



Lawrence F. Alwin, CPA
State Auditor

A Review of the

Implementation of Prior Audit Recommendations by the Commission on the Arts

August 31, 2004

Members of the Legislative Audit Committee:

The Commission on the Arts (Commission) has implemented all of the audit recommendations the State Auditor's Office made in 2002 to help ensure that funds are spent as the Legislature intended and that the Commission promptly and properly awards grants. The General Appropriations Act (78th Legislature) specified that the appropriation of up to \$100,000 in funds to the Commission was contingent upon the State Auditor's Office's certification that the Commission had implemented procedures to address those prior findings (see text box for additional details).

The State Auditor's Office reported on weaknesses in the Commission's grant monitoring and grant award processes in 2002. We found that the Commission's monitoring of grantees was not adequate to ensure that grantees spent funds as intended. Additionally, we found that unnecessary delays in the Commission's grant award process and lack of procedures for determining grant amounts impaired its ability to award grants promptly and properly. Since that time, the Commission has revised processes and implemented controls to address the issues and recommendations that we identified. Noteworthy examples of the Commission's actions include the following:

- The Commission now uses a formal risk assessment process to identify grant recipients that pose a higher risk based on factors that include the recipients' use of grant funds, the amount of funds awarded, the status of prior monitoring findings, and whether the recipient is a first-time grantee. The Commission also retains documentation of its decision to conduct on-site grant monitoring of recipients identified as high risk.
- The Commission has also increased its on-site grant monitoring and documented the evidence it collects during on-site monitoring visits in order to provide more assurance that state funds are used appropriately. For example, the Commission identified major findings in 60 percent (6 of 10) of the on-site grant-monitoring files that we reviewed. These findings included instances in which grant

Summary of Objective, Scope, and Methodology

The objective of this audit was to determine whether the Commission has addressed the conditions of the audit findings the State Auditor's Office identified in 2002. Addressing these conditions will help ensure that grant recipients use funds as intended and that the Commission promptly and properly awards grants.

The General Appropriations Act required the State Auditor's Office to certify to the Legislative Budget Board and the Comptroller of Public Accounts whether the Commission implemented procedures to address findings identified in 2002 (General Appropriations Act, Rider 7, page I-5, 78th Legislature). Up to \$100,000 in the Commission's appropriations in unobligated, unspent funds for the 2004-2005 biennium is contingent upon this certification.

Our scope covered the Commission's records and performance from January 13, 2004, to July 31, 2004. This date range corresponds with the Commission's reporting to us that all prior recommendations were implemented.

Our methodology consisted of conducting interviews, obtaining documentation from the Commission, and testing samples of the Commission's files to determine the status of prior findings. This audit was conducted in accordance with generally accepted government auditing standards.

SAO Report No. 04-048

recipients' uses of grant funds differed from what they reported to the Commission and instances in which grant recipients could not provide documentation for their use of grant funds. The Commission attempted to collect these grant funds or required the grant recipient to provide additional documentation on the use of these funds.

- The Commission has streamlined its grant application process by automating activities to reduce duplication and conducting multiple steps simultaneously. For example, the Commission has continued to expand the online grant application system that it created in 1998 by automating:
 - ♦ The notification of grant applicants that hard-copy documentation is required.
 - ♦ The collection of grant applicants' revised budgets.

The Commission has also streamlined its grant application process by revising its schedule to:

- ♦ Simultaneously review applications and compile them for panelist review.
- ♦ Provide grant applicants an additional 3.5 months to submit their applications while simultaneously reducing the time required to deliver grant funds to successful applicants.

The attached table shows the status of the Commission's implementation of each of the recommendations the State Auditor's Office made in 2002.

The Commission generally agrees with our determination that it has implemented prior audit recommendations in accordance with the General Appropriations Act. However, Commission management believes that the implementation of our recommendation related to reduction of delays in the grant approval process has negatively affected the Commission's ability to provide assistance to grant applicants. Specifically, management believes that the shorter, revised grant application process resulted in fewer successful applicants because it diminished the Commission's ability to provide customer service. Management also stated that the revised process limits the ability of successful applicants to raise the required matching funds. The intent of our recommendation was to reduce the amount of time required to provide funding to grant recipients. While the Commission is ultimately responsible for the operation of its business processes, the goal of our prior recommendations—the efficient and effective operation of its processes—is similar to the Commission's goal.

We appreciate the Commission's cooperation during this review. If you have any questions, please contact Sandra Vice, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

cc: Mr. Billy Hamilton, Deputy Comptroller, Office of the Comptroller of Public Accounts
Mr. John O'Brien, Deputy Director, Legislative Budget Board
Members of the Commission on the Arts
Mr. Ricardo Hernandez, Executive Director, Commission on the Arts

Attachment

Status of the Commission's Implementation of Prior Audit Recommendations		
*Recommendation	Implementation Status	Auditor Comments
Recommendations to Improve Maintenance of Records for Grant Monitoring Activities		
The Commission should follow existing policies and procedures requiring documentation of risk assessments used to select grantees for on-site monitoring visits.	Implemented	The Commission now follows its grant monitoring procedures.
The Commission should follow existing policies and procedures requiring employees to document all work conducted during monitoring visits.	Implemented	The Commission now maintains documentation of on-site grant monitoring visits.
The Commission should ensure that all findings resulting from monitoring visits are supported by sufficient documentation. Monitoring files should also contain evidence of supervisory review.	Implemented	The Commission now maintains adequate documentation for major findings it identified through on-site grant monitoring.
Recommendations to Improve Efficiency in the Use of Monitoring Resources		
The Commission should add financial and grant requirement monitoring activities to the on-site reviews that program staff already conduct.	Implemented	We verified that program staff members are now conducting on-site monitoring reviews for the Commission.
The Commission should provide sufficient training to program staff to enable them to complete financial and grant requirement monitoring responsibilities.	Implemented	We verified that the Commission conducted grant-monitoring training for program staff on January 26, 2004.
Recommendations to Reduce Delays in the Grant Approval Process		
The Commission should revise its grant approval process to eliminate as much duplication and delay as possible.	Implemented	The Commission has re-engineered its grant application process. The modifications associated with this project include automation of manual tasks and removal of duplication and delays.
The Commission should consider the feasibility of conducting peer panel reviews of applications without bringing panelists to Austin.	Implemented	The Commission revised its schedule for peer panel reviews of grant applications to coincide with board meetings. The Commission still requires panelists to travel to Austin.
The Commission should move the timeline of the approval process to allow it to culminate with the Commissioner's meeting in September.	Implemented	The Commission's revised grant application process culminates with the approval of grant funding decisions during the Commissioners' meeting.
Recommendations to Improve Equitability and Consistency in the Funding Determination Process		
The Commission should standardize the decision-making process for funding recommendations.	Implemented	We verified that the Commission documents its process for making funding decisions using a standard set of documents and approvals, including the approvals of the Executive Director and the Commissioners.

Status of the Commission's Implementation of Prior Audit Recommendations		
*Recommendation	Implementation Status	Auditor Comments
The Commission should develop policies and procedures outlining the grant funding process to ensure that institutional knowledge is recorded and communicated to staff. These should include written policies regarding the redistribution of funds returned by grantees.	Implemented	The Commission has developed procedures for its grant funding process, and it maintains documentation of information collected by its online grant application system for grant awards made since January 13, 2004. The Commission's procedures now require it to deposit any funds returned by grantees into the Mini-Grant program, which are grants that require immediate action and that could not have been reviewed through the regular process. However, we were not able to review the Commission's documentation of its Panel Grants because they occur annually and the Commission did not have the opportunity to demonstrate compliance with its procedures for these grants.
Recommendations to Help Ensure that Travel Expenses Are Allowable		
The Commission should ensure that travel reimbursements comply with the Commission's own internal policies and procedures for approving travel reimbursements.	Implemented	We found that the Commission's travel reimbursements are allowable and materially comply with its own internal policies and procedures.
The Commission should enhance its internal policies and procedures for travel reimbursements by requiring review and approval of reimbursement forms prior to reimbursement.	Implemented	We found that the Commission has revised its guidelines for travel reimbursements and that its travel reimbursements are reviewed and approved by Commission staff.
Recommendation to Improve the Accuracy of Reported Performance Measures		
The Commission should document comprehensive policies and procedures for the collection, calculation, and review of data before it is submitted to the Automated Budget Evaluation System of Texas (ABEST) coordinator.	Implemented	We verified that the Commission developed policies and procedures for the collection and calculation of performance data for the performance measures reviewed during our prior audit: the <i>Number of Funded Applications from Rural and Geographically Isolated Communities</i> and the <i>Number of Funded Applications from Minority Organizations</i> . We also verified that the Commission maintains documentation of its performance for these measures.
Recommendation to Improve Disaster Recovery Planning		
The Commission should implement and test a disaster recovery plan as required by the Texas Administrative Code.	Implemented	We verified that the Commission has implemented and tested its business continuity plan. Business continuity plans are more encompassing than disaster recovery plans and are now required by the Texas Administrative Code.

*Note: The State Auditor's Office made these recommendations to the Commission in a detailed management letter titled *A Letter to Management Regarding a Review of Internal Control and Financial Processes at the Commission on the Arts* (SAO No. 02-340; April 8, 2002). That management letter was subsequently summarized in *An Audit Report on Internal Control and Financial Processes at the Commission on the Arts and the Funeral Service Commission* (SAO Report No. 02-056, June 2002).