeral Service Commission (FSC) need to address significant weaknesses in their respective core functions. At COA inadequate grant monitoring increases the risk that grantees will not spend grant funds as intended. The State Auditor's Office reported on weaknesses in COA's grant monitoring process in 1991 and 1996. Weaknesses in monitoring continue to exist. In addition, unnecessary delays in the grant award process and a lack of procedures for determining grant amounts impair COA's ability to award grants promptly and properly. COA awarded grants totaling \$4.7 million in fiscal year 2002. At FSC, weaknesses in information system controls and flaws in the license issuance process hinder the agency's ability to record and monitor key data regarding licensees. FSC risks converting flawed data to the new information system it is acquiring at an estimated cost of \$228,000. The Department of Information Resources is currently working with FSC to establish controls for the new system.

It is also significant that both COA and FSC have reported inaccurate performance measures information. This makes it more difficult for the agencies and the Legislature to assess overall agency performance.

COA lacks key controls to ensure that grantees spend funds as intended and that grants are awarded promptly and properly. For example:

- For most of the COA monitoring files we tested, we found no evidence that COA verified that grantees spent funds in accordance with agency policy. COA's policies require agency staff to test internal controls, for example reviewing grantee transactions for appropriate authorization. However, none of the 19 files tested, representing grants totaling \$746,648, contained documentation of internal control testing.
- COA's average grant processing time is 10.5 months, compared to an average of 7 months in similar states. COA should consider streamlining procedures to reduce processing time and cost. For example, COA brings peer panelists from across the state to Austin to listen to presentations and review applications. This delays the approval process by an estimated 1.5 months and costs COA at least \$22,000 annually in travel reimbursements.
- COA does not have written procedures for determining amounts awarded to grantees. As a result, it has awarded certain grantees more than they requested. COA also lacks a written methodology for redistributing unused grant funds. COA estimates that grantees returned \$80,000 in unused funds in fiscal year 2001.

FSC's information-system control weaknesses and flawed license issuance process impede the recording and monitoring of key information regarding licensees:

- Significant weaknesses in FSC's information system controls can create inaccurate licensing data for monitoring. For example, system data indicates that the FSC issued a license in the year 3201.
- Flaws in FSC's license issuance process caused FSC to issue 13 duplicate license numbers to funeral home establishments. Issuing duplicate license numbers raises the risk that FSC could inaccurately record information on fee collections, inspections, and complaints regarding specific licensees.

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The attachment to this letter contains additional detail on the results of our audit. We provided specific recommendations in management letters that we sent to each agency. Management generally agreed with most of our recommendations. However, COA disagreed with our recommendations to streamline the process for awarding grants and to document the methodologies it uses to determine award amounts and redistribute unused funds. We appreciate the cooperation of management and staff at the agencies we audited. If you have any questions, please call Valerie Hill, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

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Attachment

cc: Chair and Commissioners of the Commission on the Arts
Mr. John Paul Batiste, Executive Director, Commission on the Arts
Chair and Commissioners of the Funeral Service Commission
Mr. Chet Robbins, Executive Director, Funeral Service Commission

Weaknesses in the Commission on the Arts' (COA) monitoring of grantees increase the risk that grantees will not spend grant funds as intended. In addition, unnecessary delays in the COA grant award process and a lack of procedures for determining grant amounts impair the agency's ability to award grants promptly and properly.

Chapter 1.1

COA's Monitoring Of \$4.7 Million In State Grants Is Incomplete

Weaknesses in COA's monitoring process prevent the agency from demonstrating that it can properly monitor the 563 grants totaling \$4.7 million that it awarded in fiscal year 2002. Failure to appropriately monitor grantees increases the risk that grantees could misuse funds without detection.

The State Auditor's Office first reported on weaknesses in COA's grants monitoring process in 1991. As recently as 1996, the State Auditor's Office reported that the lack of effective controls over the agency's grant monitoring process limited its ability to ensure that public funds were used appropriately. However, weaknesses in the monitoring process continue to exist. For example:

- COA does not obtain sufficient evidence demonstrating how grantees spend funds, and it does not perform monitoring visits in compliance with agency policy.
- COA's monitoring of grantees is impaired by weaknesses in the risk assessment it conducts to determine where it will perform on-site monitoring visits.

COA can strengthen the grants monitoring process by following its existing policies and procedures, which require the agency to fully document its work. COA does not maintain a complete record of its monitoring of grant recipients. Maintaining more complete records would help the agency ensure that state funds are spent as intended.

Weakness in On-Site Monitoring

For most of the monitoring files we tested during the audit, we found no evidence that COA verified grant expenditures during on-site monitoring visits in accordance with agency policy. We attempted to examine monitoring files for 20 of the 47 grants (43 percent) the agency reviewed during on-site visits in fiscal year 2001. COA was unable to locate one of the files. Our review revealed the following:

- Although COA's policies and procedures require monitors to test internal controls, none of the 19 files (representing grants totaling \$746,648) contained documentation of internal control testing. An example of internal control testing is the review of transactions for appropriate authorization.
- Although COA's policies and procedures require monitors to complete a questionnaire to confirm compliance with grant requirements, 18 of the 19 files (95 percent) did not contain completed on-site monitoring questionnaires. The

questionnaire includes questions to determine whether appropriate policies, procedures, guidelines, and controls are in place.

- In 2001, COA's on-site monitoring reviews covered only 10 percent of the \$3,709,645 in grants distributed during fiscal year 1999. Adding grant monitoring tasks to the program review visits that program staff already conduct would help to increase monitoring coverage. Merging these activities can increase the number of on-site monitoring visits by an estimated 70 additional visits annually.

Weaknesses in Risk Assessment

COA does not maintain a record of the process it uses to select the grantees at which it will conduct on-site monitoring visits. However, its policies and procedures require documentation of the risk assessments conducted to identify grantees for on-site visits.

COA management asserts that the agency assesses and selects grantees for on-site visits through an undocumented, oral risk assessment. However, there is no indication that the agency analyzes grantee data to focus its monitoring efforts on the grantees that have the highest risks. As a result, the agency's monitoring limits assurance that grant funds are spent in accordance with program restrictions.

Historical knowledge of problems with certain grantees may be lost if documentation is insufficient. As a result, information that could enhance future risk assessments is lost.

Chapter 1.2

COA's Current Grant Award Process Creates Significant Delays For Applicants

Texas arts organizations must wait an average of 10.5 months (315 days) for COA to approve and fund their grant applications. In contrast, New Jersey and North Carolina, which each process approximately the same number of grants as Texas, issue grants in seven months. The agency's relatively long approval process can be reduced significantly by streamlining the grant award process and eliminating delays, unnecessary reviews, and duplication of work.

COA's grant approval process contains opportunities for removal of duplicate reviews and unnecessary delays. For example:

- COA staff members do not begin initial processing of applications until the application deadline, delaying the process by an estimated two months. To eliminate this delay, the agency could begin processing applications immediately upon receipt.
- After staff members conduct the initial processing, applications are then reviewed by COA staff and one of seven peer panels. The agency brings peer panelists from across the state to Austin to listen to presentations and review applications. This delays the process an estimated 1.5 months and costs the

agency at least \$22,000 annually in travel reimbursements. Conducting peer panel reviews without bringing panelists to Austin could reduce processing delays and travel costs.

- After staff and peer panelists complete their reviews, the COA's Assistance Review Committee approves staff funding recommendations. The commissioners then formally approve funding recommendations in June of each year. However, the process calls for commissioners to reaffirm their June recommendation in September, when the fiscal year begins and funding becomes available. Although necessary, this adds another delay of three months. Shifting the inception of the grants application and approval process forward by three months would eliminate the need for the commissioners' redundant approvals.

Chapter 1.3

COA Does Not Have A Formal Methodology to Ensure It Has A Consistent and Appropriate Funding Process

COA does not have written procedures for determining the amount grantees will receive. In three instances during fiscal years 2000 and 2001, the agency awarded grantees amounts that exceeded what the grantees had requested. The agency did not document the reason for this overfunding. One grantee wrote the agency expressing surprise at the 11 percent overfunding of its request and subsequently returned an unused portion of the grant. Another qualifying applicant could have used the unused portion.

COA also does not have a written methodology for determining how to redistribute unused funds returned by arts organizations. Its staff redistributes these funds without obtaining approval from the commissioners and without going through the peer panel review it normally uses to evaluate grant applications. The agency estimates that \$80,000 in unused funds were returned in fiscal year 2001.

Without a written record of its methodology, COA cannot provide adequate assurance that funding decisions comply with agency rules. These rules include a mandate for equitable funding of grants. In addition, maintaining sufficient documentation will allow the agency to retain needed institutional knowledge if key staff leave the agency.

Chapter 1.4

Certain COA Performance Measures Could Not Be Certified

We tested the accuracy of two output measures closely related to COA's key business processes that the agency reported on its fiscal year 2001 Automated Budget and Evaluation System for Texas (ABEST) report. As Table 1 on the next page shows, the output measure *Number of Communities of Less than 50,000 People Receiving Assistance* was inaccurate. The agency reported that it assisted 574 communities of less than 50,000 people. Our audit determined that the actual number of communities assisted was 386, which was 188 less than the agency had reported. However, this number still exceeded the target of 160 communities. We were unable to verify the other output measure *Number of Minority Applicants Funded*.

Table 1

Commission on the Arts Performance Measure Certification Results					
Related Objective or Strategy	Classification and Description of Measure	Target	Reported Results	Certification Results	Auditor Comments
C.1.1	Output Number of Communities of Less Than 50,000 People Receiving Assistance	160	574	Inaccurate	COA documentation indicated that the actual total was 386, which is 33 percent less than the reported result. The agency erroneously included in its calculation communities whose populations exceeded 50,000 and that were not recognized as metropolitan cities. Moreover, the agency did not have policies and procedures regarding how the agency calculated this measure.
C.1.1	Output Number of Minority Applicants Funded	175	298	Factors Prevented Certification	COA could not provide data supporting the figures it used to calculate the measure. In addition, it did not have policies and procedures in place documenting how it calculated this measure.
<p>A measure is Certified if reported performance is accurate within +/-5 percent and if it appears that controls to ensure accuracy are in place for collecting and reporting performance data.</p> <p>A measure is Certified With Qualification when reported performance appears accurate, but the controls over data collection and reporting are not adequate to ensure continued accuracy.</p> <p>Factors Prevented Certification when actual performance cannot be determined because of inadequate controls and insufficient documentation.</p> <p>A measure is Inaccurate when reported performance is not within +/-5 percent of actual performance or if there is more than a 5 percent error rate in supporting documentation.</p>					

Source: Fiscal year 2001 ABEST report and COA documentation

Significant weaknesses in the Funeral Service Commission's (FSC) information system controls and flaws in its license issuance process hinder the agency's ability to record and monitor key data regarding funeral home licensees. As a result, FSC risks converting flawed data to the new information system it is acquiring.

Chapter 2.1

Weaknesses in FSC's Existing Information Systems Could Affect the Reliability of Data in Its New Database

Weaknesses in controls over FSC's information systems create a high risk that data maintained in those systems is not accurate and complete. As a result, the agency risks converting flawed data to the new information system it is acquiring at an estimated cost of \$228,000. The Department of Information Resources is currently working with FSC to acquire new hardware and software, including a new regulatory database system. Key operational data maintained in the current systems include information on licensees and complaint investigations.

FSC's existing information systems consist of ad hoc applications based on Microsoft Excel and Access. Agency employees and private vendors developed these systems over a number of years, and controls over these systems do not ensure that information relevant to the agency's operations is adequately captured for review and analysis. Our audit found:

- There are inconsistencies and incorrect data in these systems. For example, system data indicates that FSC issued a license in the year 3201.
- System access controls can be bypassed, allowing unauthorized persons to access or change data such as penalties, violations, complaints, inspection results, and Social Security numbers.
- Eighteen users have authorization to access licensing information. However, FSC currently has only 12 employees and 1 contractor who require access to the system. This increases the risk that unauthorized users could access or change data.
- There is no system documentation describing the database structure. Without system documentation, it takes longer to correct technical problems, potentially increasing downtime and the cost of independent contractors hired to correct problems.

FSC was appropriated \$240,200 in fiscal year 2002 to acquire new information resource technologies, including the information system and other information resources. The agency expects to implement the new system by September 30, 2002.

Chapter 2.2

Certain Weaknesses Exist in FSC's Licensing Processes

FSC's use of a manual log to record the issuance of licenses creates a significant risk that errors or fraud could occur without detection. In our testing, we found that the agency had issued 13 duplicate license numbers to funeral home establishments. Issuing duplicate license numbers raises the risk that FSC could inaccurately record information regarding fee collections, inspections, and complaints. Inaccurate licensing data could impair the agency's monitoring efforts. License numbers are assigned as an employee documents the new licensee in the manual log. The manual method of selecting and recording the license number contributes to the risk that duplicate license numbers could be assigned.

Chapter 2.3

Certain FSC Performance Measures Could Not Be Certified

We tested the accuracy of two performance measures closely related to FSC's licensing and enforcement processes. As Table 2 on the next page shows, the performance results the agency reported on its fiscal year 2001 Automated Budget and Evaluation System for Texas (ABEST) report were inaccurate for both measures.

For the output measure *Number of New Licenses Issued to Individuals*, FSC reported that it had exceeded its target of 388 new licenses by 153 licenses. However, when we recalculated the measures we found that the agency had issued only 344 new licenses. For the efficiency measure *Average Time for Complaint Resolution*, the agency reported that it had exceeded the target of 140 days by 40 days. However, when we recalculated the measure we found that the agency exceeded the target by 50 days.

Table 2

Funeral Service Commission Performance Measure Certification Results					
Related Objective or Strategy	Classification and Description of Measure	Target	Reported Results	Certification Results	Auditor Comments
A.1.1	Output Number of New Licenses Issued to Individuals	388	541	Inaccurate	FSC did not follow the measure definition. The agency double counted certain licenses because it counted a provisional license as a new license, but it counted the same license again when it issued a regular license upon successful completion of the provisional program. The measure definition clearly states that the measure should count persons who are issued a license for the first time. The correctly calculated result is 344 licenses, 36.4 percent less than what the agency reported.
B.1.1	Efficiency Average Time for Complaint Resolution	140 days	180 days	Inaccurate	FSC did not follow the measure definition for reporting annual performance. The agency summed the performance results from the four quarters of the fiscal year and divided by four; it did not calculate the average time for all cases resolved during the fiscal year. The correctly calculated result is 190 days, 5.6 percent more than the agency reported.
<p>A measure is Certified if reported performance is accurate within +/-5 percent and if it appears that controls to ensure accuracy are in place for collecting and reporting performance data.</p> <p>A measure is Certified With Qualification when reported performance appears accurate, but the controls over data collection and reporting are not adequate to ensure continued accuracy.</p> <p>Factors Prevented Certification when actual performance cannot be determined because of inadequate controls and insufficient documentation.</p> <p>A measure is Inaccurate when reported performance is not within +/-5 percent of actual performance or if there is more than a 5 percent error rate in supporting documentation.</p>					

Source: Fiscal year 2001 ABEST report and FSC documentation

Summary of Objectives, Scope, and Methodology

The objectives of this audit were to determine if the Commission on the Arts and the Funeral Service Commission are:

- Making the best use of available resources to deliver mandated services to their client populations in a timely manner.
- Appropriately using state funds and accurately accounting for selected transactions.
- Accurately reporting the achievement of selected performance targets.

We focused work related to these objectives on service risk and financial risk by analyzing the cost, quality, and time associated with core business processes.

Information to accomplish our objectives was primarily gathered through interviews, data from peer states and similar Texas state agencies, and tests of agency files. Analysis techniques included workflow mapping, activity analysis, and assessment of activity value. In addition, we performed procedures to certify two key performance measures at each agency by reviewing calculations for accuracy and consistency with the methodology agreed upon by the agency and the Legislative Budget Board. We analyzed the flow of data used in performance measure calculations to evaluate whether proper controls were in place.

Additional details regarding the results of our work and the specific recommendations we provided to management are in the following management letters provided to each agency: SAO No. 02-340 (Commission on the Arts) and SAO No. 02-351 (Funeral Service Commission).

This audit was conducted in accordance with generally accepted government auditing standards.