

An Audit Report on

Grant Administration at the Telecommunications Infrastructure Fund Board

October 2002

Report No. 03-005



**State
Auditor's
Office**

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Grant Administration at the Telecommunications Infrastructure Fund Board

Overall Conclusion

The Telecommunications Infrastructure Fund Board (Agency) cannot sufficiently demonstrate that it has awarded grants as the Legislature intended because (1) it has not developed quantifiable criteria to evaluate the grant awards program and (2) its grant management system lacks the detail necessary to analyze whether priority constituents are adequately served.

Weaknesses in the Agency's grant payment process also increase the risk that grant funds will not be used as intended. We project that the Agency has paid approximately \$4.4 million to grantees for items that were not approved in the grantees' budgets during fiscal years 2000, 2001, and part of 2002.

The Agency's grant monitoring process is inadequate for determining whether grantees are complying with grant requirements. From fiscal year 1999 through May 2002, the Agency paid a contractor \$5.8 million to perform the grant monitoring function. However, the contractor conducted on-site monitoring visits at only 1 percent of all grantees. In addition, the Agency did not follow up on the contractor's findings and did not include certain grants in the monitoring process.

Starting at the beginning of fiscal year 2003, the Agency will be solely responsible for performing the monitoring function. With the Agency's statutory expiration date set for September 1, 2005, however, there may be insufficient time left to improve the Agency's oversight of approximately \$500 million in grant funds that the Agency has not yet awarded. The Agency has already awarded approximately \$1 billion in grants from the Telecommunications Infrastructure Fund.

In addition, the Agency does not hold grantees accountable since its grant agreements generally lack key provisions such as performance measures and sanctions. The Agency also is inconsistent in its enforcement of grant agreement provisions requiring grantees to submit requests for funds within 90 days of the expiration of the grant period.

We identified some of the weaknesses included in this report in a previous audit report (*An Audit Report on the Telecommunications Infrastructure Fund Board*, SAO Report No. 00-010, February 2000).

Telecommunications Infrastructure Fund Board

The Legislature created the Agency through the Public Utilities Regulatory Act of 1995, which became effective on September 1, 1995. The Agency administers the Telecommunications Infrastructure Fund, the purpose of which is to advance telecommunications connectivity and technology to public schools, libraries, not-for-profit health care institutions, and higher education institutions. The Agency's enabling legislation specifies that the Board will be abolished as of September 1, 2005, unless the Legislature decides not to abolish it.

Effective Grant Administration

Effective grant administration ensures the following:

- Appropriate applicants receive grants.
- Grantees are paid only for allowable expenditures.
- Grantees' spending and performance are monitored to ensure compliance.
- Grant agreements hold grantees accountable.



Key Points

The Agency cannot sufficiently demonstrate that it has awarded grants as the Legislature intended.

The Agency has not established quantifiable goals or objectives by which to measure the progress of the program, even though there is substantial anecdotal evidence attesting to the accomplishments of various grantees. Without established criteria, the Agency cannot define its objectives, know when objectives are met, or make adjustments to programs.

The outcomes reported by the Agency relate primarily to the Agency's workload, specifically to the number of grants awarded. The Agency's workload does not relate to a measurable standard for grantees, such as schools achieving a required ratio of students to computers, libraries attaining a minimum number of public access computers per library membership, or public health clinics providing certain medical diagnoses or procedures through technology.

In addition, the Agency's grant management system lacks the detail necessary to analyze whether priority constituents are adequately served. Our analysis of Texas Education Agency (TEA) data indicates that the Agency may not have focused on certain public school priority groups. This is the type of analysis that the Agency could do if it used the technology available to it.

In a prior audit report (*An Audit Report on the Telecommunications Infrastructure Fund Board*, SAO Report No. 00-010, February 2000), we recommended that the Agency "demonstrate grant performance through more deliberate targeting and more informative reporting." This recommendation was intended to help the Agency target priority groups established in the enabling legislation. We also reported that the Agency had not included unique TEA campus numbers (used to identify specific campuses) in its records. As of May 2002, the Agency still had not included unique TEA district or campus numbers in its database.

Inadequate review of grantees' requests for funds allows reimbursement of expenditures not included in approved budgets.

Our test of a random sample of 134 payments the Agency made to grantees in fiscal year 2000, fiscal year 2001, and part of fiscal year 2002 identified several weaknesses in the Agency's review and approval of grant payments. The Agency paid Requests for Funds (RFF) when there was evidence that the expenditures were not within the grantees' approved budgets. The total amount of the questioned expenditures in the random sample was \$82,749. Projecting these results to the total population that the samples were taken from indicates that the Agency paid approximately \$4.4 million for unapproved budget expenditures during the tested years.

It is important to note that, beginning with the grants the Agency awarded after August 15, 2001, the Agency ceased requiring grantees to submit supporting documentation with their RFFs. This policy does not comply with the Texas Administrative Code. By not requiring supporting documentation, the Agency increases the risk that it could reimburse grantees for expenditures they have not made.

The Agency has not consistently closed out expired grants or verified matching fund payments.

The Agency has not properly closed out 2,790 (73 percent) of the grants that have expired. Some of these grants expired in April 1999. Failure to close out expired grants increases the risk that grantees will not return unexpended or unmatched grant funds to the Agency.

In addition, of the 134 grantee files tested, 120 required the grantee to provide 10 percent in matching funds. Our original random sample identified 19 expired grants with the match requirement that contained no documentation that \$876,479 in matching funds had been paid. The grants were all past the expiration date (90 days after the end of the grant period). During our audit, the Agency identified 12 of these grantees that had subsequently submitted matching fund data. Seven grants remain without documentation of \$315,219 in matching funds.

The Agency inappropriately pays grantees based on the purchase orders they submit.

In our random sample of 134 payments to grantees, the Agency made 28 percent of the payments based on purchase orders the grantees submitted rather than on the basis of invoices. A reimbursement of funds solely based on a purchase order is considered an advance of funds. The Texas Administrative Code states that all payments of grant funds must be made strictly on a reimbursement basis and must be based on appropriate supporting documentation.

The Agency's monitoring contractor found that, as a result of not following this requirement, the Agency paid three charter schools \$114,389 based on purchase orders they did not execute or on invoice amounts that were less than the purchase order amounts. The Agency submitted documentation regarding these schools to the Office of the Attorney General for collection.

Internal controls within the grant management system are inadequate to prevent erroneous or unauthorized changes to grant award amounts.

Internal controls within the Lotus Notes system, as well as in the accompanying review process, are inadequate to prevent erroneous or unauthorized changes to grant award amounts. This could result in erroneous or unauthorized payments being made and going undetected. While the potential for unauthorized database changes and related payments exists, no such instances came to our attention.

The Agency has not ensured that an adequate number of on-site grant monitoring visits have been performed.

The Agency cannot determine whether grantees are complying with its grant requirements because it did not ensure that an adequate number of on-site grant monitoring visits were performed. From fiscal year 2000 through July 2002, the monitoring contractor performed site visits at 74 of the Agency's 6,356 grantees. This is 1 percent of all Agency grantees.

Fiscal year 2002 is a transition year in which both the contractor and the Agency are carrying out the monitoring function. As of July 2002, the Agency had visited only 15 (3.4 percent) of the 439 grantees it is responsible for monitoring. The Agency awarded \$112 million to these 439 grantees. Most of the related grants expire before December 31, 2002.

The Agency has not monitored grantees associated with \$60.9 million in special grant projects.

Until May 2002, the Agency did not monitor (or consider in its monitoring risk assessment process) special grant projects awarded outside its normal request-for-proposal process. Grants associated with these projects totaled \$60.9 million. We noted that the Agency has reimbursed one of the project grantees for approximately \$27,000 in purchases that appeared to be unallowable.

The Agency has not followed up on outstanding issues identified in on-site monitoring visits and reviews.

The Agency has not performed follow-up procedures on outstanding issues identified during the on-site monitoring visits or desk reviews the monitoring contractor performed. Agency documentation indicates that these visits and desk reviews identified 18 grantees that were required to return \$311,357 to the Agency. However, the Agency did not perform follow-up procedures to determine whether any of the 18 grantees returned funds or filed appeal letters requesting that the refunds be waived. Six of these 18 grantees have not returned a total of \$75,761 to the Agency.

The Agency's plans to move grant monitoring in-house require additional analysis.

Although the Agency will be solely responsible for performing the monitoring function at the beginning of fiscal year 2003, it has not performed a staffing analysis to determine the number of grantee site visits, teleconferences, risk assessments, or other administrative functions it can perform each year. This includes assessing the overall grant monitoring function, as well as assessing individual grant monitoring activities such as monitoring risk assessments, surveys, on-site visits, and desk reviews. The Agency also has not developed policies and procedures for grant monitoring and is adopting some of the procedures its contractor used.

The Agency's grant agreements generally lack key provisions such as performance measures and financial sanctions.

Forty-one of the 44 grant agreements the Agency issued do not contain performance measures to evaluate individual grantees' accomplishments. The Agency requires most grant applicants to submit self-reported evaluation plans to measure the accomplishment of their project goals. However, after it awards grants, the Agency does not request that the grantees submit their evaluations. Its first public school grant agreement specified that "an audit procedure will be instituted by the Agency to assess project results." However, the Agency has not instituted an audit procedure, and it has not assessed the actual results of grantees' projects.

Our review of the 44 grant agreements the Agency issued also found that 27 (61 percent) lack provisions for sanctions allowing the Agency to withhold payments to grantees or to recoup funds it has already paid to grantees.

The Agency is inconsistent in its enforcement of grant agreement provisions requiring grantees to submit requests for funds within 90 days of the expiration of the grant period.

Our test of 134 grantee files found that 15 of these grantees submitted RFFs more than 90 days after the terms of their grants had expired. However, the Texas Administrative Code requires grantees to submit their final RFFs no later than 90 days after the end of the grant period, or they will forfeit the remaining grant amount unless otherwise approved in writing by the Agency. Only 4 of the 15 late RFFs contained approved appeal letters. The Agency paid 11 grantees \$3.4 million it should not have paid.

Summary of Management's Response

The Agency does not agree with all of our findings. Its specific responses and our follow-up comments are included in the Detailed Results portion of this report.

Summary of Information Technology Review

Our review of the Agency's information technology (IT) was limited to reviewing the Agency's current grant management database and performing a high-level review of the Agency's IT controls.

The Agency's current grant management database is a Lotus Notes-based system. Previous Agency management paid \$1.2 million for an automated grant management and customer interface system (TIFBase) that did not work. TIFBase was supposed to have replaced the Lotus Notes-based database; however, design flaws and interface inadequacies prompted current management to terminate the program.

Internal controls within the Lotus Notes system, as well as in the accompanying review process, are inadequate to prevent erroneous or unauthorized changes to grant award amounts. This could result in erroneous or unauthorized payments being made and going undetected.

Other control weaknesses we observed in the Lotus Notes system were the lack of a naming convention (causing data entry errors) and the lack of an audit trail of "holds" (suspended payments) for non-performing grantees.

In our high-level review of the Agency's general IT controls, we found that the Agency's main computer, while in a lockable rack, was occasionally accessible to all employees and was not protected from physical hazards beyond those provided by the general building. The physical hazard condition is primarily the result of severe overcrowding and a lack of sufficient office space. The Agency moved to new facilities in August 2002.

Summary of Audit Objective, Scope, and Methodology

Our objective was to determine whether the Agency is ensuring that state telecommunications grant funds are being spent in an effective and efficient manner. To accomplish this, we developed four sub-objectives:

- Is the Agency awarding grants in a manner that ensures it distributes funds as the Legislature intended?
- Are the Agency's payment processes and controls adequate to safeguard assets?
- Is the Agency's grant monitoring process adequate to ensure that grant funds are used as the Legislature intended?
- Do the Agency's grant agreements have provisions to adequately hold grant recipients accountable for how grant funds are spent?

Rider 6, on page III-39 of the General Appropriations Act (77th Legislature), also specifies that "the Board [Agency] ... shall work with the State Auditor's Office to periodically review and evaluate its grant monitoring activities to determine their appropriateness and effectiveness."

The scope of the audit included reviewing the Agency's grant award databases and records, grant agreements, and financial records. The audit consisted of collecting information, performing selected tests and other procedures, analyzing and evaluating the results against established criteria, and conducting interviews with Agency management and staff. We tested a random sample of grant files and examined all files associated with on-site monitoring visits through April 2002. Additionally, we reviewed data in the TEA's Public Education Information Management System (PEIMS).

Table of Results and Recommendations
The Agency has not developed quantifiable criteria to evaluate the grant awards program. Without established criteria, the Agency cannot define its objectives, know when objectives are met, or make adjustments to programs. (Page 1)
The Agency should:
<ul style="list-style-type: none"> • Establish criteria to quantify the effect that grant funds have had in advancing telecommunications connectivity and technology. • Collect and evaluate data to measure the achievement of program objectives.
The Agency's grant management system lacks the detail necessary to analyze whether priority constituents are adequately served. Our analysis of Texas Education Agency (TEA) data indicates that the Agency may not have focused on certain public school priority groups. (Page 3)
The Agency should:
<ul style="list-style-type: none"> • Begin including the unique TEA campus and district numbers on all new grant records it adds to its grants management database. • Add the unique TEA campus and district numbers to the existing grant records in its grants management database (if possible). • Use the data in TEA databases to monitor and report the number of grants and the total amount of grant funds it awards to target constituent groups. • Develop and implement a plan to ensure that all priority groups are uniquely identified in the database and monitored.
Inadequate review of grantees' requests for funds allows reimbursement of expenditures not included in approved budgets. (Page 7)
The Agency should:
<ul style="list-style-type: none"> • Require grantees to identify the associated budget lines on all RFFs they submit. • Require proof of purchase for all payments. • Pay for budget-approved items only.
The Agency has not consistently closed out expired grants or verified matching fund payments. This increases the risk that grantees will not return unexpended or unmatched grant funds. (Page 9)
The Agency should:
<ul style="list-style-type: none"> • Develop and implement a plan for closing out all expired grants. • Ensure that grantees return unspent funds after their grants have expired. • Ensure that grantees provide verifiable documentation of matching funds. • Include documentation of matching funds in the grant monitoring process. • Pay only 90 percent of a grantee's request for reimbursement when a grantee does not provide documentation indicating that it provided 10 percent in matching funds.
The Agency inappropriately pays grantees based on the purchase orders they submit. This increases the risk that grantees could request reimbursement for items that they have not actually purchased. (Page 11)
The Agency should reimburse grantees only after they have received invoices from vendors for the delivery of goods or services.
Internal controls within the grant management system are inadequate to prevent erroneous or unauthorized changes to grant award amounts. (Page 12)
The Agency should periodically (perhaps at the end of each grant cycle) reconcile the amounts paid with the original amounts awarded.

Table of Results and Recommendations
<p>The Agency has not ensured that an adequate number of on-site grant monitoring visits has been performed. From fiscal year 2000 through July 2002, the monitoring contractor performed site visits at 74 of the Agency's 6,356 grantees. This is 1 percent of all Agency grantees. (Page 15)</p>
<p>The Agency should:</p> <ul style="list-style-type: none"> • Conduct an adequate number of on-site monitoring visits to gain assurance that grantees are complying with grant requirements. • Consider implementing additional types of monitoring tools if it is not able to perform an adequate number of on-site monitoring visits.
<p>The Agency has not monitored grantees associated with \$60.9 million in special grant projects. The Agency has reimbursed one of these grantees \$27,000 in purchases that appear to be unallowable. (Page 17)</p>
<p>The Agency should include all projects in its grant monitoring risk assessment process.</p>
<p>The Agency has not followed up on outstanding issues identified in on-site monitoring visits and reviews. Agency documentation indicated that visits and desk reviews identified 18 grantees that were required to return funds to the Agency. Six of these grantees have not returned a total of \$75,761 to the Agency. (Page 19)</p>
<p>The Agency should:</p> <ul style="list-style-type: none"> • Develop and implement written policies and procedures to follow up on issues identified in monitoring visits and desk reviews. The Agency should conduct follow-up procedures as soon as the implementation date specified on the discrepancy letter arrives. • Contact grantees that owe funds and determine why these grantees have not yet paid. If a grantee appeals the refund it owes, the Agency should file in a timely manner the letter of appeal and correspondence regarding the decision to approve or deny the appeal in the grantee's file.
<p>The Agency's plans to move grant monitoring in-house require additional analysis. Starting at the beginning of fiscal year 2003, the Agency will be solely responsible for performing the monitoring function. However, the Agency has not performed a staffing analysis to determine the number of grantee site visits, teleconferences, risk assessments, or other administrative functions it can perform each year. (Page 20)</p>
<p>The Agency should evaluate its grant monitoring function by:</p> <ul style="list-style-type: none"> • Performing a staffing analysis. • Developing grant monitoring policies and procedures. • Assessing individual grant monitoring activities.
<p>The Agency's grant agreements generally lack key provisions such as performance measures and financial sanctions. (Page 23)</p>
<p>The Agency should implement post-performance review policies that include:</p> <ul style="list-style-type: none"> • Standardized performance measures for grantees to determine outcomes of technology investments. • Annual reporting by grantees to track program progress. • Verification of grantee performance. <p>In addition, the Agency should:</p> <ul style="list-style-type: none"> • Ensure that all grant agreements contain adequate sanctioning and recoupment provisions to hold grantees accountable. • Submit all grant agreements for legal review prior to release.
<p>The Agency is inconsistent in its enforcement of grant agreement provisions requiring grantees to submit requests for funds within 90 days of the expiration of the grant period. Our test of 134 grantee files found that 14 of these grantees submitted RFFs more than 90 days after the terms of their grants had expired. (The Texas Administrative Code requires grantees to submit their final RFFs no later than 90 days after the end of the grant period; otherwise, they will forfeit the remaining grant amount unless otherwise approved in writing by the Agency.) (Page 25)</p>
<p>The Agency should:</p> <ul style="list-style-type: none"> • Develop procedures to notify grantees of the end of the grant period. • Contact grantees that have not requested reimbursement 10 work days prior to the ninetieth day. • Enforce existing sanctions contained in the Texas Administrative Code.

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Number	Report Name	Release Date
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01-448	Legislative Summary Document - Telecommunications Infrastructure Fund Board	March 2001

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Detailed Results

Chapter 1

The Agency Cannot Sufficiently Demonstrate That It Has Awarded Grants as the Legislature Intended

The Telecommunications Infrastructure Fund Board (Agency) cannot sufficiently demonstrate that it has awarded grants in a manner that ensures it distributes funds as the Legislature intended because:

- It has not developed quantifiable criteria to evaluate the grant awards program.
- Its grant management system lacks the detail necessary to analyze whether priority constituents are adequately served.

The Agency has awarded approximately \$1 billion in grants from the Telecommunications Infrastructure Fund (Fund). One-half of the Fund is dedicated to public schools; the other half is dedicated to other qualifying entities (public libraries, higher education institutions, and not-for-profit public health institutions).

Summary of Grants the Agency Has Awarded

According to the Agency, it has awarded \$1,023,651,118 in grants to:

- 4,651 public schools, totaling \$592,297,859.
- 966 libraries, totaling \$64,786,468.
- 138 not-for-profit health care institutions, totaling \$89,124,112.
- 302 higher education institutions, totaling \$106,970,287.
- 299 collaborative grants (multiple entities), totaling \$109,618,603.
- 13 projects, totaling \$60,853,789.

Chapter 1-A

The Agency Has Not Developed Quantifiable Criteria to Evaluate the Grant Awards Program

The Agency has not established quantifiable goals or objectives by which to measure the progress of the program, even though there is substantial anecdotal evidence attesting to the accomplishments of various grantees. Without established criteria, the Agency cannot define its objectives, know when objectives are met, or make adjustments to programs.

The Legislative Budget Board's *Guide to Performance Measure Management* specifies that the Governor and the Legislature expect agency management to develop, monitor, and use performance measures. It further specifies that "achievement of performance targets will be among an agency's highest priorities." In addition, "successful agencies are able to use performance information effectively and efficiently to manage their operations."

While the Agency has certain performance measures, none of these measures addresses the results of funding grantees. The outcomes reported by the Agency relate primarily to the Agency's workload, specifically the number of grants awarded. The Agency's workload does not relate to a measurable standard for grantees, such as schools achieving a required ratio of students to computers, libraries

attaining a minimum number of public access computers per library membership, or public health clinics providing certain medical diagnoses or procedures through technology.

Although the Agency can demonstrate the dollar amount of grants awarded by county throughout the state for each entity, it does not have a measure of what the amount “should” have been to achieve set standards or what more may be needed.

Recommendations

The Agency should:

- Establish criteria to quantify the effect that grant funds have had in advancing telecommunications connectivity and technology.
- Collect and evaluate data to measure the achievement of program objectives.

Management’s Response

The TIFB uses specific funding criteria in its award programs, and is continuing to identify and track key measures that will describe progress and inform future programs. From 1995 to 2001 the explicit objective of the Telecommunications Infrastructure Fund Board (TIFB) was to provide Internet connectivity, distance learning, and inside the walls wiring and technology infrastructure in its grant awards programs. The goal of early grants was to provide connectivity and equipment. Since 1995, when connectivity was very limited, the TIFB has seeded or leveraged more than 12,000 broadband connections throughout the state. The evaluation criteria consisted of the entity’s grant application as the baseline, and the completed TIF-eligible purchases successfully installed, as the outcome. This effort is quantified and recorded in the budget forms and financial status reports of grantees and maintained in the TIFB database.

Beginning in 2001, the TIFB adjusted the focus from basic infrastructure deployment to more complex grant offerings and collaborative initiatives. Professional development, training, community technology integration, and content development became important criteria of the grant programs. The TIFB will continue to release high impact, targeted grant programs that include measures to evaluate and assess progress toward a connected Texas.

Auditor’s Follow-up Comment

The Agency’s award program funding criteria identifies the type of grant awarded, (rural, urban, etc.). The Agency does not establish the criteria or the performance measures necessary to evaluate its progress toward mandated goals. As noted in consultant reports by McKinsey & Company (April 1997) and Deloitte & Touche (April 1999); in the State Auditor’s Office’s February 2000 report (*An Audit Report on the Telecommunications Infrastructure Fund*, SAO Report No. 00-010); and again in this report, the Agency’s performance measures do not fully demonstrate its performance or grant program effects. For example, the Agency can claim 12,000

broadband connections were created since 1995. However, there is no criteria or measure to determine whether the number of broadband connections achieved was what the Agency planned or whether that number of connections is too small, too large, or sufficient.

Priority Constituents as Described in the Agency's Enabling Legislation: Texas Utilities Code

Two Directives

§57.047 (d) In distributing money to public schools, the board shall:

- (1) consider the relative property wealth per student of the school districts that receive the money; and
- (2) recognize the unique needs of rural communities.

Six Projects

§57.047 (a) The board may award a grant to a project or proposal that:

- (1) provides equipment and infrastructure necessary for:
 - (A) distance learning;
 - (B) an information sharing program of a library;
 - (C) telemedicine medical services; or
- (2) develops and implements the initial or prototypical delivery of a course or other distance learning material;
- (3) trains teachers, faculty, librarians, or technicians in the use of distance learning or information sharing materials and equipment;
- (4) develops a curriculum or instructional material specially suited for telecommunications delivery;
- (5) provides electronic information; or
- (6) establishes or carries out an information sharing program.

Eight Priorities

§57.047 (c) In awarding a grant or loan under this subchapter, the board shall give priority to a project or proposal that:

- (1) represents collaborative efforts involving more than one school, university, or library;
- (2) contributes matching funds from another source;
- (3) shows promise of becoming self-sustaining;
- (4) helps users of information learn new ways to acquire and use information through telecommunications;
- (5) extends specific educational information and knowledge services to a group not previously served, especially a group in a rural or remote area;
- (6) results in more efficient or effective learning than through conventional teaching;
- (7) improves the effectiveness and efficiency of health care delivery; or
- (8) takes advantage of distance learning opportunities in a rural or urban school district with a:
 - (A) disproportionate number of at-risk youths; or
 - (B) high dropout rate.

Chapter 1-B

The Agency's Grant Management System Lacks the Detail Necessary to Analyze Whether Priority Constituents Are Adequately Served

Our analysis indicates that the Agency may not have focused on its priority constituents. In a prior audit report (*An Audit Report on the Telecommunications Infrastructure Fund Board*, SAO Report No. 00-010, February 2000), we recommended that the Agency "demonstrate grant performance through more deliberate targeting and more informative reporting." This recommendation was intended to help the Agency monitor its progress and make grant adjustments to target the priority groups established in the enabling legislation. We also reported that the Agency had not included unique Texas Education Agency (TEA) campus numbers (used to identify specific campuses and the number of students in the priority groups) in its records. As of May 2002, the Agency still had not included unique TEA district or campus numbers in its database.

If the Agency included unique TEA district and campus numbers in its database, it could compare information in its database with information in TEA's Public Education Information Management System (PEIMS) and Academic Excellence Indicator System (AEIS). This would enable the Agency to monitor and adjust the level of funding it is awarding to public schools with priority constituents established in its enabling legislation. PEIMS and AEIS contain the state and federal reporting data that TEA collects for the 7,519 campuses and 1,199 school districts in the state (as of the end of 2001). Moreover, PEIMS and AEIS contain data regarding all of

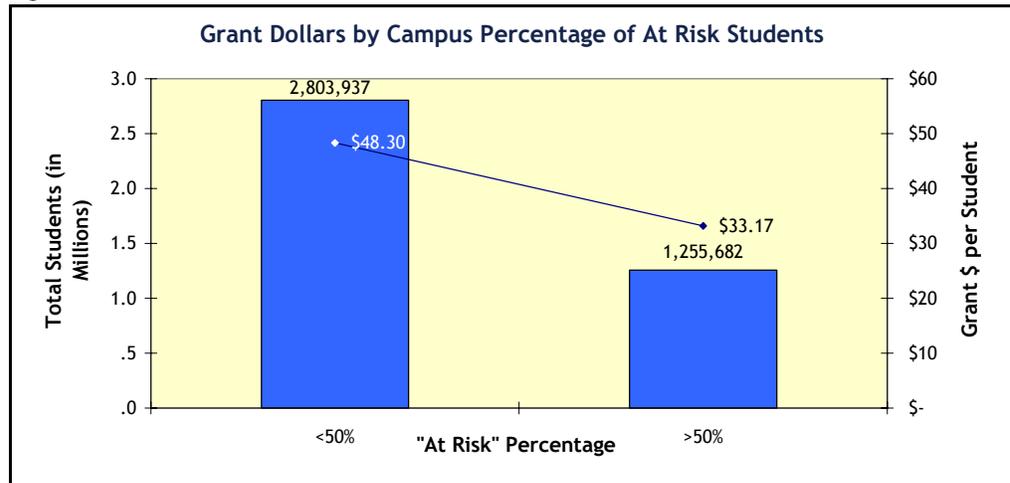
the Agency's public school priority constituent groups. (PEIMS and AEIS are accessible to the public through the TEA Web site.)

Using grant award information that TEA requires school districts to report in PEIMS, we were able to determine the per capita grant funding the Agency awarded to

targeted constituent groups from fiscal year 1999 to fiscal year 2001. This is the type of analysis that the Agency could do if it used the technology available to it. TEA began tracking the Agency's grants to school districts in fiscal year 1999, so our analysis could not include grants awarded before that time. (We did not independently verify the accuracy of the data in PEIMS.)

For example, Figure 1 compares the dollar amount per student the Agency awarded to campuses with more than 50 percent at-risk students (one of its priority groups) with the dollar amount per student the Agency awarded to campuses with less than 50 percent at-risk students. According to the data, schools with more than 50 percent at-risk students received 31 percent less funding per student than schools with less than 50 percent at-risk students.

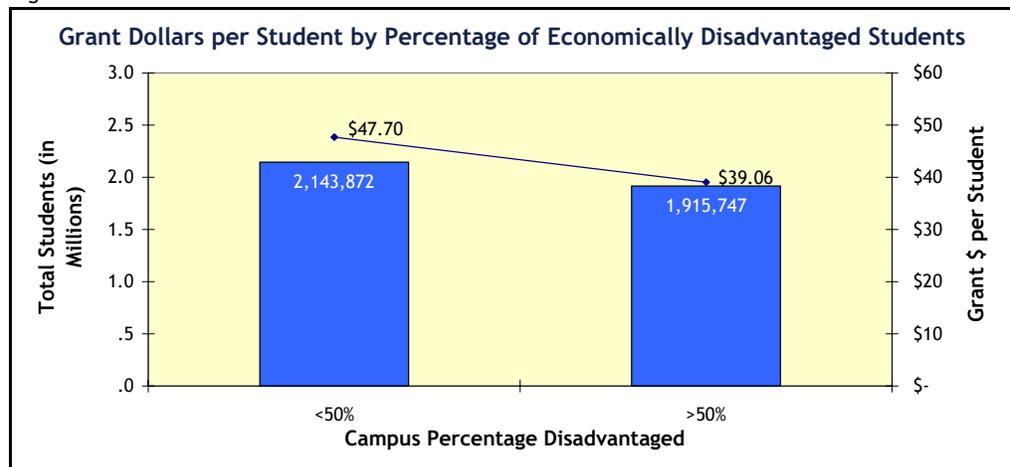
Figure 1



Source: Texas Education Agency PEIMS data

Figure 2 analyzes grants awarded to campuses with economically disadvantaged students (this is one of the Agency's performance measures). According to the data, campuses with more than 50 percent economically disadvantaged students received 18 percent less funding per student than campuses with less than 50 percent economically disadvantaged students.

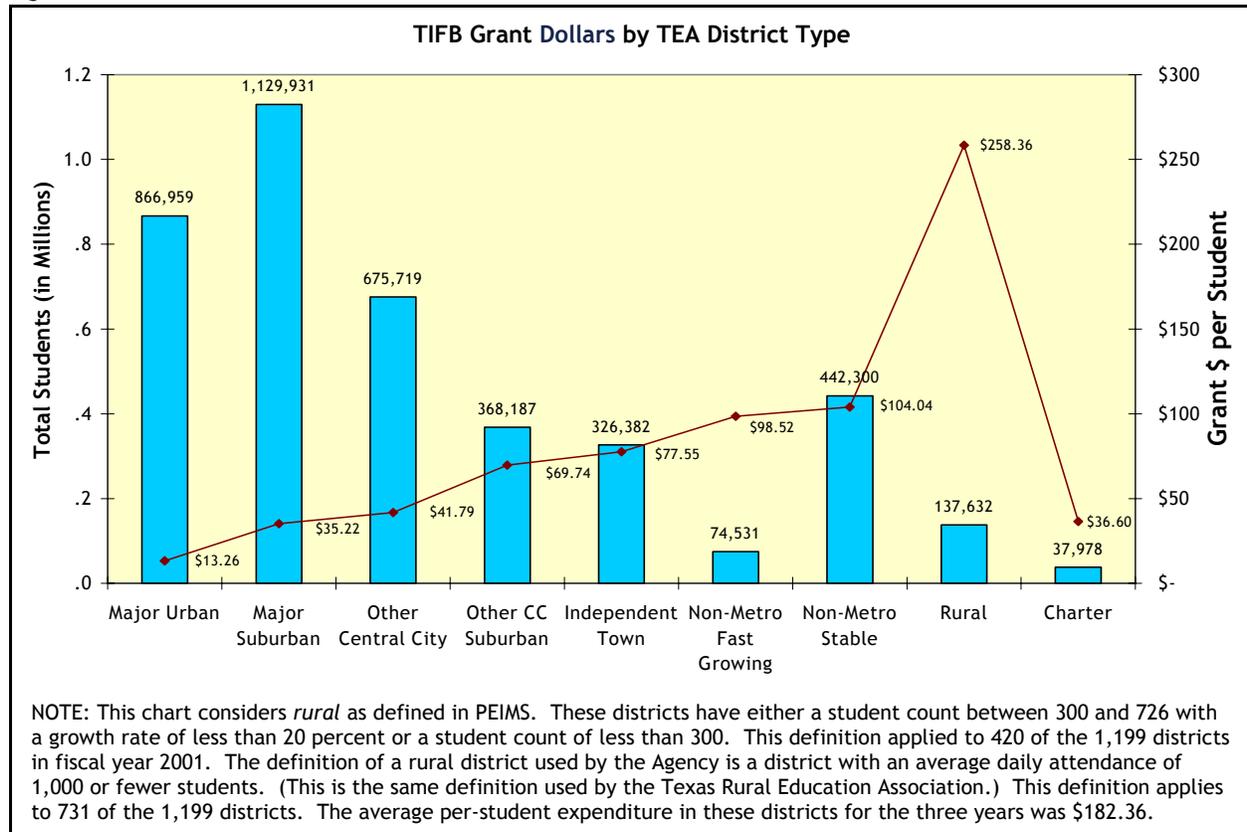
Figure 2



Source: Texas Education Agency PEIMS data

Figure 3 represents grants awarded to different categories of districts. The Agency’s enabling legislation calls for the Agency to “take advantage of distance learning opportunities in rural and urban school districts.” While there are no criteria for what amount of funding is appropriate for the different types of school districts, the per student data suggests that urban districts may not be receiving priority funding.

Figure 3



Source: Texas Education Agency PEIMS data

Recommendations

The Agency should:

- Begin including the unique TEA campus and district numbers on all new grant records it adds to its grants management database.
- Add the unique TEA campus and district numbers to the existing grant records in its grants management database (if possible).
- Use the data in TEA databases to monitor and report the number of grants and the total amount of grant funds it awards to target constituent groups.
- Develop and implement a plan to ensure that all priority groups are uniquely identified in the database and monitored.

Management's Response

The TIFB gathers data to target priority groups through a process that is deliberative, collaborative and evaluative. Needs assessments, advisory working groups, extensive research, staff recommendations and Board interactions inform this process, which has become increasingly precise. The TIFB has two legislatively mandated directives: to consider the relative property wealth per student of school districts and to recognize the unique needs of rural communities. In FY2001, analysis of TIFB public school grants documented that 51.95% of grants were awarded to rural campuses, 33.07% of grants went to schools with 50% or greater at-risk students, and 59.67% of grants went to schools with 50% or greater economically disadvantaged students. In 2002, the TIFB released the Community Network 3 initiatives, which specifically targeted rural counties that had never received community network funds and urban empowerment zones. Clearly, the TIFB is meeting the legislative mandate and will continue to do so through targeted, high impact grant programs.

Auditor's Follow-up Comment

The Agency does not use a specific process, such as analyzing available data, or a formal needs assessment to target priority groups. Instead, the Agency uses an informal process (based upon input from advisory working groups that are the beneficiaries of Agency grants) and Board deliberations to decide which priority groups to target.

The Agency's response further illustrates that it does not analyze data in sufficient detail to determine the adequacy of constituent coverage. As noted, the Agency is required to consider the relative property wealth per student of school districts, yet it does not provide any data to support that its analysis was conducted on a per-student basis or that it considered relative property wealth. In addition, while the Agency may demonstrate that 52 percent of the public school grants (52 percent of its workload) it awarded in fiscal year 2001 went to rural campuses, it does not report what percentage of rural campuses received grants and the amounts that these campuses received. Furthermore, as demonstrated in Figures 1–3, analysis of grant expenditures at the per capita level would be more informative and would allow more directed targeting.

Chapter 2

Weaknesses in the Agency's Grant Payment Process Increase the Risk That Grant Funds Will Not Be Used as Intended

In our random statistical sample of 134 grantee payments, we found that the Agency:

- Paid grantees for expenditures not included in approved budgets. We project that the Agency has paid approximately \$4.4 million to grantees for items that were not approved in the grantees' budgets during fiscal years 2000, 2001, and part of 2002.
- Failed to consistently close out grants or enforce grantee matching-fund requirements. Our random sample (conducted in April and May 2002) found 19 expired grants with no documentation that \$876,479 in matching grant funds had been paid. Subsequent data provided by the Agency reduced the number to seven grants that had no documentation that \$315,219 in matching funds had been paid.
- Inappropriately paid grantees based on purchase orders instead of on final invoices. Of the tested reimbursements, 28 percent were for purchase orders. The Agency's grant monitoring contractor found three charter schools that were paid a total of \$114,389 for purchase orders they did not execute (these grants were not in our sample). The Agency turned the files over to the Office of the Attorney General for collection of these payments.

Additionally, we found that internal controls within the Lotus Notes system are inadequate to prevent erroneous or unauthorized changes to grant award amounts. This could result in erroneous or unauthorized payments being made and going undetected.

Chapter 2-A

Inadequate Review of Grantees' Requests for Funds Allows Reimbursement of Expenditures Not Included in Approved Budgets

Our test of a random sample of 134 payments the Agency made to grantees in fiscal year 2000, fiscal year 2001, and part of fiscal year 2002 identified several weaknesses in the Agency's review and approval of grant payments.

The Agency paid 12 percent of the sample of public school grantees' and 1.5 percent of the sample of other qualifying entities' Requests for Funds (RFF) when there was evidence that the expenditures were not within the grantees' approved budgets. The total amount of the questioned expenditures in the random sample was \$82,749. Projecting these results to the total population that the samples were taken from indicates that the Agency paid \$4.4 million for unapproved budget expenditures during the tested years.

Examples of expenditures that were not within the grantees' Agency-approved budgets included the following:

- One school district purchased a \$1,048 camcorder that was not in its Agency-approved budget.

- One school district purchased 19 Ethernet switches, totaling \$9,785, that were not in its Agency-approved budget.
- One school district purchased cabling and supplies that cost \$16,200 more than the Agency-approved budget allowed for these items.

In addition, one grant file showed evidence that the grantee was involved in a related party transaction (in this case, a contract between spouses). The grant was for \$29,909 and should not have been paid without further investigation and documentation that the transaction was allowable. The Agency's *Grant Management Handbook* expressly prohibits related party transactions.

Also, four grantee files in the sample were missing the RFFs and supporting documents needed to determine whether the payments were appropriate. Those four RFFs totaled \$1.1 million in payments.

It is important to note that, beginning with the grants the Agency awarded after August 15, 2001, the Agency ceased requiring grantees to submit supporting documentation with their RFFs. This policy does not comply with the Texas Administrative Code (see text box). By not requiring supporting documentation, the Agency increases the risk that it could reimburse grantees for expenditures they have not made.

**Texas Administrative Code,
Title 1, Section 471.53(k)(3)**

Rules the Agency established in the Texas Administrative Code specify that "All payments of grant funds are only issued with appropriate supporting documentation."

Recommendations

The Agency should:

- Require grantees to identify the associated budget lines on all RFFs they submit for payments.
- Require proof of purchase for all payments.
- Pay for budget approved items only.

Management's Response

The TIFB follows a process that reimburses grantees for budget-approved items only. The approval process begins with a grant administrator who compares the Requests for Funds to the grantee's approved budget. The TIFB currently requires grantees to identify purchases by budget line items in the Request For Funds to expedite this process. However, the highly technical and complex nature of TIF-eligible items will occasionally not match the specific language in the budget. Additionally, complex groupings of equipment, such as distance learning packages, are frequently bundled into a single line item designation. When a difference occurs, a Grant Administrator contacts the grantee for clarification or will confer with other staff to determine eligibility. Once a determination is made, the purchase is matched with an existing line item or a grant adjustment will be initiated to add the item to the budget. Once

the request is approved, finance staff reviews the Request for Funds and releases the payment.

Auditor's Follow-up Comment

None of the questioned payments from the random sample contained documentation that either (1) a grant administrator had contacted the grantee for clarification or (2) a grant adjustment had been made. In addition, none of the questioned payments was for bundled items.

Chapter 2-B

The Agency Has Not Consistently Closed Out Expired Grants or Verified Matching Fund Payments

The Agency has not properly closed out 2,790 (73 percent) of the grants that have expired. Some of these grants expired in April 1999. Failure to close out expired grants increases the risk that grantees will not return unexpended or unmatched grant funds to the Agency.

In addition, of the 134 grantee files tested, 120 required the grantee to provide 10 percent of the grant amount in matching funds. Our random sample identified 19 expired grants with the matching-fund requirement that contained no documentation that \$876,479 in matching funds had been provided. The grants were all past the expiration date (90 days after the end of the grant period). During our audit, the Agency identified 12 of these grants that had subsequently submitted matching fund data. Seven grants remained with no documentation that \$315,219 in matching funds was provided. Examples of grants with unmatched funds include the following:

Agency Requirements Regarding Deobligation of Grant Funds

According to the *Agency's Grant Management Handbook*:

"The grantee must liquidate all properly incurred obligations under the award no later than 90 days after the end of the funding period. A final Financial Status Report, and a full and complete Property Inventory Report of all equipment purchased with Agency funds, must be submitted to the Agency no later than 90 days after the end of the grant period."

The *Grant Management Handbook* further states that:

"Unexpended grant funds received by the grantee, and unmatched grant funds if a cash match was required, must be returned to the Agency no later than 90 days after the end of the funding period."

- The final financial status report one school district submitted to the Agency indicated that the school district provided \$23,697 in matching funds. The amount of the school district's grant was \$280,497, and the term of this grant has expired. The grantee should have contributed an additional \$4,353 $[(\$280,497 \times 10\%) - \$23,697]$.
- One higher education institution did not report that it provided matching funds for its \$497,590 grant. The term of this grant has expired, and the final financial status report has been submitted. The Agency has no evidence indicating that the institution provided the required \$49,759 in matching funds.
- One higher education institution did not report that it provided matching funds for its \$599,268 grant. The term of this grant has expired, and the final financial

status report has been submitted. The Agency has no evidence indicating that the institution provided the required \$59,927 in matching funds.

It is possible that these grantees did contribute some matching funds and never submitted information regarding this to the Agency. However, when the Agency fails to take a proactive approach toward verification of compliance with matching fund requirements, it has no way of knowing whether grantees comply with these requirements or not.

Recommendations

The Agency should:

- Develop and implement a plan for closing out all expired grants.
- Ensure that grantees return unspent funds after their grants have expired.
- Ensure that grantees provide verifiable documentation of matching funds.
- Include documentation of matching funds in the grant monitoring process.
- Pay only 90 percent of a grantee's request for reimbursement when a grantee does not provide documentation indicating that it provided 10 percent in matching funds.

Management's Response

The TIFB is revising its current plan and will take more aggressive action on grant closeouts. With regard to matching funds, the auditors compared the match amount against what was awarded, not what was actually encumbered by the grantee. The grantee is typically expected to match 10% of the final amount of TIF dollars spent on the project, which may not necessarily be the entire award amount. However, grantees consistently exceed the 10% match required for some grant programs. Although not tracked and considered allowable match by the TIFB, grantees also contribute through in-kind donations of buildings, equipment and labor. Matching funds are often not demonstrated until the final financial status report is completed 90 days after the end of the grant period. Many of the files the auditors reviewed were active grants, thus the final documentation had not been received, making the assessment of matching dollars inaccurate. Additionally, grantees are paid on a reimbursement basis and funds not encumbered by the grantee are returned to the TIFB accounts.

Auditor's Follow-up Comment

As stated in the report, we considered only *expired* grants in our analysis of the grant close out process. For the seven grants for which \$315,219 in matching funds was not contributed, we compared the reported match amounts against the final amount of grant funds expended, not against what was awarded. Comparing match amounts to

amounts encumbered by the grantee would not be a valid matching requirements test because encumbrances do not reflect actual amounts expended by the grantee.

We agree that matching funds are often not demonstrated until the final financial status report is completed 90 days after the end of the grant period. Four of the seven grant files contained documents marked as “final” financial status reports. The three files that did not contain “final” reports (as of May 31, 2002) closed on February 28, 2001, October 31, 2001, and December 31, 2001. Therefore, these files should have contained such reports if the Agency was properly closing out expired grants.

Chapter 2-C

The Agency Inappropriately Pays Grantees Based on the Purchase Orders They Submit

In our random sample of 134 payments to grantees, the Agency made 28 percent of the payments based on purchase orders the grantees submitted rather than on the basis of invoices. A reimbursement of funds solely based on a purchase order is considered an advance of funds. The Texas Administrative Code states that all payments of grant funds must be made strictly on a reimbursement basis and must be based on appropriate supporting documentation (see text box).

Texas Administrative Code, Title 1, Section 471.53(k)(2) and (3)

Rules the Agency established in the Texas Administrative Code specify that “All payments of grant funds are strictly on a reimbursement basis. Reimbursements may be made after the grant award, the beginning of the grant period and submission of proof of incurred allowable expenses.” In addition, “All payments of grant funds are only issued with appropriate supporting documentation.”

When the Agency reimburses grantees on the basis of purchase orders, it increases the risk that grantees could be submitting RFFs requesting reimbursement for items they have not actually purchased. Grantees also could be receiving funds for both the purchase order and the invoice associated with the same item.

Identification of grantees that have not purchased the items reimbursed in a purchase order can be accomplished only through on-site monitoring visits, which was beyond the scope of this audit. However, the Agency’s contractor hired to conduct on-site monitoring found that the Agency paid three charter schools \$114,389 based on purchase orders they did not execute or on invoice amounts that were less than the purchase orders. The Agency submitted documentation regarding these schools to the Office of the Attorney General for collection of these payments.

Recommendation

The Agency should reimburse grantees only after it has received invoices from vendors for the delivery of goods or services.

Management’s Response

In order to better serve public schools in rural or underserved areas of the state, the TIFB has accepted purchase orders because the Texas Education Agency Financial

Accountability System Resource Guide (2002), Section 3.2.4 states in part, “ A purchase order, once approved, is a binding commitment for a district to remit payment to the vendor after the item(s) and an invoice are received by the district...Once issued, the purchase order encumbers funds which serve as an expense control mechanism.” Beginning November 1, 2002, unless there are extenuating circumstances, TIFB will require invoices for reimbursement.

Auditor’s Follow-up Comment

We understand that rural public schools or underserved areas of the state may not have the resources to purchase telecommunications items and then request reimbursement from the Agency. However, the Agency has the discretion to design grants that would not require up-front expenditures by the grantee. For example, it could pay the vendor directly after receiving an invoice and verification that the items were delivered. The Texas Education Agency (TEA) document referenced above states that a purchase order is a binding commitment to remit payment to the vendor *after* the items and an invoice are received. The TEA confirmed that it does not reimburse schools until after it has received a correct invoice from the vendors for the delivery of goods and services.

Chapter 2-D

Internal Controls Within the Grant Management System Are Inadequate to Prevent Erroneous or Unauthorized Changes to Grant Award Amounts

Internal controls within the Lotus Notes system, as well as in the accompanying review process, are inadequate to prevent erroneous or unauthorized changes to grant award amounts. This could result in improper payments being made and going undetected. In particular, grant accountants have the ability to enter payments into the Uniform Statewide Accounting System (USAS), and they can also create, edit, and delete grant source documents, including original budget documents and amounts. This situation is compounded by the fact that payments are not reconciled against original grant budgets. Also, although grant administrators cannot delete documents within Lotus Notes, they do have the ability to change existing grant award amounts, which is then reflected in the control total of the subsequent request for funds. While grant administrators may need access to edit existing documents as part of their job duties, there is not an adequate compensating control within the system, or in the payment review process outside the system, to sufficiently detect unauthorized grant amount increases or related payments.

While the potential for unauthorized database changes and related payments exists, no such instances came to our attention.

Other control weaknesses we observed in the Lotus Notes System were the lack of a naming convention (causing data entry errors) and the lack of an audit trail of “holds” (suspended payments) for non-performing grantees.

Recommendation

The Agency should periodically (perhaps at the end of each grant cycle) reconcile the amounts paid to the original amounts awarded.

Management's Response

Changes in award amounts can only be made with the approval of the Directors of Grants and Services and Finance and Administration. The grants management database immediately provides a two-level notification if an award amount is lowered or increased following the award. The Grant Administrator knows instantly when an arithmetic error occurs and must accept or decline the change and correct the calculation. Additionally, a new feature has been added as of August 2002 to protect against fraudulent entry that would increase/decrease the award amount. If the award amount is changed, a notification is sent to the Director of Grants and Services and the Director of Finance and Administration. Both directors must approve the change before it becomes effective.

Auditor's Follow-up Comment

Working in conjunction with Agency staff, we were able to make changes to information in the Lotus Notes system without obtaining approval from any other party and without the system notifying any other party. Additionally, a change warning message was displayed only to the person making the changes. The new control features the Agency implemented in August 2002 may help detect unauthorized changes. However, they will not remedy the lack of reconciliation between payments and original budgets, which would detect unauthorized changes.

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Chapter 3

The Agency's Grant Monitoring Process Is Inadequate to Determine Whether Grantees Are Complying With Grant Requirements

From fiscal year 1999 through May 2002, the Agency paid a contractor \$5.8 million to perform the grant monitoring function. However, the contractor conducted on-site monitoring visits at only 1 percent of all grantees. In addition, the Agency did not follow up on the contractor's findings and did not include certain grants in the monitoring process.

Fiscal year 2002 is a transition year in which both the contractor and the Agency are carrying out the monitoring function. Starting at the beginning of fiscal year 2003, the Agency will be solely responsible for performing the monitoring function (see text box).

While the in-house monitoring function will be less expensive than monitoring conducted by a contractor, it is questionable whether improvements in the quality of the monitoring function or in the quantity of monitoring visits will occur. Specifically, the Agency has not performed a staffing analysis to determine the number of grantee site visits, teleconferences, risk assessments, or other administrative functions it can perform each year.

Rider 6, Page III-39, the General Appropriations Act (77th Legislature)

This rider shifts the responsibility for grantee monitoring from the Agency's contractor to the Agency. The rider specifies that:

"It is the intent of the Legislature that the Board move its grant monitoring activities fully in-house. Contingent upon the Board action to accomplish this move, the Board's FTE [full-time equivalent employee] cap is hereby increased by three FTEs in fiscal year 2002 and by six FTEs in fiscal year 2003. The additional staff positions shall be used to conduct grant monitoring."

It is important to note that the Agency's statutory expiration date is set for September 1, 2005. Therefore, there may be insufficient time left to improve the Agency's oversight of approximately \$500 million in grant funds that the Agency has not yet awarded.

At this time, no other agency has been assigned the responsibility of assuming the Agency's oversight function after the Agency ceases to exist. Because grantees will still be spending grant funds after that time, alternatives that would provide for the proper monitoring and support of these grantees may need to be considered.

Chapter 3-A

The Agency Has Not Ensured That an Adequate Number of On-Site Grant Monitoring Visits Has Been Performed

The Agency cannot determine whether grantees are complying with its grant requirements because it did not ensure that an adequate number of on-site grant monitoring visits were performed. Since fiscal year 1999, the Agency has paid \$5.8 million to a third-party contractor to carry out its monitoring function. As required in the Agency's agreement, the contractor performed risk assessments based on surveys (grantee self-reported information), conducted file reviews, and prepared information newsletters for grantees. However, only 74 on-site visits were conducted, which is 1

percent of the 6,356 grantees. This coverage is not sufficient to ensure that grantees comply with grant requirements.

In the 74 site visits and desk reviews it performed, the grant monitoring contractor found that:

- Grantees owed the Agency \$311,357 for unallowable purchases.
- Grantees did not submit required financial status reports.
- Grantees did not maintain general ledgers.
- Grantees submitted purchase orders as support for reimbursements and did not subsequently purchase the items on the purchase orders.
- Grantees could not accurately account for Agency-funded equipment.
- Grantees maintained equipment in areas that were inaccessible to the intended users of that equipment.

**Excerpt From the Agency's
Grant Management Handbook**

According to the Agency's *Grant Management Handbook*, "In accordance with all applicable State and Federal statutes, rules, regulations, and Agency grant contract or guidelines, the Agency monitors grants throughout their existence. Grantees are required to maintain current files on all aspects of the grant project. The Agency may make unannounced monitoring or audit visits at any time."

Fiscal year 2002 is a transition year in which both the contractor and the Agency are carrying out the monitoring function. As of July 2002, the Agency had visited only 15 (3.4 percent) of the 439 grantees it was responsible for monitoring. The Agency awarded \$112 million to these 439 grantees. Most of the related grants expire before December 31, 2002.

Performing on-site monitoring visits is necessary to verify that grantees are complying with grant requirements and achieving grant goals and objectives. If the Agency does not perform on-site monitoring visits, it does not know whether grantees are spending grant funds properly.

Recommendations

The Agency should:

- Conduct an adequate number of on-site monitoring visits to gain assurance that grantees are complying with grant requirements.
- Consider implementing additional types of monitoring tools if it is not able to perform an adequate number of on-site monitoring visits.

Management's Response

While site visits are an important element of a monitoring program they are only one part of a multi-layered methodology that includes site visits, as well as online surveys, desk reviews, teleconferences, videoconferences, financial reporting and examination of spending patterns. In the current budgetary climate this is the most

cost effective approach to monitor programs and to provide accountability. Site visits are reserved for the most high-risk grantees given travel caps and FTE constraints. Using these tools, the TIFB monitors 100% of grantees. The TIFB Quality Management staff examined the monitoring tools that were developed and used by the sub-contractor. They determined that some additional tools were needed and developed new systems, reports, and procedures to address the existing gaps. The Quality Management team will continue to improve the tools now that the unit is fully staffed and all tasks have been transitioned in-house.

Auditor's Follow-up Comment:

The Agency does not “monitor” 100 percent of its grantees. The Agency does require all grantees to submit self-reported data through on-line surveys at the beginning, middle, and end of the grant period. The self-reported data in these surveys is not verified by the Agency. Furthermore, neither the Agency nor its contractor could document the number of desk reviews or other monitoring activities, such as examination of spending patterns, it had conducted.

As noted in the report, on-site monitoring is only one of the components of the monitoring function. However, without adequate on-site monitoring, the Agency cannot fully verify that grantees are complying with grant requirements.

Chapter 3-B

The Agency Has Not Monitored Grantees Associated With \$60.9 Million in Special Grant Projects

Until May 2002, the Agency did not monitor (or consider in its monitoring risk assessment process) special grant projects awarded outside its normal request-for-proposal process. Grants associated with these projects totaled \$60.9 million. (See Appendix 2 for a list of these projects.)

- We noted that the Agency has reimbursed one of these project grantees for approximately \$27,000 in purchases that appeared to be unallowable. These purchases could have been detected during monitoring. Examples of the purchases included:
 - \$26,003 for contract deposits at a camp. The Agency reimbursed the grantee prior to the dates for which the grantee had reserved the camp. The purchase order the grantee submitted for payment was dated December 6, 2001. The reservation dates on the purchase order were January 2002, March 2002, June 2002, and July 2002.
 - \$502.77 for refreshments purchased at a restaurant.
 - \$366.82 for food, drinks, and paper goods.

Texas Administrative Code, Title 1, Section 471.53(m)(2)

Rules the Agency established in the Texas Administrative Code specify that “All awarded grant projects are reviewed by the agency’s quality assurance function. Grantees are expected to comply with online surveys and may possibly encounter a site visit by the quality assurance staff during or after the term of the grant period.”

- \$43.61 for kitchen supplies.
- \$24.44 for a digital answering machine.

We also noted that the Agency's files for these projects were not complete in accordance with the Agency's *Grant Management Handbook*. In a review of ten files, we found that:

- Eight files did not contain financial status reports (FSR) or historically underutilized business reports. The total amount of grant funds the Agency awarded to the grantees for these eight projects was \$32.2 million.
- Six files did not contain budgets approved by the Agency. The total amount of grant funds the Agency awarded to the grantees for these six projects was \$32.1 million.
- One file did not contain a feasibility study. The project proposal required the grantee to complete and submit a feasibility study within four months of the date on which the members of the Agency approved the project. The \$20,000 project was approved on August 29, 2001.

Recommendation

The Agency should include all projects in its grant monitoring risk assessment process.

Management's Response

The TIFB considers the expenditures to be allowable because the \$27,000 referenced in this finding was an approved part of an awarded special project grant budget. The TIFB Quality Management team as well as the TIFB Executive Committee reviews the special project grants. The Executive Committee provides oversight to these grants through review of reimbursement requests, telephone contact, face-to-face meetings and Board presentations. The special project grants are Board approved grants that address large scale, high impact projects and as such may have expenditures that require special review. These are approved on a case-by-case basis.

Auditor's Follow-up Comment

The Executive Committee to review special projects was formed in May 2002, during the course of the audit. As noted in the report, the Agency did not monitor the special projects or include them in the risk assessment process prior to May 2002. The \$27,000 of expenditures listed in the report clearly violates the Agency's own rules as detailed in Section 2.3.b of its *Grant Management Handbook*.

Chapter 3-C

The Agency Has Not Followed Up on Outstanding Issues Identified in On-Site Monitoring Visits and Reviews

The Agency has not performed follow-up procedures on outstanding issues identified during the on-site monitoring visits or desk reviews the monitoring contractor performed. Agency documentation indicated that these visits and desk reviews identified 18 grantees that were required to return \$311,357 to the Agency. However, the Agency did not perform follow-up procedures to determine whether any of the 18 grantees returned funds or filed appeal letters requesting that the refunds be waived. It is important to note that:

Excerpt from the Agency's Grant Management Handbook

According to the Agency's *Grant Management Handbook*, "A grantee may, within 30 working days, give notice to the Board of intent to submit documentation to respond to exceptions contained in an audit or monitoring report. Board personnel will review the documentation for legal, financial, and program acceptability under applicable state and federal rules, regulations and Board grant contract or guidelines. Recommendations to the Board Executive Director will be provided by Board staff for final resolution. The Board will send written determination by the Executive Director to the grantee within 30 calendar days."

- Six of these 18 grantees have not returned a total of \$75,761 to the Agency. These grantees' files did not contain documentation regarding any Agency decision to waive the refund or turn over the grantee to the Office of the Attorney General for collection.
- Nine of the 12 grantees that returned funds did not submit timely payments (based on the due date specified on the discrepancy letter) to the Agency. These grantees returned the funds from 3 to 545 days after the due date.
- The Agency does not have written policies and procedures requiring it to perform follow-up procedures on outstanding issues.

Recommendations

The Agency should:

- Develop and implement written policies and procedures to follow up on issues identified in monitoring visits and desk reviews. The Agency should conduct follow-up procedures as soon as the implementation date specified on the discrepancy letter arrives.
- Contact grantees that owe it funds and determine why these grantees have not yet paid. If a grantee appeals the refund it owes, the Agency should file in a timely manner the letter of appeal and correspondence regarding the decision to approve or deny the appeal in the grantee's file.

Management's Response

The TIFB Quality Management staff has developed a system for following up on recommendations issued during a site visit. The results of site visits are written in a

report that is sent to the grantee, filed in the grantee file and logged in the electronic log that is kept on the shared drive of the agency. All findings are also recorded into the task function of Microsoft Outlook. A reminder of the task to be completed by the grantee is sent to quality management staff when the deadline arrives. Grantees are contacted in a timely fashion after the deadline passes. Non-responsive grantees are placed on "on-hold" status. No further reimbursements can occur until these issues are rectified.

The TIFB examined the circumstances surrounding refunds due to each grantee. Each grant has been reviewed and appropriate action has been taken. The agency will file all paperwork, including Quality Management documentation, in the grantee file maintained at the TIFB office.

Auditor's Follow-up Comment

The policy described above was not implemented at the time of the audit. If fully implemented, the new system the Agency has developed appears sufficient to provide adequate follow-up of monitoring visits.

Chapter 3-D

The Agency's Plans to Move Grant Monitoring In-House Require Additional Analysis

Fiscal year 2002 is a transition year in which both the contractor and the Agency are carrying out the monitoring function. Starting at the beginning of fiscal year 2003, the Agency will be solely responsible for performing the monitoring function. However, the Agency has not performed a staffing analysis to determine the number of grantee site visits, teleconferences, risk assessments, or other administrative functions it can perform each year. This includes assessing the overall grant monitoring function, as well as assessing individual grant monitoring activities such as risk assessments, surveys, on-site visits, and desk reviews. Prior to June 18, 2002, the Agency had not developed and documented selection criteria it uses to determine whether it should conduct an on-site monitoring visit at a grantee site or conduct a teleconference with the grantee. The Agency also has not developed policies and procedures for grant monitoring and is adopting some of the procedures its contractor used.

Without an evaluation process, Agency staff and members of the Agency are unable to determine whether the Agency's grant monitoring activities will be adequate to ensure that grantees are (1) achieving the desired goals and objectives and (2) complying with grant requirements.

Recommendation

The Agency should evaluate its grant monitoring function by:

- Performing a staffing analysis.
- Developing grant monitoring policies and procedures.

- Assessing individual grant monitoring activities.

Management's Response

The TIFB prepared a detailed staffing plan that identified the resources necessary to adequately perform the monitoring function. The TIFB will perform this function to the fullest extent possible with available resources. The TIFB Quality Management staff has spent the last year analyzing, evaluating and revising the quality assurance system that has been in place. Policies and procedures have been developed for the monitoring function and will be in place by September 25, 2002. The significant changes implemented have raised the compliance level from 75% to a rate of 97% compliance. The full integration of the Quality Management function was complete September 1, 2002. Further improvements will occur as three additional FTE's reported for duty on September 3, 2002.

Auditor's Follow-up Comment

The Agency could not provide a staffing plan during the course of the audit. The Agency did refer to its fiscal year 2000 Legislative Appropriation Request (LAR), which requested 10 full-time equivalent (FTE) positions for the monitoring function. The Agency was approved for six additional FTEs (three in fiscal year 2002 and three more in fiscal year 2003). However, the Agency did not perform an analysis based on the six FTEs it received. As noted in the report, the Agency had not developed or documented its monitoring criteria as of June 2002.

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Chapter 4

The Majority of the Agency's Grant Agreements Lack Certain Key Provisions to Hold Grantees Accountable, and the Agency Does Not Consistently Enforce Existing Grant Agreement Provisions

The majority of the grant agreements the Agency issues lack performance measures and sanctioning and recoupment provisions that would enable the Agency to hold grantees accountable for how they use grant funds. In addition, several of the agreements contain errors in compliance dates. The Agency's legal counsel does not review the agreements prior to issuance. The Agency also is inconsistent in its enforcement of grant agreement provisions that require grantees to submit their requests for funds within 90 days of the expiration of the grant period.

Chapter 4-A

The Agency's Grant Agreements Generally Lack Key Provisions Such as Performance Measures and Financial Sanctions

The Agency has not developed grantee performance measures or made an objective evaluation of grantee accomplishments.

Forty-one of the 44 grant agreements the Agency issued do not contain performance measures to evaluate individual grantees' accomplishments.

The Agency requires most grant applicants to submit self-reported evaluation plans to measure the accomplishment of their project goals.

However, after it awards grants, the Agency does not request that the grantees submit their evaluations. Its first public school grant agreement specified that "an audit procedure will be instituted by the Agency to assess project results." However, the Agency has not instituted an audit procedure, and it has not assessed the actual results of grantees' projects.

The assessment of verifiable results from the expenditure of grant funds is critical in determining whether program objectives are being met. The absence of standardized grantee performance measures makes it difficult to identify best practices or to suggest program enhancements.

In addition, our review of the 44 grant agreements the Agency issued found that 27 (61 percent) lack provisions for sanctions allowing the Agency to withhold payments to grantees or to recoup funds it has already paid to grantees. Seventeen (39 percent) contain sanctions allowing the Agency to withhold payment to grantees or allowing the Agency to recoup funds it has already paid to grantees.

Uniform Grant Management Standards Performance Monitoring

According to the state uniform administrative requirements for grants and cooperative agreements, monitoring should be performed to ensure "compliance with applicable federal and state requirements and that performance goals are being achieved."

Uniform Grant Management Standards Contract Provisions

According to the state uniform administrative requirements for grants and cooperative agreements, contracts should contain provisions for "administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as may be appropriate."

Several grants contained errors that could affect grantee accountability. For example:

- Four grants had inconsistent ending dates within the document.
- Nine grants had submission dates for required reports that differed from dates posted on the Agency's Web site.
- Eleven grants did not contain the report due dates.

Additionally, the Agency's legal counsel does not review grant agreements before the Agency releases them.

Recommendations

The Agency should implement post-performance review policies that include:

- Standardized performance measures for grantees to determine outcomes of technology investments.
- Annual reporting by grantees to track program progress.
- Verification of grantee performance.

In addition, the Agency should:

- Ensure that all grant agreements contain adequate sanctioning and recoupment provisions to hold grantees accountable.
- Submit all grant agreements for legal review prior to release.

Management's Response

The TIFB currently tracks performance measures based on the intent of the enabling legislation. The Office of the Governor, the Legislative Budget board, and the Legislature approves these performance measures. The TIFB will continue to track these measures. Each grantee also develops individual performance measures for their grant. The agency will continue to explore and develop methods to measure and document the impact of the technology investments.

All grantees are required to report on their progress a minimum of three times during the grant period. The final report is after the close of the grant period and serves as a final program progress report. Grantees also submit financial reports twice yearly and then at the close of the grant. The TIFB will continue to seek improvements in grant program evaluation. In its Statement of Grant Award, the TIFB adopts by reference the sanctions in the TIFB Grants Management Handbook, the State of Texas Uniform Grants Management Standards and individual TIFB Requests for Proposals. The TIFB is continuing to refine and incorporate language and processes for sanctions and recouping funds into Request For Proposals and other documents. This process includes review by agency counsel of all grant related documents.

Auditor's Follow-up Comment

The performance measures for the Agency do not relate to individual grantee performance identified in this part of the report (see Chapter 1.1). The Agency does not hold grantees accountable for their performance measures after the grants are awarded. In addition, the Agency no longer requires grantees to submit progress reports. In July 2002, the Agency updated its *Grant Management Handbook* (on its Web site) to delete the requirement for grantee progress reports.

Chapter 4-B

The Agency Is Inconsistent in Its Enforcement of Grant Agreement Provisions Requiring Grantees to Submit Requests for Funds Within 90 Days of the Expiration of the Grant Period

Our test of 134 grantee payments found that 15 of these grantees submitted RFFs more than 90 days after the terms of their grants had expired.

The Texas Administrative Code (see text box) requires grantees to submit their final RFFs no later than 90 days after the end of the grant period; otherwise, they will forfeit the remaining grant amount unless approved in writing by the Agency. Only 4 (27 percent) of the 15 late RFFs contained approved appeal letters. The Agency paid 11 grantees a total of \$3.4 million it should not have paid.

Our review of two grant programs that closed on December 21, 2001, identified 32 grantees that had not filed for reimbursement within 90 days of the grant expiration date. Thirteen of the 32 grantees (to whom the Agency awarded a total of \$3 million in grants) had still not filed for reimbursement 45 days after the deadline of 90 days had expired. According to Agency management, grantees should not be penalized for filing RFFs late.

Texas Administrative Code, Title 1, Section 471.53(k)(4) and (5)

Rules the Agency established in the Texas Administrative Code specify that "Grantees must ensure that the Board receives their final requests for funds postmarked no later than the 90th calendar day after the end of the grant period."

"Failure to expend the full grant amount by the end of the grant period or failure to submit to the agency [Board] all required materials by the end of the grant period or other deadline as announced by the agency will result in forfeiture of the remaining grant amount unless otherwise approved in writing by the agency."

Recommendations

The Agency should:

- Develop procedures to notify grantees of the end of the grant period.
- Contact grantees that have not requested reimbursement 10 work days prior to the ninetieth day.
- Enforce existing sanctions contained in the Texas Administrative Code.

Management's Response

Initially, the Executive Director gave personal approval on a case-by-case basis for payment of grantees beyond the ninety-day period. Grantees were required to provide verbal or written documentation as to their reason for missing the deadline. In 2001, Management refined this to the current policy where requests for payment past the ninety-day period are automatically denied reimbursement. To be considered for reimbursement, the grantee must submit a written appeal. The grant administrator makes a recommendation to the Director of Grants and Services and the Director of Finance and Administration, and both must agree in order to release the payment. Should a difference of opinion occur, the Executive Director would make the final determination.

Auditor's Follow-up Comment

As noted in the report, our review showed that the Agency was inconsistent in its enforcement of its rules. The Agency paid 11 grantees a total of \$3.4 million without the written appeal approvals required after a grant has expired.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

Our objective was to determine whether the Telecommunications Infrastructure Fund Board (Agency) is ensuring that state telecommunications grant funds are being spent in an effective and efficient manner. To accomplish this, we developed four sub-objectives:

- Is the Agency awarding grants in a manner that ensures it distributes funds as the Legislature intended?
- Are the Agency's payment processes and controls adequate to safeguard assets?
- Is the Agency's grant monitoring process adequate to ensure that grant funds are used as the Legislature intended?
- Do the Agency's grant agreements have provisions to adequately hold grant recipients accountable for how grant funds are spent?

Scope

The scope of the audit included reviewing the Agency's grant award databases and records, grant agreements, and financial records. We tested information from fiscal year 2000 through March 2002.

Methodology

The audit methodology consisted of collecting information, performing selected tests and other procedures, analyzing and evaluating the results against established criteria, and conducting interviews with Agency management and staff. We tested a random sample of grant files and examined all files associated with on-site monitoring visits through April 2002. Additionally, we reviewed data in the Texas Education Agency's Public Education Information Management System.

Information collected to accomplish our objectives included the following:

- Interviews with Agency staff and members of the Agency
- Physical observations and walk-throughs of Agency processes
- Documentary evidence such as:
 - ♦ Procedures relating to grant management and monitoring
 - ♦ Internal Audit reports
 - ♦ Grantee files
 - ♦ Grant monitoring contractor's files and discrepancy letters

- ♦ Grantee award database
- ♦ Requests for proposals

Procedures, tests, and analyses performed included the following:

- Analyzed grantees to the overall target population
- Analyzed request-for-proposal provisions
- Analyzed accountability measures established by the Agency
- Analyzed the risk assessment process used by the grant monitoring function
- Analyzed the grant monitoring transition plan
- Selected testing of grantee files for approval and payment
- Review of grant awards
- Review of automated information system

Information resources reviewed included the following:

- Requirements in Texas statutes
- Requirements in the General Appropriations Act

Criteria used to accomplish our objectives included the following:

- Agency's general manual
- Statutory requirements
- Uniform Grant Management System
- Requests for proposals published by Agency

Other Information

We conducted fieldwork from April 2002 through July 2002. We conducted this audit in accordance with generally accepted government auditing standards.

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- Michelle Duncan (Assistant Project Manager)
- Dean Duan, CISA
- Adrian Martinez
- Letty Torres
- Chuck Dunlap, CPA (Quality Control Reviewer)
- Carol Smith, CPA (Audit Manager)
- Frank Vito, CPA (Audit Director)

Appendix 2

Grant Projects Awarded Outside the Request-for-Proposal Process

Since August 2001, the Agency has awarded \$60.9 million for 13 grant projects without using its normal request-for-proposal process. Neither the Agency nor its monitoring contractor monitored these grants or considered them in their monitoring risk assessment procedures. The table below lists those grants.

Grants Awarded Without Using the Request-for-Proposal Process		
Grantee/Project	Amount	Description
Texas A&M University/Public Broadcasting System (PBS)	\$ 20,000,000	Project to convert Texas Public Broadcasting ciation to digital format.
Library & Archives Commission	\$ 13,281,962	Library of Texas (Phase II). On-line databases, statewide catalog, and extensive training.
Telecommunications Infrastructure Agency and Texas Education Agency	\$ 10,135,000	Project to build the Texas Public Education Portal (Public Access Initiative).
Library & Archives Commission	\$ 7,368,887	Project to build Library of Texas. Funds to buy software, hardware, programming, and hosting needed to build state electronic publishing network.
Intel	\$ 4,000,004	Professional Development Program to help teachers learn how to integrate technology into the curriculum.
Brazos-Sabine Connection	\$ 2,204,986	A consortium of 19 districts in Southeast Texas. Project to manage and deliver instructional activities across consortium.
University of North Texas	\$ 2,200,000	Project to help teachers maximize technology applications in K-12 classrooms.
Power Up	\$ 1,000,000	Project to identify youth-serving organizations (YMCA, Boys & Girls Clubs, etc.) to provide connectivity to under-served youths.
The University of Texas at Austin	\$ 299,710	Project for development of K-12 needs assessment.
The University of Texas at Austin representing Texas Digital Library Alliance (TDLA)	\$ 205,240	Project to create a digital archive of the holdings of the TDLA.
University of North Texas	\$ 128,000	Project for development of a library needs assessment.
Texas A&M University	\$ 20,000	Project for planning phase of Internet 2 (I2). In conjunction with UT.
The University of Texas	\$ 10,000	Project for planning phase of Internet 2 (I2). In conjunction with TAMU.

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Overall Management's Response and Auditor's Follow-up Comment

Telecommunications Infrastructure Fund Board

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Management Response

To

Grant Administration at the Telecommunications Infrastructure Fund Board (TIFB)

An Audit

Conducted by the State Audit Office

September 10, 2002

The Telecommunications Infrastructure Fund Board's detailed responses to the major audit findings are in the attachment. Of concern, however, is the overall conclusion of the report that TIF grants have not been awarded as the Legislature intended. TIFB has provided substantive documentation of how the enabling legislation has driven the criteria, objectives, goals, and performance measures for TIF grant programs. TIFB performance measures, approved by the Office of the Governor, the Legislative Budget Board, and the Legislature, have consistently been achieved and, in most cases, far exceeded. Previous external and internal audits have identified weaknesses TIFB has addressed. The major conclusions of this audit represent a conflict of perspectives where achievement of approved performance goals are given less weight than interpretations of legislative intent.

TIFB welcomes dialogue on where future investments should go and what criteria should be used to measure success. In the meantime, accountability should continue to be based on approved performance measures and the extant legislative direction Board members and Agency staff have been so diligent in following. Documentation provided to auditors clearly shows TIFB conducts in-depth analysis of available data to direct grant programs, measures the outcomes of those programs and ensures the funds have been spent appropriately. Meeting legislative intent has been an overriding focus from the earliest deliberations of the TIFB. The process of targeting investments is vertically aligned throughout the Agency, from Board Members to staff to working groups to grantees.

The TIFB is carrying out an unprecedented and visionary task for the State of Texas -- investing high impact dollars in public schools, community colleges, universities, libraries, and non-profit health care facilities. These technology investments are giving Texans the tools to succeed in the 21st century. The TIFB has awarded more than 7,000 grants with an overhead cost of less than 2%. Each grant administrators' average grant load exceeds 600, far more than any other state agency. As a measure of productivity and progress, during the five and one half month period of this audit, the TIFB awarded 1287 grants, participated in four legislative hearings, completely reorganized, significantly upgraded staff, and physically relocated.

At the seven-year milestone of the TIFB's existence, over 375,000 computers, servers, switches, and other critical technology components have been purchased with TIF dollars. Instances of fraud, waste, and abuse continue to be extremely rare and are aggressively resolved. Grantees are leveraging TIFB dollars in creative and collaborative ways to put telecommunications technology to work for all Texans. It is very early to quantify or correlate the synergies but the positive results are indisputable. Every day in Texas schools, libraries, and health care centers, the lives of citizens are being dramatically changed by technology.

The TIFB will continue to award grants as intended by the enabling legislation while aggressively improving processes across the board. Management and staff will redouble efforts to assure every dollar is spent wisely, with maximum impact and accountability.



Arlen D. Jameson
Executive Director
Telecommunications Infrastructure Fund Board

Attachment

Auditor's Follow-up Comment to Overall Management's Response

The Agency's response does not address the key issue that it cannot sufficiently *demonstrate* that it has awarded telecommunications grants as the Legislature intended. The Agency's approved performance measures, while necessary to show Agency workload, do not provide relevant information that is useful in measuring the impact of grant funds. The Agency's reliance on performance measures to prove accomplishment of legislative intent is further eroded by its failure to have four of its five measures certified in a prior statewide audit of performance measures (*An Audit Report on Performance Measures at 11 State Agencies*, SAO Report No. 00-030, May 2000). Furthermore, as in that prior report, we again found that Agency source documentation did not support the numbers reported in the Automated Budget and Evaluation System of Texas (ABEST).

Our thorough review of the documentation provided by the Agency indicated that this documentation was not sufficient evidence to support that the Agency awarded grants to priority constituents as the Legislature intended.

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