

A Review of

Regional Planning Commissions' Financial and Performance Reports

December 2002

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Regional Planning Commissions' Financial and Performance Reports

Overall Conclusion

Our review of regional planning commissions' (RPC) financial audit reports and associated management letters indicates that significant financial and federal compliance weaknesses exist at 13 of the 24 RPCs. In fiscal year 2001, these 13 RPCs received \$20.8 million in state funds and \$249.6 million in federal funds to administer a variety of programs. The financial weaknesses identified spanned a variety of areas and included issues such as failure to implement adequate controls over cash, failure to account for fixed assets adequately, and failure to monitor subrecipients that receive grant funds. Although the RPCs' independent auditors identified these weaknesses in business processes, they also reported that, with the exception of Permian Basin Regional Planning Commission, the RPCs' financial statements fairly presented their financial positions.

Background Information

The 24 RPCs in Texas are voluntary associations of local governments formed under Texas law. RPCs receive state and federal funds to administer a variety of programs in areas such as housing, transportation, and workforce development.

Texas Local Government Code, Section 391.009(a), requires the Office of the Governor to adopt annual reporting requirements and annual audit requirements that RPCs must follow.

Texas Local Government Code, Section 391.0095(e), requires the State Auditor's Office to review and report on significant issues identified in RPCs' audits and reports.

Performance reports that RPCs are required to submit to the State often do not include all information required by law and regulation. In addition, the required reports lack certain information that could improve state officials' ability to provide effective oversight. For example, most RPCs do not report the planned impact of their programs' activities on their regions or the actual outcomes of those activities.

In fiscal year 2001, the 24 RPCs in Texas received \$48.1 million in state funds and \$394.6 million in federal funds. It is critical that the State monitor the financial operations, federal compliance, and performance results of RPCs so that it can ensure that these organizations use state and federal funds efficiently and effectively.

Key Points

Significant financial and federal compliance weaknesses exist at 13 of the 24 RPCs.

The most significant financial and federal compliance weaknesses identified demonstrate a need for RPCs to place greater emphasis on proper financial and grant management. These weaknesses significantly increase the risk that RPCs may not detect or correct misstatements in their financial accounts, that clients may not receive adequate program services, and that RPCs may lose federal funds as a result of noncompliance. Examples of the most significant financial weaknesses include the following:



- The Permian Basin Regional Planning Commission did not fairly present its financial position because it did not include financial information relating to its Employee Retirement Plan and Trust in its audited financial statements as required by accounting standards. Additionally, this RPC did not perform certain accounting reconciliations, including cash reconciliations, that are necessary to ensure the accuracy of financial records. This RPC also did not monitor its grant subrecipients for its \$5.9 million child care program.
- NORTEX Regional Planning Commission received a qualified opinion on its compliance with federal regulations because one of its component units did not perform fiscal monitoring of its \$3.9 million third-party child care service provider. Prolonged noncompliance with federal regulations could put this RPC's and that component's ability to continue receiving federal funds at risk.
- Ark-Tex Council of Government made erroneous accounting entries to its fund equity accounts and was not following true fund accounting procedures. Additionally, this RPC did not maintain a detailed listing of fixed assets or perform a recent, complete physical inventory of fixed assets.
- Central Texas Council of Governments did not have a formal comprehensive disaster recovery plan, and it did not prepare its financial statements in a timely manner. Additionally, this RPC did not have a separate audit of its fiscal year 2000 financial statements.
- Middle Rio Grande Development Council charged expenditures to the wrong grant year because of weaknesses in its controls over grant accounting.

The Detailed Results section and Appendix 2 of this report include additional detailed information on RPCs and their significant financial and federal compliance weaknesses.

The content of the performance reports that RPCs submit could be enhanced significantly.

Frequently, RPCs do not include key, required information in their performance reports, such as productivity data, executive directors' salaries, program goals, objectives, and performance measures. In addition, requiring additional information regarding program goals and actual performance would improve the State's ability to provide effective oversight.

Summary of Management's Response

The Governor's Office of Budget, Planning and Policy Division (GOBPP) agrees with our findings and is implementing recommendations.

GOBPP is developing tools and requirements to satisfy recommendations and intends to adopt amendments to the Texas Administrative Code by March 2003.

Summary of Objectives, Scope, and Methodology

Our objectives were to:

- Review and report on significant issues in RPCs' audit reports.
- Determine whether RPCs' performance reports include sufficient information to enable meaningful state oversight.

The scope of this review included the most recent reports each of the 24 RPCs had submitted to the State prior to August 31, 2002. In most cases, we reviewed reports covering the RPCs' fiscal year 2001 or 2000. However, the calendar months that make up each RPC's fiscal year vary. Our work did not include an information technology review.

Our methodology consisted of examining reports that the RPCs are required to submit to various state officials, including the State Auditor. We then made inquiries of RPC staff and independent auditors who prepared the RPCs' audit reports to obtain clarifying details about the information in these reports.

| Table of Results and Recommendations |
|--|
| Significant financial and federal compliance weaknesses exist at 13 of the 24 RPCs. These weaknesses demonstrate a need for RPCs to place greater emphasis on proper financial and grant management. Page 1. |
| The RPCs should implement the recommendations their independent auditors made to address the financial deficiencies and control weaknesses identified. |
| The content of the performance reports that RPCs submit could be enhanced significantly. This would allow the State to better monitor RPCs' performance and ensure that these entities comply with appropriate laws and regulations. Page 5. |
| Texas Local Government Code, Section 391.009 (a)(3), requires the Office of the Governor to develop RPCs' annual reporting requirements. We encourage the Office of the Governor to consider modifying its reporting requirements in the Texas Administrative Code to include the report enhancements specified in our report so that the State can better ensure that RPCs operate effectively and efficiently. |

| Recent SAO Work | | |
|-----------------|---|--------------|
| Number | Product Name | Release Date |
| 97-088 | A Review of Six Regional Planning Commissions | August 1997 |

Contents

Detailed Results

| | |
|--|---|
| Chapter 1 | |
| Significant Financial and Federal Compliance Weaknesses Exist at 13 of the 24 Regional Planning Commissions | 1 |
| Chapter 2 | |
| The Content of the Performance Reports That Regional Planning Commissions Submit Could Be Enhanced Significantly | 5 |

Appendices

| | |
|--|----|
| Appendix 1 | |
| Objectives, Scope, and Methodology | 8 |
| Appendix 2 | |
| Summary of Significant Weaknesses at Each Regional Planning Commission | 10 |
| Appendix 3 | |
| Summary of Regional Planning Commission Funding | 18 |
| Appendix 4 | |
| Observations by the Texas Association of Regional Councils | 20 |

Detailed Results

Chapter 1

Significant Financial and Federal Compliance Weaknesses Exist at 13 of the 24 Regional Planning Commissions

Our review of regional planning commissions' (RPC) financial audit reports and associated management letters indicates that significant financial and federal compliance weaknesses exist at 13 of the 24 RPCs. In fiscal year 2001, these 13 RPCs received \$20.8 million in state funds and \$249.6 million in federal funds to administer a variety of programs. The financial weaknesses identified spanned a variety of areas and included issues such as failure to implement adequate controls over cash, failure to account for fixed assets adequately, and failure to monitor subrecipients that receive grant funds.

In fiscal year 2001, the 24 RPCs in Texas received \$48.1 million in state funds and \$394.6 million in federal funds. It is critical that the State monitor the financial operations, federal compliance, and performance results of RPCs so that it can ensure that these organizations use state and federal funds efficiently and effectively.

Significant financial weaknesses demonstrate a need for RPCs to place greater emphasis on proper financial and grant management

Examples of the most significant financial weaknesses included the following:

- Permian Basin Regional Planning Commission did not include financial information relating to its Employee Retirement Plan and Trust in its audited financial statements. This means that the RPC did not follow required Generally Accepted Accounting Principles. Because of this, the RPC's financial statements did not purport to and did not present fairly its complete financial position. Additionally, this RPC did not perform certain accounting reconciliations, including cash reconciliations, that are necessary to ensure the accuracy of financial records. Management indicated that it is in the process of implementing effective cash reconciliations. (This RPC also had a significant federal compliance finding, which is discussed later in this chapter.)

Summary of Our Review of RPCs' Financial Reports and Management Letters

We reviewed the most recent audit reports and associated management letters that RPCs' independent auditors prepared prior to August 31, 2002.

An audit report identifies high-level weaknesses that would have a material effect on the accuracy of an RPC's financial statements. A management letter identifies weaknesses that would not materially affect the accuracy of an RPC's financial statements but that could still be significant to the RPC's financial management or compliance with federal regulations.

We considered a weakness identified in an RPC's audit report or management letter to be significant if it met any of the following criteria:

- Weakness indicated that fraud may have been committed.
- Weakness had a material effect on financial controls or federal compliance.
- Weakness identified questioned costs related to state funds.
- Weakness increased the risk of financial loss.
- Weakness was an unresolved prior year finding related to state funds.
- Weakness was identified at more than one RPC.
- Weakness indicated poor or questionable financial management.

- In a management letter submitted to Ark-Tex Council of Governments, the independent auditor noted that this RPC made erroneous accounting entries to its fund equity accounts and was not following true fund accounting procedures. These weaknesses significantly increased the risk that misstatements of the accounts might not be detected and corrected prior to publication of financial statements. As a result, significant time and effort was necessary to reconcile this RPC's fund equity accounts.

Additionally, this RPC did not maintain a detailed listing of fixed assets or perform a recent, complete physical inventory of fixed assets. The management letter did not include management's responses.

- The Central Texas Council of Governments did not have a formally documented and comprehensive disaster recovery plan. This RPC also did not prepare its financial statements in a timely manner and missed the nine-month deadline for submitting these statements to the federal clearinghouse. Additionally, this RPC had no separate audit performed on its fiscal year 2000 financial statements. This RPC also spent a small amount of funds on alcohol. The independent auditor indicated that the RPC was making corrections to reduce the risk of issuing its financial statements late. (This RPC also had a significant federal compliance finding, which is discussed later in this chapter.)

- Middle Rio Grande Development Council's weak controls over grant accounting resulted in various overlapping grants being charged expenditures that exceeded the grant budgets. Management indicated that it would implement a new procedure to track payables and receivables and that its staff would review fund closeout deadlines on a monthly basis to ensure that expenditures were charged to the proper fund.

Summary of Weaknesses Identified in Financial Reports and Management Letters

The following 13 RPCs have significant financial and federal compliance weaknesses:

- Alamo Area Council of Governments
- Ark-Tex Council of Governments
- Central Texas Council of Governments
- Coastal Bend Council of Governments
- Deep East Texas Council of Governments
- Houston-Galveston Area Council
- Middle Rio Grande Development Council
- NORTEX Regional Planning Commission
- Permian Basin Regional Planning Commission
- Rio Grande Council of Governments
- South East Texas Regional Planning Commission
- South Texas Development Council
- Texoma Council of Governments

The following 11 RPCs had no significant financial or federal compliance weaknesses:

- Brazos Valley Council of Governments
- Capital Area Planning Council
- Concho Valley Council of Governments
- East Texas Council of Governments
- Golden Crescent Regional Planning Commission
- Heart of Texas Council of Governments
- Lower Rio Grande Valley Development Council
- North Central Texas Council of Governments
- Panhandle Regional Planning Commission
- South Plains Association of Governments
- West Central Texas Council of Governments

More detailed information on RPCs and their significant financial and federal compliance weaknesses is included in Appendix 2 of this report.

- Deep East Texas Council of Governments made expenditures that exceeded grant budgets. In addition, this RPC made numerous accounting adjustments and reclassifications, which can be a potential indicator of poor financial management. Management indicated that it has implemented procedures to address these issues.
- For the past few years, Texoma Council of Governments has not recovered all the indirect costs (such as utilities and insurance) and employee benefit costs (such as medical insurance and retirement) that it is entitled to receive from grant funding sources. This RPC also had not made needed adjustments in subsequent years to ensure that it recovers all funds it can recover on its grants. Management indicated it would pursue action to reverse this trend.

It is important to note that, with the exception of Permian Basin Regional Planning Commission, all of the RPCs received unqualified opinions on their financial statements. Additionally, none of the 24 RPCs had material weaknesses in their internal controls that affected the accuracy of their financial reporting.

Significant federal compliance weaknesses increase the risk that clients may not receive adequate program services and that, if these weaknesses are allowed to persist, could ultimately result in loss of federal funds

Examples of the most significant federal compliance weaknesses included the following:

- NORTEX Regional Planning Commission received a qualified opinion on its compliance with federal regulations because one of its component units, the North Texas Workforce Development Board, did not perform fiscal monitoring of its \$3.9 million third-party child care service provider.¹ In fiscal year 2002, the only fiscal monitoring the North Texas Workforce Development Board performed regarding this service provider was to receive a copy of the provider's audit reports. Prolonged noncompliance could put this RPC's and that blended component's ability to continue receiving federal funds at risk.² NORTEX Regional Planning Commission is financially accountable for the North Texas Workforce Development Board. The North Texas Workforce Development Board's staff has developed a tentative monitoring schedule for the subsequent year. (The audit opinion on the accuracy of this RPC's general purpose financial statements was unqualified.)
- Permian Basin Regional Planning Commission did not monitor its \$5.9 million child care grant subrecipients, which increases the risk that clients will not receive adequate program services. Management stated that the RPC no longer

Qualified Opinion on Federal Compliance

A qualified opinion on federal compliance states that, except for the effects of the matter(s) to which the qualification relates, the entity has complied, in all material respects, with the requirements for its major federal programs.

¹ North Texas Regional Planning Commission is the fiscal agent for the North Texas Workforce Development Board.

² Because it is considered a blended component, North Texas Workforce Development Board's financial information is combined with NORTEX Regional Planning Commission's financial information on this RPC's financial statements.

passes funds directly to subrecipients and that the RPC monitors all entities to which it passes federal funds.

- South East Texas Regional Planning Commission did not perform fiscal monitoring on all grant subrecipients in accordance with the requirements of its substance abuse prevention and treatment program. Management indicated that its procedures now include fiscal monitoring.
- Central Texas Council of Governments gave Section 8 housing assistance to an ineligible individual, which resulted in \$5,376 in questioned costs. This RPC receives federal Section 8 funds directly from the U.S. Department of Housing and Urban Development (and not through a state agency).

Appendix 2 of this report includes more detailed information on RPCs and their significant financial and federal compliance weaknesses. Appendix 3 presents information on each RPC's state and federal funding.

Recommendation

The RPCs should implement the recommendations their independent auditors made to address the financial deficiencies and control weaknesses identified.

Management's Response from the Office of the Governor

This recommendation deals not with GOBPP [Governor's Office of Budget, Planning and Policy Division], but the relationship between RPCs and their independent auditor, however, GOBPP will develop a 'Responsive Action Plan' form for the RPCs to use when independent auditors report issues. The Responsive Action Plan shall accompany RPC submission of annual audit documents to the Office of Governor when issues are identified and recommendations are made. The plan shall identify alleged condition, auditor recommendation, RPC action, status, proposed completion date, lead action persons, and implementation date. GOBPP will adopt amendments to the Texas Administrative Code by March 2003, to include this requirement.

These plans will document actions intended by RPCs to rectify financial and federal compliance weaknesses identified by independent auditors and establish accountability and commitment to resolve problems.

The Content of the Performance Reports That Regional Planning Commissions Submit Could Be Enhanced Significantly

The performance reports that RPCs are required to submit to the State often do not include all information required by law and regulation. Having this type of information would allow the State to better monitor RPCs' performance and to ensure that these organizations comply with laws and regulations. Examples of key required information that is frequently missing from these reports include:

- **Productivity information.** None of the RPCs' performance reports contained a sufficient amount of productivity information, despite the fact that Local Government Code, Section 391.0095(a), requires RPCs to report their productivity during the fiscal year and project their productivity for the next fiscal year.³
- **Executive management salary information.** Six RPCs submitted salary schedules that did not include their executive directors' actual salaries as required by Local Government Code, Section 391.0117 (a). However, five of these six RPCs did report general pay ranges for their executive directors.
- **Goals, objectives, and performance measures.** Eleven RPCs' work programs lacked at least one of these elements, which are required by Texas Administrative Code, Title 5, Section 590 (1).

In addition, it is important to note that 14 of the RPCs submitted at least one required performance report to state officials after the required due date for the report.

The current performance reports also do not require information that could improve state officials' ability to provide effective oversight. The following are examples of items not required in current performance reports:

- **Outcome Measures.** Although RPCs are required to document their performance, they are not specifically required to document the *outcomes* of their programs' activities.⁴ As a result, most RPCs do not report the planned impact of their programs' activities on their regions or the actual outcomes of those activities. The RPCs perform an important role in the State's delivery of services to citizens. Therefore, requiring them to report outcome measures could enable the State to better ensure that RPCs carry out this role adequately.

Outcome Measures

The Governor's Office of Budget and Planning and the Legislative Budget Board's instructions for preparing strategic plans defines outcome measures as:

Indicators of the actual impact or effect on a stated condition or problem. [Outcome measures] are tools to assess the effectiveness of an agency's performance and the public benefit derived from it. An outcome measure is typically expressed as a percentage, rate or ratio.

³ Some of the RPCs' reports contained some productivity information. However, none of the reports contained productivity information for even a significant minority of their key programs.

⁴ The performance that RPCs are required to report is defined in the Texas Administrative Code as "An analysis of progress made toward achieving goals and objectives set internally or by outside contract or other agreement."

- Comparison of Planned Performance and Actual Results. Currently, the required report of an RPC's productivity and performance must include "an analysis of progress made toward achieving goals and objectives set internally or by outside contract or other agreement." However, few RPCs submitted reports that compared actual results with planned performance. Several reports lacked actual results data, planned results, or both.⁵

Requiring RPCs to compare the targeted performance from their work programs with actual performance in the prior year would enable stakeholders to determine whether RPCs met their goals. This comparison should include performance measure information.

- Descriptive Fixed Asset Information. RPCs are currently required to submit a report of any assets they disposed of. However, the only requirements for this report are that the report should (1) list any assets disposed of and (2) be submitted by the deadline. As a result, some RPCs merely provided a list of assets disposed of in the prior year; they did not provide any additional information relevant for oversight such as:
 - ♦ An itemized list describing individual assets disposed of.
 - ♦ The acquisition date of each asset disposed of.
 - ♦ The purchase price or carrying value of each asset disposed of.
 - ♦ The reason for disposing of each asset.

Recommendation

Texas Local Government Code, Section 391.009 (a)(3), requires the Office of the Governor to develop RPCs' annual reporting requirements. We encourage the Office of the Governor to consider modifying its reporting requirements in the Texas Administrative Code to include the report enhancements specified in our report so that the State can better ensure that RPCs operate effectively and efficiently.

Management's Response from the Office of the Governor

The Division of Budget, Planning and Policy (GOBPP) agrees with the recommendation concerning the need for RPCs to include sufficient detail in reports to improve state oversight of assets and programs.

GOBPP has developed a reporting requirement schedule for use by the RPCs, which will be distributed in December 2002.

GOBPP will draft changes to annual reporting requirements and work with the State Auditor's Office to develop definitions for the Texas Administrative Code and Local Government Code to ensure that RPCs operate properly. GOBPP intends to adopt

⁵ A few of these reports compared actual results with planned performance for some key programs but not for a majority of these programs.

amendments to the Texas Administrative Code by March 2003. At a minimum, modifications will include descriptive fixed asset information, data elements to be included in RPC productivity and performance reports, data elements for the annual work program for the next annual reporting period, data elements for projections of work for the next annual reporting period based on the annual work program, required comparison of planned performance and actual results, and outcomes of program activities.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

Our objectives were to:

- Review and report on significant issues in regional planning commissions' (RPC) audit reports.
- Determine whether RPCs' performance reports include sufficient information to enable meaningful state oversight.

Scope

This work was not an audit, and therefore some information in this report has not been subjected to audit procedures. The scope of this review included the most recent reports that each of the 24 RPCs had submitted to the State prior to August 31, 2002. In most cases, we reviewed reports covering the RPCs' fiscal year 2001 or 2000. However, the calendar months that make up each RPC's fiscal year vary. Our work did not include an information technology review.

Methodology

Our methodology consisted of examining reports that the RPCs are required to submit to various state officials, including the State Auditor. We then made inquiries of RPC staff and independent auditors who prepared the RPCs' audit reports to obtain clarifying details about the information in these reports.

Information collected and reviewed included the following for each RPC:

- Annual financial reports and the associated audit reports
- Salary schedules
- Indirect cost certifications
- Reports of assets disposed of
- Reports of performance and productivity
- Reports of projected performance and productivity
- Work plans

Procedures, tests, and analyses performed included the following:

- Examined each report the RPCs submitted to the State
- Contacted RPC management and independent auditors, when necessary, to obtain additional information

Criteria included the following:

- Texas Local Government Code, Section 391, which requires RPCs to submit several required reports and contains the statutory requirement for the State Auditor's Office to perform this review
- Texas Administrative Code, Title 1, Chapter 5, which contains RPC reporting requirements

We considered a weakness identified in an RPC's audit report or management letter to be significant if it met any of the following criteria:

- ♦ Weakness indicated that fraud may have been committed.
- ♦ Weakness had a material effect on financial controls or federal compliance.
- ♦ Weakness identified questioned costs related to state funds.
- ♦ Weakness increased the risk of financial loss.
- ♦ Weakness was an unresolved prior year finding related to state funds.
- ♦ Weakness was identified at more than one RPC.
- ♦ Weakness indicated poor or questionable financial management.

Other Information

We conducted fieldwork from September 2002 through November 2002. The following members of the State Auditor's staff performed the audit work:

- Greg Adams, CPA (Project Manager)
- Bev Schulke Bavousett, CPA (Assistant Project Manager)
- David Griffin
- Sharon Brantley
- J. Scott Killingsworth, CIA (Quality Control Reviewer)
- Valerie Hill, MBA (Audit Manager)
- Frank Vito, CPA (Audit Director)

Summary of Significant Weaknesses at Each Regional Planning Commission

The quality of fiscal and program management varied among the regional planning commissions (RPC). Of the 24 RPCs, 13 had significant financial or federal compliance findings in either their audit reports or the management letters resulting from their annual financial audits.⁶ However, independent auditors for the following 11 RPCs identified no significant financial or federal compliance weaknesses:

- Brazos Valley Council of Governments (Bryan, Texas)
- Capital Area Planning Council (Austin, Texas)
- Concho Valley Council of Governments (San Angelo, Texas)
- East Texas Council of Governments (Kilgore, Texas)
- Golden Crescent Regional Planning Commission (Victoria, Texas)
- Heart of Texas Council of Governments (Waco, Texas)
- Lower Rio Grande Valley Development Council (McAllen, Texas)
- North Central Texas Council of Governments (Arlington, Texas)
- Panhandle Regional Planning Commission (Amarillo, Texas)
- South Plains Association of Governments (Lubbock, Texas)
- West Central Texas Council of Governments (Abilene, Texas)

It is important to note that, with the exception of Permian Basin Regional Planning Commission, all of the RPCs received unqualified opinions on their financial statements. Additionally, none of the 24 RPCs had material weaknesses in their internal controls that affected the accuracy of their financial reporting.

The following table lists the 13 RPCs with significant financial and/or federal compliance weaknesses.

⁶ An audit report identifies high-level weaknesses that would have a material effect on the accuracy of an RPC's financial statements. A management letter identifies weaknesses that would not materially affect the accuracy of an RPC's financial statements but could still be significant to the RPC's financial management or compliance with federal regulations.

**Significant Financial and Federal Compliance Weaknesses at Regional Planning Commissions
(Identified by Independent Auditors)**

| Area of Weakness | Risk Posed by the Weakness | Summary of Significant Control Weakness | Summary of Management's Response | Report in Which Weakness Was Identified |
|--|--|---|---|---|
| Alamo Area Council of Governments (San Antonio, Texas) | | | | |
| Failure to maintain adequate collateralization of cash | This increases the risk of loss of funds through bank failure. | During three months of 2001, the amount of cash this RPC had on deposit at its bank was undercollateralized. Specifically, the amount on deposit exceeded the Federal Deposit Insurance Corporation's (FDIC) coverage of \$100,000. | Management stated that it had amended its policy to include daily monitoring of account balances. | Management Letter |
| Ark-Tex Council of Governments (Texarkana, Texas) | | | | |
| Failure to make appropriate accounting entries to fund equity accounts | This increases the risk that misstatements of the accounts might not be recognized and corrected prior to publication of financial statements. | This RPC made inappropriate accounting entries to its fund equity accounts and did not follow true fund accounting procedures. | The Management Letter did not include management's responses. | Management Letter |
| Failure to establish funds with a self-balancing set of accounts | This increases the risk that errors will occur and that financial information may be reported inaccurately or incompletely. | This RPC accounted for its grants within a single fund using account numbers to identify individual grant activity. | The Management Letter did not include management's responses. | Management Letter |
| Failure to implement or maintain basic accounting safeguards over fixed assets | Not implementing these basic safeguards increases the risk of loss, theft, or accounting errors involving fixed assets. | This was an uncorrected finding from the prior year. The RPC had not recently performed a complete physical inventory of fixed assets, did not adhere to its capitalization policy, and did not maintain an accurate, detailed listing of all fixed assets. | The Management Letter did not include management's responses. | Management Letter |
| Failure to maintain sufficient payroll/personnel documentation | This increases the risk that incorrect information may be used to process payroll/personnel transactions. | In some instances, deduction authorizations were missing from this RPC's employee payroll files; in other instances, deductions the RPC made did not agree with the deduction authorization on file. | The Management Letter did not include management's responses. | Management Letter |
| Failure to reconcile the general ledger with subsidiary ledgers | This increases the risk that errors will occur and that financial information may be reported inaccurately or incompletely. | This issue also was identified in this RPC's audit of the prior year. The RPC lacked procedures to periodically reconcile the general ledger balances to accounts payable, notes receivable, and fixed assets in a subsidiary ledger. | The Management Letter did not include management's responses. | Management Letter |

**Significant Financial and Federal Compliance Weaknesses at Regional Planning Commissions
(Identified by Independent Auditors)**

| Area of Weakness | Risk Posed by the Weakness | Summary of Significant Control Weakness | Summary of Management's Response | Report in Which Weakness Was Identified |
|--|---|---|---|---|
| Central Texas Council of Governments (Belton, Texas) | | | | |
| Failure to maintain a comprehensive, documented disaster recovery plan | This increases the risk that, in the event of a disaster, business units may be inoperable for extended periods. | This issue also was identified in the RPC's audit of the prior year. The independent auditor stated that this RPC lacked a comprehensive disaster recovery plan to address all actions necessary to recover critical business functions in the event of a disaster. | The Management Letter indicated that management was in the process of implementing the recommendation from the audit of the prior year. The Management Letter did not include management's responses to unresolved findings from the audit of the prior year. | Management Letter |
| Failure to make only allowable expenditures | This increases the risk that the RPC could cease receiving federal funds. | One of the 10 expenditures tested at this RPC was a reimbursement to an employee for the purchase of alcohol. This type of expenditure is prohibited by Office of Management and Budget (OMB) Circular A-102. | Management indicated that it was not the RPC's policy to reimburse employees for the purchase of alcohol. | Management Letter |
| Failure to prepare financial statements in a timely manner | This increases the risk that the RPC could cease receiving federal funds. | This RPC did not complete and submit audited financial statements, including the Schedule of Federal and State Expenditures, to the federal clearinghouse within nine months of its fiscal years ended June 30, 2000, and June 30, 2001. (The nine-month requirement is specified in OMB Circular A-133.) | Management indicated that it would comply with OMB A-133 requirements for its fiscal year ended June 30, 2002. | Audit Report |
| Failure to maintain sufficient payroll/personnel documentation | This increases the risk that incorrect information may be used to process payroll/personnel transactions. | The personnel files associated with 2 of the 19 payroll transactions tested at this RPC lacked adequate documentation. | Management indicated that it would review files to ensure that all required payroll documents are maintained. | Management Letter |
| Failure to update and approve an investment policy | This increases the risk that management could make investments that are (1) disallowed by the Public Funds Investment Act or (2) would not achieve the RPC's objectives for safety, rate of return, or portfolio diversification. | This issue also was identified in the RPC's audit of the prior year. This RPC had not updated and approved its investment policy annually, as required by the Public Funds Investment Act. | The Management Letter indicated that management had not implemented the recommendation from the audit of the prior year. The Management Letter did not include management's responses to unresolved findings from the audit of the prior year. | Management Letter |

**Significant Financial and Federal Compliance Weaknesses at Regional Planning Commissions
(Identified by Independent Auditors)**

| Area of Weakness | Risk Posed by the Weakness | Summary of Significant Control Weakness | Summary of Management's Response | Report in Which Weakness Was Identified |
|---|---|--|---|---|
| Failure to ensure that only eligible participants receive benefits | This increases the risk that the RPC could incur costs associated with ineligible program participants. | In 1 of 10 families tested for Section 8 housing assistance eligibility, the RPC did not consider the income of a second adult living in the house when it computed total family income. As a result, the family received \$5,376 in Section 8 housing assistance to which it was not entitled. (This RPC received Section 8 funds directly from the U.S. Department of Housing and Urban Development and not through a state agency.) | The program staff were counseled regarding this matter and received additional training on eligibility and verification requirements. The RPC will seek reimbursement for the ineligible housing assistance payments. | Audit Report |
| Coastal Bend Council of Governments (Corpus Christi, Texas) | | | | |
| Failure to maintain adequate inventory records | This increases the risk that assets may be misstated on the financial statements. | This RPC did not use certain controls available in its computerized inventory system. A large difference existed between the year-end physical inventory count and the inventory amount recorded in the inventory system. | Management indicated that it would provide additional training to inventory staff. | Management Letter |
| Deep East Texas Council of Governments (Jasper, Texas) | | | | |
| Failure to ensure that review of accounting entries occurs in a timely manner | This increases the risk that costs could be questioned or that financial reporting errors could occur. | This RPC made several adjustments and reclassifications in its accounting system months after the accounting period ended. These adjustments were necessary because of coding errors. | Management indicated that staff will monitor accounts and correct any detected error promptly. | Audit Report |
| Failure to monitor grant expenditures and budgets | This increases the risk that costs could be questioned or disallowed. | The independent auditors noted instances in which grant expenditures exceeded the grant budget. | Management indicated that the RPC now prepares (and the Executive Director reviews) a monthly funds status report showing budget variances for each fund. | Management Letter |

**Significant Financial and Federal Compliance Weaknesses at Regional Planning Commissions
(Identified by Independent Auditors)**

| Area of Weakness | Risk Posed by the Weakness | Summary of Significant Control Weakness | Summary of Management's Response | Report in Which Weakness Was Identified |
|---|--|--|---|---|
| Houston-Galveston Area Council (Houston, Texas) | | | | |
| Failure to receive audit reports from all subrecipients within the nine-month period of review required by OMB Circular A-133 | This increases the risk that financial irregularities at subrecipients could go undetected. | This RPC did not receive audit reports from some subrecipients within the specified time period required by OMB Circular A-133. | The independent auditor's report stated that the RPC had received all audit reports. | Audit Report |
| Middle Rio Grande Development Council (Carrizo Springs, Texas) | | | | |
| Failure to maintain sufficient payroll/personnel documentation | This increases the risk that incorrect information may be used to process payroll and personnel transactions. | Personnel action forms for two employees of this RPC did not reflect the proper approved pay rate. | The Management Letter did not include management's responses. | Management Letter |
| Failure to properly record grant financial activity | This increases the risk that management may overspend grant budgets and report inaccurate grant financial information. | The RPC made expenditures for various overlapping grants that exceeded the grant budget in fiscal year 2001. Specifically, the RPC sometimes charged these expenditures to the wrong grant year. Audit adjustments were required to correct misstatements for individual fund expenditures and grants receivable. | Management indicated that it would implement a new procedure to track fund payables and receivables. Fund payables and receivables will be reviewed monthly to monitor overlapping fund times and to ensure that expenditures are charged to the proper fund. | Audit Report |
| NORTEX Regional Planning Commission (Wichita Falls, Texas) | | | | |
| Failure to perform fiscal monitoring at all grant subrecipients | This increases the risk that subrecipients may not be providing services in accordance with contract agreement. | This RPC received a qualified opinion on its compliance with federal regulations because one of its component units, the North Texas Workforce Development Board, did not perform fiscal monitoring of its \$3.9 million third-party child care service provider. (This RPC was the fiscal agent for the service provider, the North Texas Workforce Development Board.) The only fiscal monitoring the North Texas Workforce Development Board performed regarding its third-party child care service provider in fiscal year 2002 was to receive a copy of the service provider's audit reports. | The North Texas Workforce Development Board staff developed a tentative monitoring schedule for the subsequent fiscal year. | Audit Report |

**Significant Financial and Federal Compliance Weaknesses at Regional Planning Commissions
(Identified by Independent Auditors)**

| Area of Weakness | Risk Posed by the Weakness | Summary of Significant Control Weakness | Summary of Management's Response | Report in Which Weakness Was Identified |
|---|--|---|---|---|
| Permian Basin Regional Planning Commission (Midland, Texas) | | | | |
| Failure to conform with Generally Accepted Accounting Principles (GAAP) | This increases the risk that readers of the financial statements will not understand the complete financial position of the RPC. | This RPC did not include financial information relating to its Employee Retirement Plan and Trust in its financial statements. This means that the RPC did not follow required GAAP. Because of this, the RPC's financial statements did not purport to and did not present fairly its complete financial position. | No Response - This finding appeared in the opinion to the audit report, rather than as a finding in the audit report or the management letter, which would normally include a response. | Audit Report |
| Failure to reconcile the general ledger with certain subsidiary ledgers | This increases the risk that errors will occur and that financial information may be reported inaccurately or incompletely. | In the audit of the prior year, this RPC's independent auditor was unable to reconcile the amounts described on the RPC's general ledger system as "accounts payable" to any detailed listing or subsidiary ledger. In its most recent audit, the independent auditor found that, although the RPC began generating a detailed listing of accounts payable, it did not reconcile this listing to the general ledger each month. | The Commission agrees that the accounts payable ledger should be reconciled to the general ledger on a monthly basis. | Management Letter |
| Failure to perform fiscal monitoring at all grant subrecipients | This increases the risk that subrecipients may not be providing services in accordance with contract agreement. | This RPC had not monitored its child care grant subrecipients. | The Commission no longer passes funds through to subrecipients. It monitors those entities to which it passes funds. | Audit Report |
| Failure to provide adequate controls over cash | This increases the risk that financial information could be inaccurate. | This RPC did not completely reconcile its bank accounts at year-end. Each account contained an unreconciled difference when compared with the general ledger, and some outstanding checks were several years old. | The Commission is in the process of investigating and reconciling all bank account differences. Additionally, the Commission has designed a report to reconcile the general ledger to the bank account. | Management Letter |

**Significant Financial and Federal Compliance Weaknesses at Regional Planning Commissions
(Identified by Independent Auditors)**

| Area of Weakness | Risk Posed by the Weakness | Summary of Significant Control Weakness | Summary of Management's Response | Report in Which Weakness Was Identified |
|---|---|---|--|---|
| Rio Grande Council of Governments (El Paso, Texas) | | | | |
| Failure to establish funds with a self-balancing set of accounts | This increases the risk that errors will occur and that financial information may be reported inaccurately or incompletely. | This RPC did not maintain separate general ledgers for each fund, including each of the three funds it placed in its enterprise fund. It did not record all movements of amounts between funds with due to/due from accounts. | This issue also was identified in the audit of the RPC's prior year. Management stated that it had converted to a fund accounting package and was separating general ledgers for each fund. | Management Letter |
| Failure to implement key controls over investments | This increases the risk that management could make investments that are (1) disallowed by the Public Funds Investment Act or (2) would not achieve the RPC's objectives for safety, rate of return, or portfolio diversification. | The RPC's board did not approve its written investment policy within the last year; the board also did not approve the investment officer, and it did not receive quarterly investment reports. | Management indicated that the RPC's written investment policy was reviewed and approved by the board and that the board also approved an investment officer in a February 2002 board meeting. | Management Letter |
| Failure to receive audit reports from all subrecipients within the nine-month period of review required by OMB Circular A-133 | This increases the risk that financial irregularities at subrecipients could go undetected. | This RPC did not receive audit reports from subrecipients that are required to have audits. It did not have procedures in place to ensure that it received those audit reports. | This issue also was identified in the RPC's prior year audit. Management indicated that it included this requirement in its fiscal year 2002 contracts with subrecipients and is obtaining audit reports for the past two years. | Management Letter |
| South East Texas Regional Planning Commission (Beaumont, Texas) | | | | |
| Failure to implement key controls over investments | This increases the risk that management could make investments that are (1) disallowed by the Public Funds Investment Act or (2) would not achieve the RPC's objectives for safety, rate of return, or portfolio diversification. | The RPC's investment policy did not include an investment strategy for each fund or all the Public Funds Investment Act restrictions that are applicable to repurchase agreements. Its quarterly investment reports lacked the required statement of compliance, and the RPC's investment officer did not sign these reports. | Management indicated it had amended the investment policy to include a strategy for each fund type and the restrictions on repurchase agreements. Future quarterly reports will have a signed statement that the report complies with the RPC's investment policy and the Public Funds Investment Act. | Audit Report |
| Failure to perform fiscal monitoring at all grant subrecipients | This could increase the risk that subrecipients may not be providing services in accordance with contract agreement. | This RPC did not perform fiscal monitoring on all subrecipients in accordance with its substance abuse prevention and treatment program requirements. | Management indicated that its procedures now include fiscal monitoring of cost-reimbursement subcontractors for the substance abuse prevention and treatment program. The RPC hired an additional person to perform monitoring. | Audit Report |

**Significant Financial and Federal Compliance Weaknesses at Regional Planning Commissions
(Identified by Independent Auditors)**

| Area of Weakness | Risk Posed by the Weakness | Summary of Significant Control Weakness | Summary of Management's Response | Report in Which Weakness Was Identified |
|--|--|--|---|---|
| South Texas Development Council (Laredo, Texas) | | | | |
| Failure to apply key controls over cash | This increases the risk that management may not have an effective cash reconciliation process. | The RPC carried outstanding checks on its books from prior years. | The Management Letter did not include management's responses. | Management Letter |
| Texoma Council of Governments (Sherman, Texas) | | | | |
| Failure to recover all allowable costs from the grant funding source | This reduces the amount of available funds the RPC has to provide services. | For the past few years, the rates this RPC applied to grants for indirect and employee benefits costs were inadequate to cover these expenses. Subsequent years' rates were not sufficient to stem this trend. | Management indicated that it has formulated and is pursuing a course of action to reverse this trend. | Management Letter |

Summary of Regional Planning Commission Funding

| Summary of Regional Planning Commission (RPC) Funding (in millions) | | | | | | |
|--|----------------------|------------------------|----------------------|----------------------|--------------------------------------|--|
| Regional Planning Commission | (a) State Revenue | (b) Federal Revenue | (c) Other Revenue | (d) Total Revenue | (e) Largest RPC Program | (f) Funds Associated with Largest Program |
| Alamo Area Council of Governments (San Antonio, Texas) | \$4.5 | \$12.9 | \$5.8 | \$23.2 | Aging | \$11.2 |
| Ark-Tex Council of Governments (Texarkana, Texas) | \$1.5 | \$6.8 | \$1.3 | \$9.6 | Housing | \$4.7 |
| Brazos Valley Council of Governments (Bryan, Texas) | \$1.4 | \$16.6 | \$0.6 | \$18.6 | Housing | \$8.1 |
| Capital Area Planning Council (Austin, Texas) | \$9.1 | \$2.6 | \$2.9 | \$14.6 | State Emergency Communications | \$7.9 |
| Central Texas Council of Governments (Belton, Texas) | \$0.8 | \$21.8 | \$3.6 | \$26.2 | Workforce Development | \$10.5 |
| Coastal Bend Council of Governments (Corpus Christi, Texas) | \$0.9 | \$2.7 | \$1.8 | \$5.4 | Aging | \$3.0 |
| Concho Valley Council of Governments (San Angelo, Texas) | \$2.2 | \$1.6 | \$1.1 | \$4.9 | Aging | \$1.6 |
| Deep East Texas Council of Governments (Jasper, Texas) | \$3.6 | \$6.0 | \$0.4 | \$10.0 | Housing | \$4.0 |
| East Texas Council of Governments (Kilgore, Texas) | \$2.7 | \$29.2 | \$1.5 | \$33.4 | Workforce Development | \$26.0 |
| Golden Crescent Regional Planning Commission (Victoria, Texas) | \$1.0 | \$2.6 | \$1.8 | \$5.4 | Transportation | \$2.4 |
| Heart of Texas Council of Governments (Waco, Texas) | \$1.9 | \$12.8 | \$1.5 | \$16.2 | Workforce Development | \$11.4 |
| Houston-Galveston Area Council (Houston, Texas) | \$0.4 | \$118.5 | \$7.3 | \$126.2 | Workforce Development | \$100.5 |
| Lower Rio Grande Valley Development Council (McAllen, Texas) | \$3.1 | \$6.4 | \$1.5 | \$11.0 | Transportation | \$3.9 |
| Middle Rio Grande Development Council (Carrizo Springs, Texas) | \$0.4 | \$17.5 | \$2.4 | \$20.3 | Workforce Development | \$16.1 |

| Summary of Regional Planning Commission (RPC) Funding (in millions) | | | | | | |
|---|----------------------|------------------------|----------------------|----------------------|----------------------------|--|
| Regional Planning Commission | (a) State Revenue | (b) Federal Revenue | (c) Other Revenue | (d) Total Revenue | (e) Largest RPC Program | (f) Funds Associated with Largest Program |
| North Central Texas Council of Governments (Arlington, Texas) | \$0.4 | \$50.7 | \$8.4 | \$59.5 | Workforce Development | \$32.0 |
| NORTEX Regional Planning Commission (Wichita Falls, Texas) | \$1.2 | \$8.4 | \$0.4 | \$10.0 | Workforce Development | \$7.6 |
| Panhandle Regional Planning Commission (Amarillo, Texas) | \$1.4 | \$14.7 | \$1.7 | \$17.8 | Workforce Development | \$13.1 |
| Permian Basin Regional Planning Commission (Midland, Texas) | \$1.7 | \$17.5 | \$0.4 | \$19.6 | Workforce Development | \$4.9 |
| Rio Grande Council of Governments (El Paso, Texas) | \$1.1 | \$2.9 | \$1.0 | \$5.0 | Aging | \$3.0 |
| South East Texas Regional Planning Commission (Beaumont, Texas) | \$2.3 | \$27.7 | \$7.8 | \$37.8 | Workforce Development | \$19.2 |
| South Plains Association of Governments (Lubbock, Texas) | \$1.7 | \$1.8 | \$0.4 | \$3.9 | Aging | \$1.5 |
| South Texas Development Council (Laredo, Texas) | \$1.0 | \$1.9 | \$0.7 | \$3.6 | Aging | \$1.7 |
| Texoma Council of Governments (Sherman, Texas) | \$1.4 | \$5.0 | \$2.0 | \$8.4 | Aging | \$1.6 |
| West Central Texas Council of Governments (Abilene, Texas) | \$2.4 | \$6.0 | \$1.0 | \$9.4 | Workforce Development | \$4.4 |
| TOTALS FOR ALL RPCs | \$48.1 | \$394.6 | \$57.2 | \$499.9 | | \$300.2 |
| Note: All figures are associated with the RPCs' fiscal year 2001, except for Houston-Galveston Area Council and Lower Rio Grande Valley Development Council, whose figures are associated with their fiscal year 2000, and Texoma Council of Governments, whose figures are associated with its fiscal year 2002. | | | | | | |

Source: Annual financial reports submitted by the RPCs.

Observations by the Texas Association of Regional Councils

The State Auditor's office was in contact with the Texas Association of Regional Councils (TARC) as part of the research for this engagement. TARC is a statewide association of regional planning commissions (RPCs) that serves to assist RPCs in strengthening their capabilities to serve their local government members, to provide a forum for the regular exchange of information and ideas, and to represent the councils before state and federal agencies and legislative bodies.

Although TARC was not a party to this engagement, it has provided observations on its member RPCs' plans to improve their fiscal management and reporting of performance. These observations appear below:

The regional planning commissions have implemented, or will implement, the recommendations of their independent auditors as called for by the State Auditor. We are pleased that the report finds that it is "... important to note that none of the 24 regional planning commissions had material weaknesses in their internal controls that affected the accuracy of their financial reporting." The reports reviewed by the State Auditor are in addition to extensive financial and performance reports to state funding agencies; this information is reported directly by state agencies in their own performance and productivity submissions.

In addition, the regional planning commission actively will assist the state in simplifying and improving financial and productivity reporting. Collectively, the regional planning commissions will provide additional training for their executives and financial officers in financial and compliance best practices and in performance and productivity reporting.

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The Honorable Bill Ratliff, Lieutenant Governor, Vice Chair

The Honorable Rodney Ellis, Senate Finance Committee

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**The Commission Chair and Executive Director of Each
Regional Planning Commission**



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