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January 13, 1995

Honorable Ann W. Richards, Governor of Texas
Office of the Governor
Austin, Texas 78701

Dear Governor Richards:

In general, the Governor's Office's Criminal Justice Division has established a system to ensure compliance with federal regulations for its largest federal program, the *Drug Control and System Improvement-Formula Grant* (CFDA 16.579). However, the Division has not received two out of 70 (three percent) required subrecipient audit reports. The delinquent reports result in questioned costs of \$393,554 for the program.

In November 1993, the U.S. Department of Health and Human Services' Office of Inspector General issued a report with findings related to the Office of Immigration and Refugee Affairs, a division of the Governor's Office, and other state agencies. In September 1994, the Department issued a letter of actions required to resolve the report's findings. Auditing standards require us to verify that the findings were resolved. The required corrections were made at the applicable state agencies. The report and the subsequent corrections will be discussed in the management letters of the affected state agencies and in the *1994 Financial and Compliance Audit Results*.

The attached finding and the office's response will appear in the *1994 Financial and Compliance Audit Results* report. This report contains the audit results of all agencies and universities we visited during the statewide financial audit.

When this report is published in May, copies will be distributed to the head of each agency included in the report. Additional copies can be obtained from Production Services at 479-4700.

We appreciate the cooperation and assistance of the Office of the Governor's management and staff during this project. If you have any questions, please call me at 479-4763.

Sincerely,

A handwritten signature in cursive script that reads "Larry Turner".

Larry Turner
Project Manager

LDT:ggh

cc: Mr. John Fainter, Jr., Chief of Staff
Ms. Joy Dumas, CPA, Internal Audit

Key Points of Report

Office of the Governor 1994 Statewide Financial and Compliance Audit

January 1995

Overall Conclusion

In general, the office's Criminal Justice Division has established a system to ensure compliance with federal regulations for its largest federal program, the *Drug Control and System Improvement-Formula Grant*. This program provides financial assistance to state and local units of government for the purpose of reducing the violation of state and local laws relating to controlled substances and spent \$30 million during the 1994 state fiscal year. Also, we have verified the resolution of the findings in the letter from the U.S. Department of Health and Human Services.

Key Facts And Findings

- The office's Criminal Justice Division did not receive two out of 70 required subrecipient audit reports. The delinquent reports result in questioned costs of \$393,554 for the *Drug Control and System Improvement Formula Grant* program.
- In November 1993, the U.S. Department of Health and Human Services' Office of Inspector General issued a report with findings related to the Office of Immigration and Refugee Affairs, a division of the Governor's Office, and other state agencies. In September 1994, the Department issued a letter of actions required to resolve the report's findings. The required corrections were made at the applicable state agencies.

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Related Report

The State Auditor's Office has verified that \$1 million in adjustments have been made as required by the U.S. Department of Health and Human Services' letter of resolution. These adjustments resulted from the November 1993 report on the State Legalization Impact Assistance Grant (CFDA 93.565) issued by the Department's Office of Inspector General. The report related to the Governor's Office of Immigration and Refugee Affairs and four other state agencies. The verification of the adjustments will be discussed in the management letters of the affected state agencies and in the *1994 Financial and Compliance Audit Results*.

Federal Compliance Issue

The Governor's Office's most significant federal program is the *Drug Control and System Improvement - Formula Grant* (CFDA 16.579), which is administered by the U.S. Department of Justice. This program, which is administered by the office's Criminal Justice Division, provides financial assistance to state and local units of government for the purpose of reducing the violation of state and local laws relating to controlled substances. Fiscal year 1994 expenditures were \$30 million, which represented 79 percent of the funds received from the Justice Department (\$38 million) and 42 percent of all federal funds received by the office (\$71 million).

The majority of the program's funds, \$29 million or 97 percent, are passed on to subrecipients which are state and local governmental entities. The issue discussed below concerns the receipt of required audit reports from these subrecipients.

Continue Efforts To Obtain Delinquent Subrecipient Audit Reports

The Governor's Office has not received two out of 70 (three percent) required subrecipient audit reports as of December 31, 1994. The reports were due October 31, 1994. The delinquent reports result in questioned costs of \$393,554 for the *Drug Control and System Improvement - Formula Grant* program (CFDA 16.579).

The receipt and review of these audit reports ensures proper spending of federal funds by subrecipients. The Governor's Office has a policy to notify, and eventually sanction, subrecipients who have not submitted audit reports within the required time frame.

Office of Management and Budget Circular A-128 requires subrecipients to submit audit reports no later than 13 months after their fiscal year end. Federal regulations also require the reports to be reviewed for adequacy and corrective action obtained within six months of receipt of the reports.

Recommendation: We recommend that the Governor's Office continue its efforts to obtain the required audit reports from subrecipients.

Management's Response: For the ensuing year, procedures for notifying grantees regarding delinquent reports will be accelerated to ensure receipt of all audit reports by the required dates.

Audit Scope

The primary focus of our audit was the office's compliance with the federal requirements for their largest program, the *Drug Control and System Improvement - Formula Grant*. This program spent \$30 million during the 1994 state fiscal years, which represents 42 percent of the office's total federal financial assistance of \$71 million.

We gained an understanding of the general control environment. We also verified the adjustments made in connection with the U.S. Department of Health and Human Services' letter of resolution.