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State Auditor

A Report on

**State of Texas Compliance with
Federal Requirements for the
Cooperative Extension Service
Program at the Texas A&M
AgriLife Extension Service for the
Fiscal Year Ended
August 31, 2013**

February 2014
Report No. 14-026



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Overall Conclusion

The State of Texas complied in all material respects with the federal requirements for the Cooperative Extension Service program in fiscal year 2013.

As a condition of receiving federal funding, U.S. Office of Management and Budget (OMB) Circular A-133 requires non-federal entities that expend at least \$500,000 in federal awards in a fiscal year to obtain annual Single Audits. Those audits test compliance with federal requirements in up to 14 areas that may have a material effect on a federal program at those non-federal entities. Examples of the types of compliance areas include allowable costs, procurement, cash management, and reporting. The Single Audit for the State of Texas included (1) all high-risk federal programs for which the State expended more than \$73,222,469 in federal funds during fiscal year 2013 and (2) other selected federal programs.

From September 1, 2012, through August 31, 2013, the State of Texas expended \$48.6 billion in federal funds. The State Auditor's Office audited compliance with requirements for the Cooperative Extension Service program at the Texas A&M AgriLife Extension Service (Extension Service), which spent \$19.4 million in program funds during fiscal year 2013.

The Cooperative Extension Service Program

The U.S. Department of Agriculture provides formula grant funds for cooperative agricultural extension work, which consists of the development of existing or improved practices or technologies in agriculture, home economics, and rural energy, and related subjects to persons not attending or resident in colleges.

This audit was conducted in accordance with Single Audit Act Amendments of 1996 and Office of Management and Budget Circular A-133.

For more information regarding this report, please contact James Timberlake, Audit Manager, or John Keel, State Auditor, at (512) 936-9500.

Key Points

The Extension Service complied in all material respects with requirements for the Cooperative Extension Service program.

Although auditors identified findings at the Extension Service, it is important to note that no finding was material to the federal program audited. While that indicates that the State of Texas complied in all material respects with the requirements tested, the Extension Service should correct certain non-compliance and significant deficiencies, which are summarized below (see text box for definitions of finding classifications).

Finding Classifications

Control weaknesses are classified as either significant deficiencies or material weaknesses:

- A **significant deficiency** indicates control weaknesses, but those weaknesses would not likely result in material non-compliance.
- A **material weakness** indicates significant control weaknesses that could potentially result in material non-compliance with the compliance area.

Similarly, compliance findings are classified as either non-compliance or material non-compliance, where material non-compliance indicates a more serious reportable issue.

The Extension Service did not always comply with federal requirements related to allowable activities and allowable costs.

The Extension Service inappropriately expended federal funds on a building renovation, which is prohibited by program requirements.

The Extension Service did not always maintain adequate property records for its equipment or ensure that it adequately safeguarded equipment.

Auditors identified issues related to the securing of equipment and the accuracy of the Extension Service's inventory records.

The Extension Service did not always comply with federal requirements related to procurement.

The Extension Service did not obtain bids or document its rationale for limiting competition for a procurement that required competitive bidding. In addition, the Extension Service did not verify that a vendor was not suspended or debarred or otherwise excluded from participating in federal contracts.

The Extension Service did not always ensure that its financial reports were accurate and submitted within the required time frame.

The Extension Service submitted one financial report that did not include all activity in the reporting period and was not supported by applicable accounting records. It also did not submit two financial reports tested within the required time frame.

Summary of Management's Response

Management generally concurred with the audit findings. Specific management responses and corrective action plans are presented immediately following each finding in this report.

Summary of Information Technology Review

The audit work included a review of general controls and application controls for key information technology systems related to the Cooperative Extension Service program at the Extension Service. Auditors identified an issue related to change management for modifications the Extension Service made to its Time and Effort application.

Summary of Objectives, Scope, and Methodology

With respect to the Cooperative Extension Service program, the objectives of this audit were to (1) obtain an understanding of internal controls over compliance, assess the control risk of noncompliance, and perform tests of those controls unless the controls were deemed to be ineffective and (2) provide an opinion on whether the State has complied with laws, regulations, and provisions of the contracts or grant agreements that have a direct and material effect on the Cooperative Extension Service program.

The audit scope covered federal funds that the State spent for the Cooperative Extension Service program at the Extension Service from September 1, 2012, through August 31, 2013. The audit work included control and compliance work.

The audit methodology included developing an understanding of controls over each compliance area that was direct and material to the Cooperative Extension Service program. Auditors' sampling methodology was based on the American Institute of Certified Public Accountants' audit guide entitled *Government Auditing Standards and Circular A-133 Audits* dated February 1, 2013. Auditors conducted tests of compliance and of controls identified for each direct and material compliance area and performed analytical procedures when appropriate. Auditors assessed the reliability of data the Extension Service provided and determined that the data was sufficiently reliable for the purposes of expressing an opinion on compliance with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the program identified above.

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Independent Auditor's Report

*State of Texas Compliance with
Federal Requirements for
the Cooperative Extension Service
Program at the
Texas A&M AgriLife Extension Service
for the Fiscal Year Ended
August 31, 2013*

Report on Compliance for the Cooperative Extension Service Program, and
Report on Internal Control Over Compliance Required by OMB Circular A-133

Independent Auditor's Report

The Honorable Rick Perry, Governor
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Joe Straus, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

Report on Compliance for the Cooperative Extension Service Program

We have audited the State of Texas's (State) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Cooperative Extension Service program for the year ended August 31, 2013. The State's major federal program at the Texas A&M AgriLife Extension Service is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the State's compliance for the Cooperative Extension Service program based on our audit of the types of compliance requirements referred to above. Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United State of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Cooperative Extension Service program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

This audit was conducted as part of the State of Texas Statewide Single Audit for the year ended August 31, 2013. As such, the Cooperative Extension Service program was selected as a major program based on the State of Texas as a whole for the year ended August 31, 2013. The State does not meet the OMB Circular A-133 requirements for a program-specific audit and the presentation of the Schedule of Federal Program Expenditures does not conform to the OMB Circular A-133 Schedule of Expenditures of Federal Awards. However, this audit was designed to be relied on for the State of Texas opinion on federal compliance, and in our judgment, the audit and this report satisfy the intent of those requirements.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Cooperative Extension Service program. However, our audit does not provide a legal determination of the State's compliance.

Opinion on the Cooperative Extension Service Program

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Cooperative Extension Service program for the year ended August 31, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items:

Agency	Program	Compliance Requirement	Finding Number
Texas A&M AgriLife Extension Service	CFDA 10.500 - Cooperative Extension Service	Activities Allowed or Unallowed Allowable Costs/Cost Principles	2013-123
		Equipment and Real Property Management	2013-124
		Procurement and Suspension and Debarment	2013-125
		Reporting	2013-126

Our opinion on the Cooperative Extension Service program is not modified with respect to these matters.

The State's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The State's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In

planning and performing our audit of compliance, we considered the State’s internal control over compliance with the types of requirements that could have a direct and material effect on the Cooperative Extension Service program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Cooperative Extension Service program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we consider the following deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs, to be significant deficiencies:

Agency	Program	Compliance Requirement	Finding Number
Texas A&M AgriLife Extension Service	CFDA 10.500 - Cooperative Extension Service	Activities Allowed or Unallowed Allowable Costs/Cost Principles	2013-123
		Equipment and Real Property Management	2013-124
		Procurement and Suspension and Debarment	2013-125
		Reporting	2013-126

The State's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The State's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schedule of Federal Program Expenditures

The accompanying Schedule of Federal Program Expenditures for the Cooperative Extension Service program of the State for the year ended August 31, 2013, is presented for purposes of additional analysis. This information is the responsibility of the State's management and has been subjected only to limited auditing procedures and, accordingly, we express no opinion on it. However, we have audited the Statewide Schedule of Expenditures of Federal Awards in a separate audit, and the opinion on the Statewide Schedule of Expenditures of Federal Awards is included in the *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2013*.

John Keel, CPA
State Auditor

February 21, 2014

**Schedule of Federal Program Expenditures for
 The Cooperative Extension Service Program
 For the State of Texas
 For the Year Ended August 31, 2013**

Schedule of Federal Program Expenditures CFDA 10.500 - Cooperative Extension Service Program			
Agency	Federal Pass-through to Non-state Entity	Federal Direct Expenditures	Totals
Texas A&M AgriLife Extension Service	\$314,836	\$19,089,742	\$19,404,578
Totals for Cooperative Extension Service program	\$314,836	\$19,089,742	\$19,404,578
<p>Note 1: This schedule of federal program expenditures is presented for informational purposes only. For the State's complete Schedule of Expenditures of Federal Awards, see the <i>State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2013</i>.</p> <p>Note 2: Federal expenditures for the Cooperative Extension Service program at state entities not included in the scope of this audit totaled \$5,590,076 for the year ended August 31, 2013.</p>			

Schedule of Findings and Questioned Costs

*State of Texas Compliance with
Federal Requirements for
the Cooperative Extension Service
Program at the
Texas A&M AgriLife Extension Service
for the Fiscal Year Ended
August 31, 2013*

Summary of Auditor's Results

Financial Statements

Issued under separate cover. See State Auditor's Office report entitled *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2013*.

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? Yes

Type of auditor's report issued on compliance for major programs:
Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.500	Cooperative Extension Service

Dollar threshold used to distinguish between type A and type B programs: \$73,222,469

Auditee qualified as low-risk auditee? No

Section 2:

Financial Statement Findings

Issued under separate cover. See State Auditor's Office report entitled *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2013*.

Section 3:

Federal Award Findings and Questioned Costs

This section identifies significant deficiencies, material weaknesses, and instances of non-compliance, including questioned costs, as required to be reported by Office of Management and Budget Circular A-133, Section 510(a).

Texas A&M AgriLife Extension Service

Reference No. 2013-123

**Activities Allowed or Unallowed
Allowable Costs/Cost Principles**

CFDA 10.500 - Cooperative Extension Service
Award year – September 1, 2012 to August 31, 2013
Award number – 2012-41200-04400
Type of finding – Significant Deficiency and Non-Compliance

Direct Costs (Non-payroll)

Allowable costs charged to federal programs must (1) be reasonable; (2) be allocable to sponsored agreements; (3) be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (4) conform to any limitations or exclusions set forth in cost principles or in the sponsored agreement as to types or amounts of cost items (Title 2, Code of Federal Regulations, Section 220, Appendix A, C.2).

Questioned Cost: \$ 25,000
U.S. Department of Agriculture

No portion of Smith-Lever Act funds and Section 1444 funds of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (NARETPA) may be applied directly or indirectly to the purchase, erection, preservation or repair of any building or buildings, or the purchase of rental of land, or in college-course teaching, or lectures in college (Title 7, United States Code, Sections 345 and 3221 (e)).

One (2 percent) of 63 transactions tested at the Texas A&M AgriLife Extension Service (Extension Service) was unallowable according to federal program guidelines. The Extension Service inappropriately charged \$25,000 to award 2012-41200-04400 for the installation of auditorium seating, which was a building renovation. The Extension Service classified the expenditure as “Office Furnishings and Equipment,” which is an allowable use of Smith-Lever Act funds; however, that classification did not accurately describe the expenditure. Using program funds for unallowable activities could hinder achievement of Smith-Lever Act goals.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The Extension Service did not have sufficient controls over change management testing and migration for its Time and Effort application. Specifically, for 2 (67 percent) of 3 changes to the Time and Effort application tested, the Extension Service did not maintain adequate documentation of its testing or final authorization prior to migrating those changes to the production environment. The Extension Service has general change management policies; however, it does not have specific procedures for change management related to the Time and Effort application. Additionally, the Extension Service did not adequately restrict developers’ access to modify code in the production environment for the Time and Effort application.

Insufficient change management procedures or inadequate segregation of duties among developers increases the risk of unauthorized programming changes being made to critical information systems.

Recommendations:

The Extension Service should:

- Charge only allowable expenditures to federal awards.
- Maintain documentation of all change requests related to critical information systems to support that changes were authorized, tested, and approved prior to migration to the production environment.
- Restrict access to modify code in the production environment for critical information systems to only those individuals who are authorized to perform such tasks.

Management Response and Corrective Action Plan:

The Texas A&M AgriLife Extension Service acknowledges the coding error made on the federal fund and has corrected the entry. The agency will review its coding practices to ensure expenditures are accurately recorded.

Implementation Date: May 2014

Responsible Person: Shiao-Yen Ko

The Texas A&M University System is adding additional access controls to the source control and build system used by the Time and Effort application. This will restrict the building of production software release to only authorized employees. Additionally, the Texas A&M University System will implement better practices for the retention and management of documentation related to testing and authorization of changes in its production environment. Testing plans and results along with final authorization will be electronically captured and attached to each change item. The Texas A&M University system is also in the process of selecting and implementing a new service desk software application. If this software solution provides superior change management processes over the existing process, it will be adopted as the new change management solution.

Implementation Date: March 2014

Responsible Person: Mark Schulz

Reference No. 2013-124

Equipment and Real Property Management

CFDA 10.500 - Cooperative Extension Service

Award years –October 1, 2008 to September 30, 2013; October 1, 2010 to September 30, 2015; and October 1, 2012 to September 30, 2017

Award numbers –2008-41100-04400, 2011-41100-04400, and 2013-41100-04400

Type of finding - Significant Deficiency and Non-Compliance

A recipient’s property management standards for equipment acquired with federal funds and federally owned equipment shall include all of the following: a description of the equipment; manufacturer’s serial number or other identification number; the source of the equipment, including the award number; whether title vests in the recipient or the federal government; acquisition date and cost; the percentage of federal participation in the cost of the equipment; location and condition of the equipment, unit acquisition cost;

<p>Questioned Cost: \$ 0</p> <p>U.S. Department of Agriculture</p>
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and ultimate disposition data for the equipment.

A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment (Title 2, Code of Federal Regulations, Section 215.34 (f)).

The Texas A&M University System *Asset Management Manual* requires that all capital items, equipment having a unit value of \$5,000 or more and an estimated useful life of more than one year, and certain assets below the capitalization threshold must be inventoried. An inventory number is to be assigned and permanently affixed to each item prior to the item being placed in use. The inventory number must be permanently affixed to an item promptly upon receipt and acceptance, but not later than 10 calendar days after receipt, unless prevented by unusual circumstances.

The Texas A&M AgriLife Extension Service (Extension Service) did not always maintain adequate property records for its equipment items or ensure that it adequately safeguarded items. Specifically:

- For 2 (14 percent) of 14 equipment items tested, the Extension Service did not properly safeguard and maintain the equipment. For one of those items, the Extension Service did not update its equipment records to reflect the disposition of that item. Although the item was listed as active in the Extension Service's equipment records, the Extension Service had disposed of it and transferred it to another state agency. The Extension Service stored the other item in an unsecured location.
- For 1 (7 percent) of 14 equipment items tested, the inventory tag number affixed to the item did not match the tag number assigned to that item in the Extension Service's property records. The item contained the inventory tag number of a similar item purchased at the same time.
- For 1 (7 percent) of 14 equipment items tested, the Extension Service purchased the item with a detachable trailer; however, it did not create a separate inventory record for the trailer or assign and affix an inventory tag number to the trailer.

Not maintaining accurate property records, not adequately safeguarding equipment, and not assigning inventory tag numbers increases the risk that equipment could be lost, or stolen.

Recommendations:

The Extension Service should:

- Maintain complete and accurate property records for equipment.
- Adequately safeguard its equipment to prevent loss, damage, or theft.
- Tag all capitalized and controlled equipment in accordance with its policy.

Management Response and Corrective Action Plan:

The Texas A&M AgriLife Extension Service will review its practices to ensure procedures are in place to make certain that capitalized and controlled equipment is properly tagged. Units will be reminded to safeguard equipment to mitigate items being lost, stolen, or damaged.

Implementation Date: July 2014

Responsible Person: Cyndie Michalak

Reference No. 2013-125

Procurement and Suspension and Debarment

CFDA 10.500 - Cooperative Extension Service

Award years – July 15, 2010 to July 14, 2013 and September 1, 2012 to August 31, 2013

Award numbers – 2010-45049-20713 and 2013-41510-04400

Type of finding – Significant Deficiency and Non-Compliance

Open and Free Competition

All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. In addition, procurement records and files shall include the following at a minimum: (1) basis for contractor selection, (2) justification for lack of competition when competitive bids or offers are not obtained, and (3) basis for award cost or price (Title 2, Code of Federal Regulations (CFR), Sections, 215.43 and 215.46).

Questioned Cost: \$ 22,981

U.S. Department of Agriculture

The Texas A&M AgriLife Extension Service’s (Extension Service) purchasing procedures require bids for purchases of goods and services of at least \$5,000. Purchases ranging from \$5,000 to \$25,000 may be informally bid, and purchases that exceed \$25,000 must be formally bid. In addition, the procedures state that departments may not split orders to avoid bidding requirements. Formal and informal bid purchases require the solicitation of at least six bids, except in instances of sole source procurements. For sole source procurements, a sole source justification is required and must be reviewed and approved by the purchasing director.

The Extension Service did not obtain bids or document its rationale for limiting competition for 1 (25 percent) of 4 procurements tested that required competitive bidding. A department within the Extension Service circumvented competitive bid requirements by creating 7 invoices to the same vendor, each less than \$5,000, within days of each other. Together, those invoices totaled \$22,981 for award number 2010-45049-20713. The department asserted that the selected vendor was the only vendor able to provide the requested goods within a specific time line; however, the department did not comply with the Extension Service’s sole source justification or emergency purchase requirements. Therefore, those purchases were considered questioned costs. Not complying with established procurement processes and bidding requirements could result in inadequate competition and unallowable procurements.

Suspension and Debarment

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity and its principals are not suspended or debarred or otherwise excluded from federal contracts. Covered transactions include procurement contracts for goods and services that are expected to equal or exceed \$25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, CFR, Sections 180.210 through 180.220 and 180.970).

The Extension Service did not always verify that vendors were not suspended or debarred or otherwise excluded from participating in federal contracts. Specifically, for 1 (11 percent) of 9 covered transactions tested, the Extension Service did not verify that the vendor was not suspended or debarred. That transaction was a \$206,324 agreement to lease office space from a local government. The Extension Service considered the suspension and debarment verification requirement not to apply because the vendor was a local government; however, local governments are not exempt from that requirement. Not verifying that vendors are not suspended or debarred from federal contracts increases the risk that the Extension Service could enter into procurements with ineligible vendors.

Recommendations:

The Extension Service should:

- Ensure that its departments comply with its procurement requirements and provide open and free competition in procurements or written justification for limiting competition.

- Verify that vendors and their principals are not suspended or debarred or otherwise excluded from participating in federal contracts for all covered transactions.

Management Response and Corrective Action Plan:

When the purchases were identified as non-compliant with AgriLife Extensions' and Sponsored Research Services' purchasing procedures, the Agency non-compliant procedure was appropriately executed. The departmental staff was required to complete and sign additional paperwork acknowledging that they had not followed approved purchasing procedures. Department leadership communicated purchasing procedures to faculty and staff and provided assurance that future purchases would be made in accordance with procedures. Purchasing training sessions are available to units within Texas A&M AgriLife which address procurement practices for the agency.

The agency currently verifies vendors for suspension and debarment. Training will be provided to the purchasing staff that this includes all types of vendors including governmental entities.

Implementation Date: May 2014

Responsible Persons: Diane Hassel and DeeAnn Schneider

Reference No. 2013-126

Reporting

CFDA 10.500 - Cooperative Extension Service

Award years – September 1, 2011 to August 31, 2012 and June 1, 2011 to August 31, 2013

Award numbers – 2011-48679-31066 and 2011-41534-30982

Type of finding – Significant Deficiency and Non-Compliance

Federal Financial Reports (FFR) should include all receipts and expenditures of federal, state, and county appropriations and contributions from non-tax sources, for furtherance of extension work. Expenditures are considered to be cash disbursements and valid liquidated obligations chargeable to the reporting fiscal year (*Administrative Handbook for Cooperative Extension Work*, Chapter 3 Financial Operations, Section L(1) Annual Financial Report). When reports are required on an annual basis, they are due 90 days after the end of the grant or agreement period (Title 7, Code of Federal Regulations, Section 3015.82(d)).

Questioned Cost: \$ 0

U.S. Department of Agriculture

For 1 (11 percent) of 9 financial reports tested, the Texas A&M AgriLife Extension Service (Extension Service) did not ensure that the financial report included all activity in the reporting period and was supported by applicable accounting records. The Texas A&M System Sponsored Research Services (Sponsored Research Services), which prepared the financial report for the Extension Service, inaccurately reported cash disbursements for the period as \$0 instead of \$9,999. Sponsored Research Services does not review financial reports to verify that they are accurate and supported by accounting records. Sponsored Research Services corrected and resubmitted the report after auditors identified the error.

Additionally, the Extension Service did not submit 2 (22 percent) of the 9 financial reports tested within the required time frame. Sponsored Research Services, which prepared and submitted the financial reports for the Extension Service, submitted those reports 356 days late and 382 days late. (One of those reports was the report also discussed above.) At the time those reports were due, Sponsored Research Services did not have a process to monitor the due dates of financial reports.

Inaccurate information in and late submission of financial reports increases the risk that federal agencies may not have accurate information to manage and monitor awards.

Recommendation:

The Extension Service should ensure that its financial reports accurately include all activity in the reporting period, are supported by accounting records, and are submitted in a timely manner.

Management Response and Corrective Action Plan:

Sponsored Research Services reviewed its internal procedures and implemented the following additional steps to ensure that financial reports are accurate and timely:

- *A report listing of all financial reports that are Due/Over Due is generated monthly and distributed to all SRS accountants to ensure that all due reports are identified for submission.*
- *All financial reports are reviewed for accuracy and signed by a second SRS accountant before submission.*

Implementation Date: October 2013

Responsible Person: Diane Hassel

Summary Schedule of Prior Year Audit Findings

Federal regulations (OMB Circular A-133) state, “the auditee is responsible for follow-up and corrective action on all audit findings.” As part of this responsibility, the auditee reports the corrective action it has taken for the following:

- Each finding in the 2012 Schedule of Findings and Questioned Costs.
- Each finding in the 2012 Summary Schedule of Prior Audit Findings that was not identified as implemented or reissued as a current year finding.

There were no prior year audit findings for the Cooperative Extension Service program.

Appendix

Objectives, Scope, and Methodology

Objectives

With respect to the Cooperative Extension Service program, the objectives of this audit were to (1) obtain an understanding of internal controls over compliance, assess the control risk of noncompliance, and perform tests of those controls unless the controls were deemed to be ineffective and (2) provide an opinion on whether the State has complied with laws, regulations, and provisions of the contracts or grant agreements that have a direct and material effect on the Cooperative Extension Service program.

Scope

The audit scope covered federal funds that the State spent for the Cooperative Extension Service program at the Texas A&M AgriLife Extension Service (Extension Service) from September 1, 2012, through August 31, 2013. The audit work included control and compliance tests at the Extension Service.

Methodology

The audit methodology included developing an understanding of controls over each compliance area that was direct and material to the Cooperative Extension Service program.

Auditors selected non-statistical samples for tests of compliance and controls for each direct and material compliance area based on the American Institute of Certified Public Accountants' audit guide entitled *Government Auditing Standards and Circular A-133 Audits* dated February 1, 2013. In determining sample sizes for control and compliance test work, auditors assessed risk levels for inherent risk of noncompliance, control risk of noncompliance, risk of material noncompliance, detection risk, and audit risk of noncompliance by compliance requirement. Auditors selected samples primarily through random selection designed to be representative of the population. In those cases, results may be extrapolated to the population but the accuracy of the extrapolation cannot be measured. In some cases, auditors used professional judgment to select additional items for compliance testing. Those sample items generally are not representative of the population and, therefore, it would be inappropriate to extrapolate those results to the population.

Auditors conducted tests of compliance and of controls identified for each direct and material compliance area and performed analytical procedures when appropriate.

Auditors assessed the reliability of data the Extension Service provided and determined that the data was sufficiently reliable for the purposes of expressing an opinion on compliance with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the Cooperative Extension Service program.

Information collected and reviewed included the following:

- Extension Service data for expenditures, equipment, procurement, reporting, cash management, and matching funds.
- Transactional support related to expenditures, procurement, and revenues.
- Federal notices of award.
- Extension Service reports and data used to support revenues, reports, and other compliance areas.
- Information system support for Extension Service assertions related to general and application controls over information systems that support the control structure related to federal compliance.

Procedures and tests conducted included the following:

- Analytical procedures performed on expenditure data to identify instances of non-compliance.
- Compliance testing for samples of transactions for each direct and material compliance area.
- Tests of design and effectiveness of key controls and tests of design of other controls to assess the sufficiency of the Extension Service's control structure.
- Tests of design and effectiveness of general controls over information systems that support the control structure related to federal compliance.

Criteria used included the following:

- The Code of Federal Regulations.
- U.S. Office of Management and Budget Circulars A-21, A-102, A-110, and A-133.
- Federal notices of award and award proposals.
- Extension Service policies and procedures, including disclosure statements (DS-2 statements) and indirect cost rate plans.

- U.S. Department of Agriculture *Administrative Handbook for Cooperative Extension Work*.

Project Information

Audit fieldwork was conducted from August 2013 through December 2013. Except as discussed above in the Independent Auditor's Report, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

The following members of the State Auditor's staff performed the audit:

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- Anton Dutchover, CPA (Team Lead)
- Sarah Miller, MS
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- Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)
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Copies of this report have been distributed to the following:

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