

# **Attachment 5**



# **TEXAS COUNCIL FOR DEVELOPMENTAL DISABILITIES**

## **Internal Audit Report #2011-1**

### **Grantee Monitoring**

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**Acronyms and Abbreviations**

- CPA           Comptroller of Public Accounts, Texas
- DSA           Designated State Agency
- GAO           Government Accountability Office, US
- IIA            Institute of Internal Auditors, International
- OMB           Office of Management & Budget, US
- OP            Operating Procedures
- SAO           State Auditor’s Office, Texas
- TAC           Texas Administrative Code
- TCDD          Texas Council for Developmental Disabilities
- TEA           Texas Education Agency
- TGC           Texas Government Code
- UGMS          Uniform Grants Management Standards, Texas



## Internal Audit Report

July 15, 2011

Audit Committee and Council Members  
The Texas Council for Developmental Disabilities

The following report provides the results and recommendations noted during the internal audit procedures conducted in fiscal year 2011. Included in this report are the purpose, scope, results, and recommendations of the audit, as well as management's responses to those recommendations.

The internal audit was conducted in accordance with the Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing*, the Government Accountability Office's (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act. We believe that our work fully supports our conclusions.

This report is distributed to and intended for the use of the Texas Council for Developmental Disabilities management and Governing Board, and the oversight agencies as identified in the Texas Internal Audit Act.

***Rupert & Associates, P.C.***

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## **Executive Summary**

### **Audit Purpose**

The Texas Council for Developmental Disabilities' (TCDD) annual internal audit plan is risk-based, with specific audit areas and objectives determined after an annual risk assessment update is conducted by management and the internal auditor. The Internal Audit plan developed for TCDD for fiscal year 2011 consisted of the following objectives:

1. Grantee Monitoring: Review and evaluate current grantee monitoring procedures and controls. As needed, consult, advise, and monitor the development and refinement of the grantee reporting database (DD Suite).
2. Follow up on prior audit recommendations.

### **Key Observations**

1. TCDD has policies and procedures in place to ensure that their grantee monitoring procedures comply with federal and state guidance.
2. The controls over the monitoring procedures were tested and were found to be effective. Some oral recommendations were made to staff for minor opportunities for improvement – i.e., naming conventions for files and folders.
3. Data management and safeguarding responsibilities are in place and staff members are aware of their individual responsibilities in this regard.
4. All prior audit recommendations have been addressed by TCDD.

### **Significant Recommendations**

# 2011-1-1    Develop a process to ensure completeness of grantee files. A checklist that identifies expected documentation could be developed as a template, included in each grantee's file, where staff can initial and date when they add documents to the files. Exceptions could quickly be recognized and followed up on.

## **Audit Results and Recommendations**

### **BACKGROUND & PURPOSE**

The Texas Council for Developmental Disabilities awards the majority of their funds to grantees to promote independence, productivity, and community integration for people with disabilities. Based on the significance of grants to the overall TCDD budget, mission, goals and objectives, grant administration processes, including grant management and grantee monitoring, have always been high on the risk radar at TCDD and closely monitored. This year's audit focus was on grantee monitoring processes.

### **CRITERIA**

#### OMB Circulars

- A-87 "Cost Principles for State, Local, and Indian Tribal Governments," for cost principles (relocated to 2 CFR, Part 225);
- A-102 "Grants and Cooperative Agreements with State and Local Governments" – for administrative requirements;
- A-133 "Audits of States, Local Governments and Non-Profit Organizations" – for audit requirements;

#### Texas Administrative Code

- TAC 5.141 thru 5.147 Uniform Grant Management Standards

### **SCOPE, METHODOLOGY, & OBJECTIVES**

The scope of the audit included an evaluation of the TCDD's processes, policies, and procedures to ensure compliance with federal and state guidance and tests of controls and details to evaluate the effectiveness and efficiency of those processes. The scope was limited to considering current processes in place for grants awarded during the past three fiscal years.

The audit methodology included interviews, questionnaires, and discussions with various personnel at TCDD as well as sampling of current grants and tests of controls and details. Criteria for compliance were developed by reviewing the OMB's and UGMS for monitoring requirements and comparing these requirements to monitoring activities at TCDD. TCDD's operating procedures and the TCDD Grants Manual were also used to identify procedures related to grantee monitoring for tests of controls and tests of details.

The agreed-upon audit objectives were to –

- A.Evaluate compliance with state grant monitoring requirements.
- B.Evaluate the effectiveness of processes and controls over grantee monitoring.
- C.Evaluate the processes and controls for data management and safeguarding of data.

**AUDIT RESULTS BY OBJECTIVE**

**Audit Objective A:** To determine if current processes and controls in place and in use by TCDD staff for monitoring grantees comply with identified monitoring requirements.

**Results and Conclusions:**

TCDD's grantee monitoring processes were found to be in compliance with Federal and State guidance, as well as with TCDD's internal written procedures. Test procedures included the development of a compliance worksheet, where grantee monitoring requirements of the various OMBs and UGMS were identified. These requirements were then compared to TCDD's written policies and procedures. The TCDD processes as well as management's assertions about monitoring performance were tested in substantive tests of controls and details by sampling grantees and reviewing their file folders, both electronic and hard copies, to support performance of stated processes. The grantee files supported TCDD monitoring activities performed and documented. Minor changes discussed with staff included naming conventions for files and document storage for improving overall organization of grantee files.

**Audit Objective B:** Through substantive testing, determine if TCDD is following their procedures and if these processes and controls provide an adequate level of monitoring of grantees as identified in the Compliance section of this audit.

**Results and Conclusions:**

A random sample of grantees was selected for testing of controls and details. Criteria for testing were TCDD's procedures and management assertions, and the grantees' records – both electronic and hard copy – were reviewed for elements that support performance as identified. File content was present as expected, mostly in electronic format and some hard copies; often both, as the agency continues the transition to electronic files. In addition, several new activities have been implemented that reflect a proactive monitoring program at TCDD:

- The Onsite Review forms reflect a revision date of 6/17/10, evidencing recent review and update.
- An Onsite Log has been initiated to track all projects, identify specialist, project period, monitoring requirements, scheduled dates and completed dates.
- The grantee risk assessment process is reviewed, updated, and reported to Council annually.
- An Audit Log has been initiated to track audit reports received.
- The Desk Review checklist for internal review of grantee audit reports is in use.
- The Audit Requirements section of the TCDD Grants Manual was updated to add language for grantees to request their auditor's peer review report, and for TCDD to request the grantees' management letter along with their audit report.
- A Match / Waiver Report was initiated for the Council meetings.
- An exceptions report was developed for reporting grantee issues to the Council.

TCDD's grantee monitoring processes and controls are being followed and are effective, based on our tests of details in the hard copy and electronic grantee files tested. There were minimal errors noted, clerical errors and one missing audit report. These errors or omissions are within a tolerable level.

**Audit Objective C:** Evaluate the data management processes and controls for safeguarding of data.

**Results and Conclusions:**

Through interviews with management and the test work performed during other fieldwork, it was determined that processes and controls are in place to ensure data is appropriately managed and safeguarded. Responsibilities have been assigned for maintaining the grantee files, both electronic and hard copies. Access to electronic files is limited to staff whose job prescribes that they have access. Electronic files are backed up on the TEA servers, according to TEA policies. Hard files are kept in a file cabinet, locked, within the locked TCDD offices. Keys are assigned to appropriate staff and processes are in place to allow access when the key-holder is out of the office.

Responsibilities have been assigned for an annual review of hard copy and e-files to determine which ones are ready to archive / warehouse and which ones have exceeded record retention requirements and are ready for disposal.

TCDD's processes and controls to safeguard and adequately maintain the grantee files are in place, are followed, and are effective based on minimal missing grantee data.

## **AUDIT RECOMMENDATIONS & MANAGEMENT RESPONSES**

### **Recommendation 2011-1-1:**

Develop a process to ensure completeness of grantee files. A checklist that identifies expected documentation could be developed as a template, included in each grantee's file, where staff can initial and date when they add documents to the files. Exceptions could quickly be recognized and followed up on.

### **Management Response 2011-1-1:**

The TCDD Acting Grants Management Director, Systems Support Specialist, Grants Specialists and Project Development Assistant are the designated staff for implementing the following action plan within 90 business days and no later than November 18, 2011.

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The designated staff will:

- 1) Meet to discuss the Audit recommendations no later than August 30, 2011.
- 2) Identify processes to improve grantee filing systems and a process to ensure grantee files have all required documentations no later than September 30, 2011.
- 3) Develop a grantee file checklist to track all expected grant-related documents, date received, and staff initials; to be completed no later than October 31, 2011.
- 4) Implement a grantee filing system and checklist to ensure all grantees files are complete no later than November 18, 2011.

We believe that these processes and internal tracking will effectively improve TCDDs Grants data management system.

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**Follow Up on Prior Audit Recommendations**

<i>Rpt #</i>	<i>Rpt Date</i>	<i>High-Level Audit Objective(s)</i>	<i>Rec #</i>	<i>Observations/Findings and Recommendations</i>	<i>Current Status</i>
2010-01	8/31/2010	<b>TAC 202 - Information Security Audit</b>			
	<b>Objective A</b>	Determine the roles and responsibilities of TCDD and TEA related to TAC 202 compliance.	2010-1	Develop a written Business Recovery Plan for TCDD that will interface with TEA efforts for systems and business recovery in the event of an incident. The objective of the document is to ensure that necessary procedures to address the business recovery needs of the entity in the event of an incident have been identified, are thoroughly thought out, are comprehensive, and are appropriately documented and communicated to staff.	<p><b>Implemented:</b> TCDD has adopted OP 01-11 Business Continuity Planning that establishes procedures for TCDD business continuity planning in order to ensure the quick and effective recovery of mission-essential business functions in the event of a disaster or major business interruption that impairs the operations of the TCDD.</p> <p>TCDD IT functions are included in the TEA Business Continuity Plan version 1.0 dated January 2010.</p> <p><u>UPDATE 07/11:</u> TCDD met with TEA Business Continuity Project Manager and TEA has updated their BCP to incorporate TCDD into their recovery process. TCDD has completed material that has become part of the Appendix. Further some TCDD staff have been included on BCP planning committees. Revisions are proposed to the TCDD / TEA Memorandum of Understanding (section VI) stating that TEA will include TCDD in their BCP for systems and business recovery.</p>
	<b>Objective B</b>	Determine if TCDD has adequate procedures in place to ensure that they meet their responsibilities as described in TEA's information security procedures.	2010-2	Agency policy calls for employees to sign an acknowledgement of appropriate usage policy at the time of hire. In addition to this initial acknowledgement, TCDD should encourage a reiteration of the risks of inappropriate technology usage. TEA could be asked to provide their internet security class to all TCDD staff in a series of classes. The series would serve to raise awareness and reinforce appropriate usage policies.	<p><b>Implemented:</b> TEA currently offers security classes through their Office of Organizational Effectiveness. These classes are open to TCDD staff. TCDD staff receive emails regarding security class curriculum and schedules. TCDD staff is encouraged to sign up for these classes to raise security awareness and reinforce security usage. Several TCDD staff have taken advantage of security classes offered by TEA and have shared information with other TCDD staff. Appropriate use of technology is discussed periodically during TCDD staff meetings.</p> <p><u>UPDATE 07/11:</u> TCDD continues to encourage TCDD staff to take security classes offered by TEA. Operations Director Martha Cantu has completed the Series X classes and has shared curriculum information with staff at staff meetings. Professional Development opportunities has been added to Section VI of the MOU. The MOU clarifies the responsibilities of TEA IT Security.</p>

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**Follow Up on Prior Audit Recommendations**

<i>Rpt #</i>	<i>Rpt Date</i>	<i>High-Level Audit Objective(s)</i>	<i>Rec #</i>	<i>Observations/Findings and Recommendations</i>	<i>Current Status</i>
2010-01	8/31/2010	<b>TAC 202 - Information Security Audit</b>			
	<b>Objective C</b>	Evaluate monitoring and oversight of TCDD information security control processes.	2010-3	TCDD should work with the TEA ISO to identify the level of IT security support to be provided by TEA and the activities for which TCDD is responsible. The interagency MOU should be revisited to clearly define the responsibilities for these procedures, including IT security oversight.	<p><b>Implemented</b></p> <p>By TEA IT protocols, TCDD staff do not have "administrative rights" for TCDD computers. TEA is responsible for all software installation on TCDD computers and related software audits and intrusion testing and reporting. TCDD believes the responsibilities of TEA and of TCDD related to IT services and security are clear and appropriate within the current MOU. The MOU defines the information technology support provided for TCDD by TEA, including support through the Department of Information Resources and the state Data Center Service. It includes support to desktop and laptop computers, printers, networking, server and infrastructure, E-mail accounts, network connection (including LAN equipment and data circuits) and related hardware and software. In addition, TCDD works with the ISO to determine costs and services associated with DIR/DCS Server Infrastructure, E-mail accounts, and services provided by Northrop Grumman for desktops and laptops.</p> <p><u>UPDATE 07/11</u>: As discussed above, the MOU with TEA has been revisited with proposed revisions regarding the BCP.</p>

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