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INDEPENDENT LIVING AUDIT FOLLOWUP REPORT

Houston Center for Independent Living
Houston, Texas

April 23, 1984

"A HUMAN ENERGY AGENCY"

TEXAS REHABILITATION COMMISSION

VERNON M. ARRELL
Commissioner

Internal Audit Division • 118 East Riverside Drive • (512) 445-8749 • Austin, Texas 78704

DAVID J. MacCABE, Director

April 23, 1984

MEMORANDUM

TO: Vernon M. Arrell, Commissioner

FROM: David J. MacCabe, Director, Internal Audit

SUBJECT: HOUSTON CENTER FOR INDEPENDENT LIVING AUDIT FOLLOWUP REPORT RE: 84-51

Attached for your information and review is an Internal Audit followup report on the Houston Center for Independent Living (HCIL).

The objective of our followup review was to determine the status of HCIL's compliance with the TRC administrative and financial management requirements. These requirements had been imposed upon HCIL as a result of significant deficiencies found during our previous attempts to perform a financial and compliance audit of the Center's independent living grant.

The results of our followup review indicate that HCIL has materially complied with the majority of the TRC administrative and financial management requirements. The current status is as follows:

Fully Accomplished	16
Partially Accomplished	1
Not Accomplished	0
Total Requirements	17

The one requirement not fully accomplished pertains to HCIL's accounting and inventory of Title VII purchased capital equipment. The Center has not been able to provide a reliable reconciled inventory list of equipment. The HCIL Executive Director has stated that he will provide further information in the near future.

Overall, we believe that HCIL's administrative, accounting and financial management systems have been improved and appear to be more soundly based on proper management principles and practices. Provided that HCIL continues to maintain these systems, the TRC should be able to have an increased level of assurance that the Center is complying with the terms and conditions of the grant agreement.

David J. MacCabe
David J. MacCabe
Certified Internal Auditor
Director, Internal Audit

Cynthia Dee Howard
Cynthia Dee Howard
Supervising Management Auditor

DJM/CDH/vbt
Attachment

cc: Doyle Wheeler
James L. Jackson
Bob Young
Ken Vogel
John Wylie
Ted Thayer
David McKay
Joyce Frieden, CBFL Board President
Quentin Smith, HCIL Executive President

INDEPENDENT LIVING AUDIT FOLLOWUP

Project #84-51

Houston Center for Independent Living
Houston, Texas

April, 1984

Texas Rehabilitation Commission

Internal Audit Division

TABLE OF CONTENTS

AUDIT FOLLOWUP REPORT

Houston Center for Independent Living

BACKGROUND

Several attempts were made in the early part of 1983 to conduct a financial and compliance audit of the Title VII grant awarded to the Houston Center for Independent Living (HCIL). The audit was intended to provide coverage of the first two budget periods from July 15, 1980 through July 15, 1982 for a total of $400,000 in grant funds.

The results of these reviews indicated that there were substantial deficiencies in the grantee's accounting records, supporting documentation and internal control systems. These deficiencies lead to our opinion that the budget periods were not auditable and that the grantee had materially failed to comply with the financial management terms and conditions of the grant agreement. In addition to the deficiencies identified by our review, prior TRC program surveys had identified a number of program related deficiences. The specific findings were addressed in our June 1983 report to the Commissioner.

After serious consideration of the situation and alternatives, the TRC administration decided to offer HCIL an opportunity to take corrective action rather than immediately terminate the grant. This decision was based primarily on the following rationale. There was a recognized intense need in the Houston area for provision of Independent Living client services. Because the terms of the federal grant did not allow for transfer of the funding to another recipient, termination of the grant would effectively deny provision of independent living services to clients in the Houston area. It was believed that the HCIL Board recognized the administrative and operating weaknesses of the Center and was taking initial steps to improve the situation. In consideration of the above factors, TRC decided that it would be in the best interests of all parties for HCIL to attempt corrective action within a specified timeframe and under clearly identified criteria.

A group of TRC representatives met with the HCIL Board in July 1983, and presented a letter from the TRC Commissioner. (Please see Attachment 1 to this report.) This letter outlined the Commission's position and the conditions under which the grant could be continued. Attachments to this letter itemized the specific criteria and timeframes that the Center had to comply with for program, administrative and financial management improvement. The HCIL Board agreed to accept the specified conditions for continued financial participation by TRC and understood that TRC would review HCIL's progress toward compliance and improvement.

The remainder of this report presents the results of the Internal Audit Division's review of HCIL's compliance with the administrative and fiscal requirements. The TRC program survey team has previously reported on the program requirements.

SITE REVIEW RESULTS

We conducted our site review of HCIL on February 21-22, 1984. The results indicated there were significant improvements in the recording of financial transactions, maintenance of supporting documentation, and simplification of the overall accounting system. However, it was also evident that the Center had not taken action to accomplish many of the specific TRC requirements. It was our opinion at that time that the status was as follows:

Fully Accomplished	4
Partially Accomplished	5
Not Accomplished	8
Total Requirements	17

Discussion with the Center's Executive Director, Quentin Smith, indicated that he was completely aware of the status. Mr. Smith explained there had been a number of factors impacting his priorities since his employment in August 1983. He stated that HCIL had been without effective leadership for so long that its operations were very disorganized and staff morale was extremely low. He believed it was vitally important to initially concentrate his efforts on providing strong leadership to the HCIL organization, restructuring and improving program services, and enhancement of HCIL's public image.

Because Mr. Smith's attention had been concentrated in these areas, he explained that he had not had time to formally address the specific TRC administrative and fiscal requirements. He requested a one month extension of time in order to bring the Center into compliance. This extension was allowed.

FOLLOWUP RESULTS

On April 2, 1984, Mr. Smith presented a packet of materials in response to the TRC requirements. Our review of this information, in conjunction with the findings of our previous site review, indicate that HCIL has materially complied with the majority of the administrative and financial criteria. The status as of April 16, 1984 was as follows:

Fully Accomplished	16
Partially Accomplished	1
Not Accomplished	0
Total Requirements	17

Attached to this report is a chart detailing the status of each administrative and financial requirement with review comments (see Attachment 2). The one item not fully accomplished is the requirement for HCIL to inventory Title VII purchased capital equipment and provide an accurate inventory list to TRC. The Center is in the process of addressing this requirement and should provide followup information in the near future.

CONCLUSIONS

The primary TRC reason for imposition of the specific requirements was to emphasize the minimum standards that must be complied with by HCIL for administration and financial management of grant supported activities. The underlying concept was that if HCIL accomplished the required activities, there would be basic systems in place that would allow for proper administration and financial management.

We believe that HCIL has made substantial improvements in their administrative operations and financial management systems as evidenced by their efforts and achievement of compliance with the majority of the TRC requirements. Some of the more significant improvements are as follows:

- HCIL has developed a generally adequate set of written policies and procedures for its organizational/administrative, accounting and financial management, and personnel management systems.

- HCIL has made major improvements in the recording of accounting transactions, simplification and quality of the accounting books, and maintenance of supporting documentation.

- The HCIL Board has taken a more concerned and active position in providing policy direction to the Center and supervision of the Executive Director.

These major improvements, plus others, should assist the Center to operate more efficiently and effectively. However, it must be emphasized that HCIL should strive to maintain the results of their efforts. Written policies should reflect management's current position and philosophy. Written procedures must reflect actual procedural activity. All should be in concert with laws, regulations and specific requirements that apply to the organization's operations.

OPINION

In summary, we believe that HCIL's administrative, accounting and financial management systems now appear to be more soundly based on proper management principles and practices. If HCIL continues to maintain these systems, TRC should be able to have an increased level of assurance that the Center is complying with the terms and conditions of the grant agreement.

ATTACHMENT 1

Texas Rehabilitation Commission

Vernon M. Arrell, Commissioner

July 6, 1983

Mr. Jack Emmott, III
President of the Board
Coalition for Barrier Free Living
2640 Fountainview, Suite 100
Houston, Texas 77057

Dear Mr. Emmott:

The Texas Rehabilitation Commission has recently completed fiscal, administrative and program reviews of the activities of the Houston Resource Center for Independent Living. A number of serious problems have been discovered in conducting these reviews.

The financial and administrative audit provided coverage of the first two budget periods from July 15, 1980 thru July 14, 1982, for a total of $400,000 in grant awards. The results of the audit indicate the following general problems:

- a sub-standard condition of the accounting journals and ledgers
- the pervasive absence of supporting documentation
- the lack of written accounting and administrative policies and procedures.

Overall, the Center materially failed to comply with the minimum grant requirements for accounting records, internal control and source documentation as set forth in the grant agreement in Title 34, Part 74 Grants Administration Regulations. This is a significant deficiency that establishes a substantial liability risk given the $400,000 in grant funds awarded.

In addition to the financial deficiencies, there have been indications of organizational and programmatic problems that have existed throughout the Center's three year history.

My first inclination would be to terminate the grant agreement given these conditions. However, I recognize there is an intense need in the Houston area for services the Center provides.

I will be willing to continue Texas Rehabilitation Commission funding of $200,000 in the fourth year if, and only if, the Board of Directors would agree to meet certain fiscal, administrative and program criteria as identified in the attached documents.

In order for TRC funding to continue, the Board must agree to monitor and implement the defined criteria within the timeframe indicated. This is the only situation in which I feel the Commission can take a chance on continued funding.

I have directed Deputy Commissioner Doyle Wheeler and other staff members to meet with you and the Board on Thursday, July 7th to hand deliver this letter and discuss the attached criteria. I would like your response as to whether or not the HCIL Board accepts this criteria within two weeks or by July 22nd.

If the Board is in agreement with the criteria and makes a commitment to monitor and implement the TRC recommendations, the Commission would continue funding. Commission representatives would then return within 90 days to assess compliance with the stated criteria. Substantial noncompliance could result in grant termination at that time.

If the Board doesn't agree with the stated criteria, I have no choice but to cease all TRC funding immediately.

In either event, it is necessary for the Center to refund $4,456 to the Commission by August 15, 1983. This represents funds drawn but not expended during the first two budget periods.

I look forward to hearing from you within the next two weeks.

Very truly yours,

Vernon M Arrell

Vernon M. Arrell
Commissioner

VMA/vbt

Attachments

HOUSTON CENTER FOR INDEPENDENT LIVING

Major Deficiencies and Problem Areas
as of July 7, 1983

I. INADEQUATE FINANCIAL ACCOUNTING RECORDS

A. Journals and Ledgers:

Upon our return to HCIL to begin the field work portion of our audit, we found the general ledgers and the cash journals to be in the same condition as they were at our last visit. These books were recorded in pencil and contained many erasures and messy notations. In addition, many entries and postings to the books were not adequately explained or cross-referenced to appropriate supporting data. All of these conditions significantly limited the usefulness of these records for purposes of our audit.

To compound these problems, HCIL maintained ten sets of general ledgers and cash journals (one for each of the seven funding sources and one set each for the general, operating, and payroll accounts). We did not believe that an operation the size of HCIL would necessitate such a multiplicity of ledgers and journals. Recognizing that the conditions discussed above existed in all sets of books, it became increasingly obvious to us that the books would be minimally useful.

B. Interfund Transactions:

One of the major problems that we encountered was HCIL's routine practice of loaning cash between their various funding accounts without properly recording the transactions or providing minimal support documentation. These types of transactions, termed interfund loans, occurred with increasing frequency throughout the grant period. Under generally accepted accounting principles, interfund accounts should have been established in each set of accounting books to provide for recording and proper recognition of amounts receivable and payable deriving from interfund loans. The Center departed from this accounting principle by recording interfund transactions as ordinary revenues and expenses.

Combined with the lack of supporting documentation, the result was that these interfund transactions were not distinguishable from legitimate Title VII or other fund source revenues and expenses. This result created an unacceptable potential risk that amounts recorded in any of the Center's general ledgers, including Title VII, could be significantly mis-stated.

Therefore, due to the above described conditions, we were unable to determine:

- the individual or total amounts of interfund transactions,
- if Title VII owed other accounts (interfund payables),
- if other accounts owed Title VII (interfund receivables),
- the effect of any interfund payables and receivables upon the Title VII expense.

II. LACK OF SUPPORTING DOCUMENTATION

Throughout our field work we encountered a pervasive lack of supporting documentation for practically every type of transaction that we attempted to audit. The following are examples of some of the documentation deficiencies we noted in the financial records and files:

A. Revenue and Deposit Identification:

The Center had not set up a cash receipts journal or any other system to record individual cash receipts and to identify the nature of the related revenue. In addition, the bank deposit slips did not contain a listing of deposited checks sufficient to document the source (the payor) and amounts of checks, and the purpose for which they were received. As a result, it was very difficult to determine whether a check was received as a loan from another fund, a loan repayment from another fund, a reimbursement of expenses from another fund, or a direct grant advance from TRC or other funding sources.

B. Expenditure Vouchers and Invoices:

In many cases we noted that expenditures were not supported by adequate documentation such as invoices, receipts, and vendor statements. These forms of documentation are essential to enable us to make determinations as to the allowability of costs for grant purposes. Without an adequate level of supporting documentation we could not substantiate the expenditure amounts or verify the propriety of expenditures from grant funds.

C. Personnel, Payroll and Fringe Benefit Records:

The personnel files did not consistently contain employment applications, professional certifications, personnel actions, job descriptions, performance evaluations, salary authorizations, and withholding authorizations. This lack of documentation limited our ability to make certain determinations regarding personnel expenditures.

In order to substantiate personnel expenditures, it is necessary to establish that employees were performing the functions of the positions funded by Title VII grant funds. Without an adequate level of documentation such as job applications, professional certifications, job descriptions and performance evaluations, we had no basis to draw such conslusions. Any conclusions could only be reached on the basis of information gathered through verbal inquiry of employees. We did not consider this level of evidence sufficient to reasonably substantiate this issue.

Since we were unable to substantiate the basic issue of staffing, referred to above, we could not proceed further in auditing payroll, payroll taxes, and fringe benefits. And, as these expenditures constituted over 65% of the total budgeted expenditures in the first budget period and over 75% of the total budgeted expenditures in the second budget period, a severe limitation was imposed on the scope of our audit.

D. Contracts:

We were unable to obtain contracts which supported expenditures for building rental, building maintenance, and consultant fees. The provisions and terms set forth in these contracts form the basis of support for these kinds of expenditures and are usually the only form of documentation that exists. As a result, the propriety of these expenditures could not be determined.

E. Indirect Cost Distribution Plan:

The Center did not have a documented plan for distributing indirect costs among the different funding sources. As a result, we were not able to determine which costs were intended to be distributed and what methods were used to derive the cost proportions allocable to the different funds. It was therefore impossible to determine if the methods of distributing costs were soundly based and if the resulting charges were reasonable.

III. LACK OF POLICIES AND PROCEDURES

The Center does not have written accounting or administrative policies and procedures that can be considered minimally acceptable. Written policies and procedures form the foundation of an organization's internal control system. Without adequate written policies and procedures we could not evaluate the internal control system to determine if:

- the accounting system was accurate, reliable and protected assets,
- errors and irregularities would be prevented or detected,
- operational efficiency was promoted,
- managerial policies were adhered to.

It was also impossible to determine the propriety of expense relating to travel reimbursement rates and fringe benefit coverages that were based upon management's discretionary policies.

ATTACHMENT 2

HOUSTON CENTER FOR EPENDENT LIVING ATTACHMENT 2

AUDIT FOLLOWUP - COMPLIANCE STATUS OF AUDIT RECOMMENDATIONS

as of April 16, 1984

Requirements	CURRENT STATUS Accomplished	Partially Accomplished	Not Accomplished	Review Comments
1. ADMINISTRATIVE AND FISCAL POLICIES Develop or update written policies and procedures for the following areas. These policies and procedures should minimally incorporate the itemized categories but should also include such other coverage as the HCIL Board and Administration considers necessary. Copies of these documents are to be provided to the Texas Rehabilitation Commission. (See original attachment, Tab C, Commissioner Arrell's letter, dated 7/6/83.)	X			a. The financial policies and procedures manual has been written and copies submitted to TRC. Coverage has been provided for all categories outlined in the TRC requirements. This manual represents a good effort but still needs refinement. There are a few discrepancies and misunderstandings concerning the purposes for some of the accounting books, the proper accounting terminology and appropriate accounting procedures. Discussed this with the Executive Director and suggested that he seek an accountant's review of the manual. b. The Personnel Policies and Procedures Manual has been completely revised. Appears to provide very thorough coverage and is responsive to the TRC requirement. c. The Administration/Organization Manual has been developed. It provides coverage of the areas required.
2. CASH RECEIPTS SYSTEM Establish a separate cash receipts journal system that will provide for recording in sufficient detail to identify the source, amount, purpose, application and other detail of individual cash receipts.	X			HCIL has established a separate cash receipts journal system that meets the TRC requirements.

Requirements	CURRENT STATUS Accomplished	Partially Accomplished	Not Accomplished	Review Comments
3. GENERAL JOURNAL SYSTEM Establish a general journal system, including journal voucher forms, that will provide for recording transactions that are not normally entered into the books of original entry. Usually these transactions are opening, closing, adjusting and reversing types of accounting entries. The journal voucher forms should provide for sufficient detail information and support to justify the transaction.	X			HCIL provided written assurance that the general journal system has been established effective 4/1/84.
4. INDIRECT COST PLAN Develop a documented plan for the distribution of indirect costs among HCIL's funding sources. This plan should identify the types of costs to be distributed, the method used to derive the cost proportions allocable to different funds, and provide for a procedure that allows for consistent application of indirect costs throughout HCIL's fiscal year.	X			HCIL provided written policy guidance in the financial manual for an indirect cost distribution plan.
5. SUPPORTING DOCUMENTATION Provide written assurance and description of the system for accumulation, maintenance and retention of supporting documentation for financial transactions. Specifically, describe the detail level of supporting documentation that will be on file for revenue and expense transactions.	X			HCIL has provided written assurance and a description of the system for accumulation, maintenance and retention of supporting documentation. This is described in the Center's financial policies and procedures manual.

Requirements	CURRENT STATUS Accomplished	Partially Accomplished	Not Accomplished	Review Comments
6. PERSONNEL Review and update personnel files for current employees for the purpose of organization and standardization of file contents. These files should minimally contain employment applications, job descriptions, professional certifications (when required), personnel actions (hire, promotion, demotion, reclassification, termination, etc.), performance evaluations, salary authorizations, and withholding authorizations.	X			Written assurance has been provided that HCIL personnel files will be maintained with current and accurate information effective April 1, 1984.
7. FINANCIAL REPORTING Provide the following financial reports on a monthly basis throughout the remaining budget period of the grant project: • Financial statement on HCIL's overall operation. • Budget and Expenditure Report by expense category for the Title VII grant activity.	X			HCIL has provided income and expense statements for the period January 1983 through February 1984 for all operations. Budget and Expenditure Reports are submitted monthly with the Center's requests for payment.
8. INTERFUND LOANS Provide written assurance that Title VII grant funds will no longer be used under any circumstances for the purpose of interfund loans to other HCIL funding source accounts. Title VII funds are ear-marked project specific amounts that may only be used for budget approved expenses. Violation of this condition will be considered material non-compliance and could result in immediate termination of the grant project.	X			Written assurance has been provided that Title VII grant funds will no longer be used under any circumstances for the purpose of interfund loans. In addition, the revised financial policies and procedures manual prohibits the use of Title VII funds in this manner. Observation of the financial records indicates that Title VII funds have not been used in this manner since September 1983.

Requirements	CURRENT STATUS			Review Comments
	Accomplished	Partially Accomplished	Not Accomplished	
9. INDEPENDENT AUDIT REPORTS AND MANAGEMENT LETTERS Provide a copy of HCIL's independent audit report and management letter for the 1982 fiscal year. If there were any identified weakness areas or auditor recommendations for improvement, provide written expalnation of HCIL's position and why actions taken or planned with regard to those issues.	X			HCIL has provided written explanation of their position and all actions taken in response to their independent audit report and management letter.
10. INSURANCE POLICIES Provide a listing and copies of all insurance policies in effect during HCIL's 1983 fiscal year. Provide the following information for each policy: • A brief description of the type of coverage, • the policy number, • the policy period, • initial premium amount, and • any premium changes after the effective date of the policy.	X			HCIL has provided a listing and copies of all insurance policies in effect during their 1983 fiscal year. In addition, they provided copies of all policies through the current period.
11. BANK ACCOUNTS Provide a listing of all open bank accounts, regardless of balance or activity level, with copies of the most recent reconciled bank statements. This includes checking, savings, certificates of deposit and any other investment or operating accounts.	X			A listing of all open bank accounts and copies of the most recent reconciled bank statements have been obtained.

Requirements	CURRENT STATUS Accomplished	Partially Accomplished	Not Accomplished	Review Comments
12. PERFORMANCE EVALUATIONS Conduct performance evaluations for each HCIL employee. Provide copies of these evaluations to the Texas Rehabilitation Commission.	X			The performance evaluations for all HCIL employees have been completed and copies of these evaluations have been provided TRC.
13. PERSONNEL LISTING Provide a personnel listing by budgeted job position for all positions authorized at the Center regardless of funding source. Beginning at July 1, 1982, this personnel list should include for each authorized position: • the sequence of employees, by name, who held that position, • the start and termination dates of each employee, • indication of all periods during which the position was vacant, • indication of full or part-time pay status, • the salary level authorized and any approved salary changes, and • the funding source and percent of funding.	X			HCIL has provided a personnel listing by budgeted job position for all positions authorized at the Center.
14. LEASES AND CONTRACTS Provide a listing and copies of all lease agreements and contracts with consultants that have been entered into by HCIL during the current fiscal year. Also list any potential leases and contracts that are in the process of negotiation but have not been finalized.	X			A listing and copies of all current lease agreements and contracts have been provided.

Requirements	CURRENT STATUS Accomplished	Partially Accomplished	Not Accomplished	Review Comments
15. EQUIPMENT AND INVENTORY Conduct an inventory of all capitalized equipment purchased with Title VII funds. Provide a copy of the inventory list that indicates the following information: • Property Description, • Model and Serial Number (if appropriate), • Quantity, • Inventory Number(s), • Vendor Name, • Original Acquisition Value, • Acquisition Date, • Location of Property Item, • Comments on condition of item or disposition of item if no longer in use.		X		An actual inventory of capitalized equipment has not been accomplished. An inventory list was provided at the time of our site visit. However, a number of the items listed were referenced "Whereabouts and Condition Unknown". Also, the total dollar value of the inventory list does not reconcile with the independent auditor's capitalized value presented in the audited financial statements. The Executive Director has agreed to followup and attempt to account for and reconcile all Title VII purchased equipment.
16. FRINGE BENEFITS Provide copies of the two most recent reports filed with the Texas Employment Commission for Unemployment Compensation taxes and the Internal Revenue Service for FICA and Federal Income Taxes. Provide proof of payment for these taxes.	X			Copies of the two most recent reports filed with TEC for unemployment taxes and IRS for FICA and Federal Income Taxes have been obtained.

Requirements	CURRENT STATUS Accomplished	Partially Accomplished	Not Accomplished	Review Comments
17. INTERFUND ACTIVITY Prepare and submit to TRC a schedule of all interfund transactions (payables and receivables) affecting the Title VII account for the period July 15, 1982 through July 14, 1983. Provide sufficient detail to include account name and number, check numbers and amounts, transaction dates, deposit dates, payees, and explanatory remarks that are required to fully understand the transactions.	X			A listing of all interfund transactions for the period July 15, 1982 through July 14, 1983 was provided.
Totals as of 4/16/84	16	1	0	

TEXAS REHABILITATION COMMISSION

July 7, 1983

Presentation to
Houston Center for Independent Living
Board of Directors

Texas Rehabilitation Commission

Vernon M. Arrell, Commissioner

July 6, 1983

Mr. Jack Emmott, III
President of the Board
Coalition for Barrier Free Living
2640 Fountainview, Suite 100
Houston, Texas 77057

Dear Mr. Emmott:

The Texas Rehabilitation Commission has recently completed fiscal, administrative and program reviews of the activities of the Houston Resource Center for Independent Living. A number of serious problems have been discovered in conducting these reviews.

The financial and administrative audit provided coverage of the first two budget periods from July 15, 1980 thru July 14, 1982, for a total of $400,000 in grant awards. The results of the audit indicate the following general problems:

- a sub-standard condition of the accounting journals and ledgers
- the pervasive absence of supporting documentation
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Overall, the Center materially failed to comply with the minimum grant requirements for accounting records, internal control and source documentation as set forth in the grant agreement in Title 34, Part 74 Grants Administration Regulations. This is a significant deficiency that establishes a substantial liability risk given the $400,000 in grant funds awarded.

In addition to the financial deficiencies, there have been indications of organizational and programmatic problems that have existed throughout the Center's three year history.

My first inclination would be to terminate the grant agreement given these conditions. However, I recognize there is an intense need in the Houston area for services the Center provides.

I will be willing to continue Texas Rehabilitation Commission funding of $200,000 in the fourth year if, and only if, the Board of Directors would agree to meet certain fiscal, administrative and program criteria as identified in the attached documents.

In order for TRC funding to continue, the Board must agree to monitor and implement the defined criteria within the timeframe indicated. This is the only situation in which I feel the Commission can take a chance on continued funding.

I have directed Deputy Commissioner Doyle Wheeler and other staff members to meet with you and the Board on Thursday, July 7th to hand deliver this letter and discuss the attached criteria. I would like your response as to whether or not the HCIL Board accepts this criteria within two weeks or by July 22nd.

If the Board is in agreement with the criteria and makes a commitment to monitor and implement the TRC recommendations, the Commission would continue funding. Commission representatives would then return within 90 days to assess compliance with the stated criteria. Substantial noncompliance could result in grant termination at that time.

If the Board doesn't agree with the stated criteria, I have no choice but to cease all TRC funding immediately.

In either event, it is necessary for the Center to refund $4,456 to the Commission by August 15, 1983. This represents funds drawn but not expended during the first two budget periods.

I look forward to hearing from you within the next two weeks.

Very truly yours,

Vernon M Arrell

Vernon M. Arrell
Commissioner

VMA/vbt

Attachments

C O N T E N T S

HOUSTON CENTER FOR INDEPENDENT LIVING

Major Deficiencies and Problem Areas
1980-1982 Budget Periods

I. INADEQUATE FINANCIAL ACCOUNTING RECORDS

A. Journals and Ledgers:

Upon our return to HCIL to begin the field work portion of our audit, we found the general ledgers and the cash journals to be in the same condition as they were at our last visit. These books were recorded in pencil and contained many erasures and messy notations. In addition, many entries and postings to the books were not adequately explained or cross-referenced to appropriate supporting data. All of these conditions significantly limited the usefulness of these records for purposes of our audit.

To compound these problems, HCIL maintained ten sets of general ledgers and cash journals (one for each of the seven funding sources and one set each for the general, operating, and payroll accounts). We did not believe that an operation the size of HCIL would necessitate such a multiplicity of ledgers and journals. Recognizing that the conditions discussed above existed in all sets of books, it became increasingly obvious to us that the books would be minimally useful.

B. Interfund Transactions:

One of the major problems that we encountered was HCIL's routine practice of loaning cash between their various funding accounts without properly recording the transactions or providing minimal support documentation. These types of transactions, termed interfund loans, occurred with increasing frequency throughout the grant period. Under generally accepted accounting principles, interfund accounts should have been established in each set of accounting books to provide for recording and proper recognition of amounts receivable and payable deriving from interfund loans. The Center departed from this accounting principle by recording interfund transactions as ordinary revenues and expenses.

Combined with the lack of supporting documentation, the result was that these interfund transactions were not distinguishable from legitimate Title VII or other fund source revenues and expenses. This result created an unacceptable potential risk that amounts recorded in any of the Center's general ledgers, including Title VII, could be significantly mis-stated.

Therefore, due to the above described conditions, we were unable to determine:

- the individual or total amounts of interfund transactions,
- if Title VII owed other accounts (interfund payables),
- if other accounts owed Title VII (interfund receivables),
- the effect of any interfund payables and receivables upon the Title VII expense.

II. LACK OF SUPPORTING DOCUMENTATION

Throughout our field work we encountered a pervasive lack of supporting documentation for practically every type of transaction that we attempted to audit. The following are examples of some of the documentation deficiencies we noted in the financial records and files:

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In many cases we noted that expenditures were not supported by adequate documentation such as invoices, receipts, and vendor statements. These forms of documentation are essential to enable us to make determinations as to the allowability of costs for grant purposes. Without an adequate level of supporting documentation we could not substantiate the expenditure amounts or verify the propriety of expenditures from grant funds.

C. Personnel, Payroll and Fringe Benefit Records:

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In order to substantiate personnel expenditures, it is necessary to establish that employees were performing the functions of the positions funded by Title VII grant funds. Without an adequate level of documentation such as job applications, professional certifications, job descriptions and performance evaluations, we had no basis to draw such consclusions. Any conclusions could only be reached on the basis of information gathered through verbal inquiry of employees. We did not consider this level of evidence sufficient to reasonably substantiate this issue.

Since we were unable to substantiate the basic issue of staffing, referred to above, we could not proceed further in auditing payroll, payroll taxes, and fringe benefits. And, as these expenditures constituted over 65% of the total budgeted expenditures in the first budget period and over 75% of the total budgeted expenditures in the second budget period, a severe limitation was imposed on the scope of our audit.

D. Contracts:

We were unable to obtain contracts which supported expenditures for building rental, building maintenance, and consultant fees. The provisions and terms set forth in these contracts form the basis of support for these kinds of expenditures and are usually the only form of documentation that exists. As a result, the propriety of these expenditures could not be determined.

E. Indirect Cost Distribution Plan:

The Center did not have a documented plan for distributing indirect costs among the different funding sources. As a result, we were not able to determine which costs were intended to be distributed and what methods were used to derive the cost proportions allocable to the different funds. It was therefore impossible to determine if the methods of distributing costs were soundly based and if the resulting charges were reasonable.

III. LACK OF POLICIES AND PROCEDURES

The Center does not have written accounting or administrative policies and procedures that can be considered minimally acceptable. Written policies and procedures form the foundation of an organization's internal control system. Without adequate written policies and procedures we could not evaluate the internal control system to determine if:

- the accounting system was accurate, reliable and protected assets,
- errors and irregularities would be prevented or detected,
- operational efficiency was promoted,
- managerial policies were adhered to.

It was also impossible to determine the propriety of expense relating to travel reimbursement rates and fringe benefit coverages that were based upon management's discretionary policies.

PROGRAM REQUIREMENTS FOR CONTINUED PARTICIPATION
BY THE TEXAS REHABILITATION COMMISSION
IN THE HOUSTON CENTER FOR INDEPENDENT LIVING

Significant progress toward accomplishment of the following items is required by October 30, 1983.

1. Development and submission of appropriate quarterly reports, in accordance with current policy and instructions from the Commission, in order that they are received no later than 30 days past the end of each quarter.

2. Development and submission of appropriate annual reports, in accordance with current policy and instructions from the Commission, in order that they are received no later than 60 days past the end of the budget year.

3. Development and submission of appropriately documented funding requests, accurately computed, on a timely basis and in such a manner as to allow for approval and payment by the Commission in order to meet funding needs of the Center on a timely basis.

4. Strict adherence to all contractual obligations between the Coalition for Barrier Free Living and the Texas Rehabilitation Commission.

5. Development and maintenance of effective telephone and receptionist procedures to afford timely contact and response to individuals and organizations attempting to contact the Center.

6. Development and maintenance of effective communication and coordination with other major service providers in the community such as the Texas Rehabilitation Commission, the Texas Commission for the Deaf, the Deaf Council of Greater Houston, etc. This must include effective processing of referrals from community organizations and referrals of appropriate clients to other organizations when the services of those organizations appear indicated.

7. Development and maintenance of concerted and effective effort to avoid staff turnover in administrative and program positions in the Center.

8. Development and maintenance of effective, ongoing outreach activities to assure adequate referrals to the Center and to assure that an appropriate balance of major disability groups and disabled minorities is maintained.

9. Maintenance of appropriately documented case records in accordance with program evaluation recommendations and technical assistance provided by the Commission.

10. Submission of timely requests for approval from the Commission for all activities requiring approval prior to initiation of the activity(s) in question (consultants, etc.).

11. Development and maintenance of an HCIL operational manual that details how the Center conducts its administrative and program activities.

12. Development and maintenance of current program and job descriptions.

13. Maintenance of accurately documented records of all clients served, services provided (including information and referral), and client characteristics (in accordance with requirements of the approved reporting format).

14. Implementation of program evaluation activities to insure the delivery of quality services including acquisition of input concerning the quality of services from clients of the Center.

15. Ongoing, close monitoring of HCIL activities by the CBFL Board of Directors.

16. Development and maintenance of effective client, community, and staff grievance procedures.

17. Maintenance of an appropriate number of referrals to HCIL and an active caseload of clients receiving services from the Center in accordance with projections in the Title VII, Part B grant application.

18. Development of appropriate goals and objectives for the fourth year of HCIL activity and implementation of activities to achieve the planned goals and objectives.

19. Development and documentation of a planned program of in-service training for staff members.

20. Maintenance of appropriate public relations activities to increase community awareness of HCIL activities.

21. Development and documentation of effective fund-raising activities.

ADMINISTRATIVE & FISCAL REQUIREMENTS FOR CONTINUED PARTICIPATION BY THE TEXAS REHABILITATION COMMISSION IN THE HOUSTON CENTER FOR INDEPENDENT LIVING

Accomplishment of items 1-9 is required by October 29, 1983. Accomplishment of items 10-17 is required by December 30, 1983.

1. Develop or update written policies and procedures for the following areas. These policies and procedures should minimally incorporate the itemized categories but should also include such other coverage as the HCIL Board and Administration considers necessary. Copies of these documents are to be provided to the Texas Rehabilitation Commission.

   A. ACCOUNTING AND FINANCIAL MANAGEMENT SYSTEM:

      1. Statement of Purpose and Objective
      2. Description of all accounting books maintained
      3. Statement of the basis of the accounting system (cash, accrual, modified, etc.)
      4. Revised Chart of Accounts
      5. Cash Receipting
      6. Funds Disbursement
      7. Interfund Loans
      8. Purchasing (including Purchase Order Forms)
      9. Property and Inventory
      10. Payroll
      11. Travel (in-town and out-of-town)
      12. Journal Vouchers
      13. Bank Account Reconciliations
      14. Journals/Ledgers Reconciliations
      15. Indirect Cost Distribution Plan
      16. Financial Reporting

   B. PERSONNEL MANAGEMENT SYSTEM:

      1. Statement of Purpose and Objective
      2. Statement of Administrative Responsibility
      3. Job Descriptions
      4. Employment (Vacancies, Recruitment, Applications, Classification, etc.)
      5. Compensation
      6. Fringe Benefits
      7. Attendance and Leave
      8. Performance Standards and Evaluations
      9. Personnel Actions (Promotions, Demotions, Terminations, etc.)
      10. Personnel Files
      11. Staff Development and Training
      12. Employee and Client Grievances
      13. Nepotism and Conflict of Interest
      14. Employee Conduct
      15. Outside Employment
      16. Travel Requirements and Reimbursement
      17. Equal Opportunity Plan
      18. Affirmative Action Plan

C. ORGANIZATIONAL ADMINISTRATION SYSTEM

1. Board of Directors Composition and Officers
2. Board of Directors Purpose, Authority and Responsibilities
3. Organizational Mission and Objectives
4. Organizational Chart
5. Administration/Staff Authority and Responsibilities
6. Reporting and Monitoring Requirements
7. Planning Documents

2. Establish a separate cash receipts journal system that will provide for recording in sufficient detail to identify the source, amount, purpose, application and other detail of individual cash receipts.

3. Establish a general journal system, including journal voucher forms, that will provide for recording transactions that are not normally entered into the books of original entry. Usually these transactions are opening, closing, adjusting and reversing types of accounting entries. The journal voucher forms should provide for sufficient detail information and support to justify the transaction.

4. Develop a documented plan for the distribution of indirect costs among HCIL's funding sources. This plan should identify the types of costs to be distributed, the method used to derive the cost proportions allocable to different funds, and provide for a procedure that allows for consistent application of indirect costs throughout HCIL's fiscal year.

5. Provide written assurance and description of the system for accumulation, maintenance and retention of supporting documentation for financial transactions. Specifically, describe the detail level of supporting documentation that will be on file for revenue and expense transactions.

6. Review and update all personnel files for current employees for the purpose of organization and standardization of file contents. These files should minimally contain employment applications, job descriptions, professional certifications (when required), personnel actions (hire, promotion, demotion, reclassification, termination, etc.), performance evaluations, salary authorizations, and withholding authorizations.

7. Provide the following financial reports on a monthly basis throughout the remaining budget period of the grant project:

   - Financial statement on HCIL's overall operation
   - Budget and Expenditure Report by expense category for the Title VII grant activity

8. Provide written assurance that Title VII grant funds will no longer be used under any circumstances for the purpose of interfund loans to other HCIL funding source accounts. Title VII funds are ear-marked project specific amounts that may only be used for budget approved expenses. Violation of this condition will be considered material non-compliance and could result in immediate termination of the grant project.

9. Provide a copy of HCIL's independent audit report and management letter for the 1982 fiscal year. If there were any identified weakness areas or auditor recommendations for improvement, provide written explanation of HCIL's position and any actions taken or planned with regard to those issues.

10. Provide a listing and copies of all insurance policies in effect during HCIL's 1983 fiscal year. Provide the following information for each policy:

    - A brief description of the type of coverage,
    - the policy number,
    - the policy period,
    - initial premium amount, and
    - any premium changes after the effective date of the policy.

11. Provide a listing of all open bank accounts, regardless of balance or activity level, with copies of the most recent reconciled bank statements. This includes checking, savings, certificates of deposit and any other investment or operating accounts.

12. Conduct performance evaluations for each HCIL employee. Provide copies of these evaluations to the Texas Rehabilitation Commission.

13. Provide a personnel listing by budgeted job position for all positions authorized at the Center regardless of funding source. Beginning at July 1, 1982, this personnel list should include for each authorized position:

    - the sequence of employees, by name, who held that position,
    - the start and termination dates of each employee,
    - indication of all periods during which the position was vacant,
    - indication of full or part-time pay status,
    - the salary level authorized and any approved salary changes, and
    - the funding source and percent of funding.

14. Provide a listing and copies of all lease agreements and contracts with consultants that have been entered into by HCIL during the current fiscal year. Also list any potential leases and contracts that are in the process of negotiation but have not been finalized.

15. Conduct an inventory of all capitalized equipment purchased with Title VII funds. Provide a copy of the inventory list that indicates the following information:

    - Property Description,
    - Model and Serial Number (if appropriate),
    - Quantity,
    - Inventory Number(s),
    - Vendor Name,
    - Original Acquisition Value,
    - Acquisition Date,
    - Location of Property Item,
    - Comments on condition of item or disposition if item is no longer in use.

16. Provide copies of the two most recent reports filed with the Texas Employment Commission for Unemployment Compensation taxes and the Internal Revenue Service for FICA and Federal Income Taxes. Provide proof of payment for these taxes.

17. Prepare and submit to TRC a schedule of all interfund transactions (payables and receivables) affecting the Title VII account for the period July 15, 1982 through July 14, 1983. Provide sufficient detail to include account name and number, check numbers and amounts, transaction dates, deposit dates, payees, and explanatory remarks that are required to fully understand the transactions.

AGREEMENT BETWEEN THE TEXAS REHABILITATION COMMISSION
AND
THE COALITION FOR BARRIER FREE LIVING

INTRODUCTION

This agreement is entered into between the Texas Rehabilitation Commission (hereafter referred to as "The Commission") and The Coalition for Barrier Free Living (hereafter referred to as "The Coalition"). Its execution will be dependent upon funding of the Commission's grant proposal to the Rehabilitation Services Administration under Title VII, Part B, of the Rehabilitation Act of 1978. It will become effective on March 15, 1980, and will continue in force through the project period of the grant or until terminated by mutual consent of both parties.

PURPOSE OF THE AGREEMENT

The Commission has applied for a grant from the Rehabilitation Services Administration as authorized in Title VII, Part B, of the 1978 amendments to the Rehabilitation Act. The purpose of the grant is to establish centers for independent living in Houston and Austin as authorized and described in the above-referenced legislation and the regulations related to that legislation. The purpose of this agreement is to specify the terms and conditions under which the Commission and the Coalition will work cooperatively in the establishment and operation of a center for independent living in Houston if the above-referenced grant is funded.

TERMS AND CONDITIONS

I. The Commission hereby agrees to:

   A. Provide funds from the grant to the Coalition for the purpose of establishing a Center for Independent Living in Houston in accordance with the project narrative and budget in the grant. Disbursements will be made in accordance with the Commission's published procedures related to "Grants Administration" and Title 45, Part 74, of the Federal Regulations published by the Department of Health, Education, and Welfare. Disbursement of these funds will be made by the Commission after receipt and approval of monthly, itemized expense estimates from the Coalition. The total disbursement for the initial agreement period (12 months) is not to exceed $118,450.00 and is subject to continued availability of Federal funds for this purpose as provided in the grant budget.

   B. Provide technical assistance to the Coalition in the development of services, policies, procedures, and other activities related to this agreement.

C. Monitor, evaluate, and audit project activities under this agreement to assure that the Center for Independent Living is established and operates in accordance with the above-referenced grant and pertinent Federal and State laws, regulations, and policies.

D. Include appropriate staff from the Center for Independent Living in relevant staff development activities provided by the Commission.

E. Refer handicapped individuals to the Center for Independent Living when the services of the Center appear to be appropriate in terms of the individuals' needs.

F. Receive and process referrals of handicapped individuals from the Center for Independent Living when it appears that Vocational Rehabilitation services are appropriate in terms of the individuals' needs.

II. The Coalition hereby agrees to:

A. Establish and operate a Center for Independent Living as described in the program narrative of the grant.

B. Utilize and manage the grant funds received from the Commission in accordance with the Commission's published Grants Administration Procedures and Title 45, Part 74, of the Federal Regulations.

C. Involve severely handicapped individuals to a substantial degree in the policy direction and management of the Center for Independent Living and hire qualified staff for all positions as described in the program narrative of the grant. Priority will be given to hiring and training severely handicapped individuals for these positions.

D. Actively pursue, during the period of this agreement, additional funds from sources other than Title VII, Part B, of the 1978 Rehabilitation Act to augment and expand the services of the Center for Independent Living. Similarly, additional funding sources will be sought to continue the services established through this agreement after the expiration of the project period.

E. Provide for appropriate staff development activities to enable the staff of the Center for Independent Living to accomplish the objectives of this agreement and the program narrative in the grant.

F. Utilize qualified consultants to provide additional technical assistance as needed in the development of the Center.

G. Provide the Commission with a monthly itemized expenditure report and estimated expenses for the following month.

H. Provide the Commission with a quarterly report of Center activities and progress in meeting objectives outlined in this agreement and the program narrative of the grant. This will include the number of clients served and the specific services provided.

I. Provide the Commission with an annual report of Center activities detailing the accomplishments in meeting the goals and objectives outlined in this agreement and the program narrative of the grant.

J. Comply with all Federal Regulations pertaining to the establishment and operation of Centers for Independent Living.

K. Have on file a written Affirmative Action Plan and provide equal opportunities for services and recruitment, employment, and advancement of handicapped persons without discrimination on the basis of race, color, national origin, or handicapping condition.

L. Comply with all applicable local, State, and Federal Regulations related to health, safety, Worker's Compensation, and Wage and Hour provisions.

M. Maintain a physical plant that meets applicable local and State building codes and regulations and is sufficiently free of architectural barriers to make the programs and services easily accessible to handicapped individuals. Moreover, all reasonable accommodations will be made to facilitate the employment of severely handicapped individuals in accordance with Section 504 of the Rehabilitation Act of 1973 and the 1978 Amendments to that Act.

N. Provide equipment to carry out the Center's program of services to handicapped individuals. The Coalition will inventory equipment annually and provide the Commission with a list of all equipment.

O. Develop policies and procedures for personnel, client services, and the general operation of the Center.

P. Maintain accurate records related to the activities of the Center and provide the Commission and Federal government access to financial records, supportive documents, statistical records, and all other records pertinent to this grant for a period of three years as outlined in the Commission's published policies and procedures for Grants Administration and Title 45, Part 74, of the Federal Regulations.

Q. Develop and implement progress reporting procedures for referral sources of Center clients.

R. Maintain sufficient insurance to protect the monetary investment in the Center, including equipment. The Coalition will also maintain sufficient liability insurance to cover contingencies arising out of the Center's activities.

S. Develop and implement program evaluation procedures to adequately assess the effectiveness of the Center's program of services. This will include written follow-up contact with clients of the Center to solicit their assessment of the effectiveness of the services provided.

T. Receive and provide appropriate services to referrals from the Commission.

U. Make referrals of Center clients to the Commission when Vocational Rehabilitation services appear necessary and appropriate.

V. Keep all medical, psychological, and other client information strictly confidential to be shared only with persons authorized by the Director of the Center for the purpose of facilitating the client's program of services on program evaluation activities.

GENERAL PROVISIONS

I. Any activities utilizing Title VII, Part B, funds from the Texas Rehabilitation Commission that are subcontracted to another individual or organization as part of the Center's program shall receive prior approval of the Commission.

II. Line item changes to the grant budget, policies, and procedures developed for personnel and general operation of the Center, and site location of the Center shall receive prior approval of the Commission.

III. All equipment purchased with funds provided by the agreement will be used for purposes stated in the program narrative of the grant. Should the equipment cease to be utilized for these purposes, the equipment will be returned to the Commission. In the event that the Center ceases operation, all equipment purchased with funds under this agreement will be returned to the Commission.

IV. Any properties leased, purchased, or renovated with funds through this agreement will be used primarily for the purposes outlined in the program narrative of the grant.

Should any such facilities purchased with these funds cease to be utilized according to the purposes outlined in the program narrative, the undepreciated value will be returned to the Commission. In the event that the Center ceases operation, the undepreciated value will be returned to the Commission in accordance with procedures outlined in Commission policy. It is understood, however, that no Federal funds made available through this agreement may be used for the purchase of land or buildings.

V. The Director of the Center and the Coordinator of Independent Living Services for the Commission will schedule at least one quarterly meeting to review operation of the Center, quality and utilization of services, long and short-range needs, and plans for meeting those needs.

VI. No reports, maps, or other documents produced in whole or in part under this agreement shall be the subject of an application for copyright by or on behalf of the Coalition for Barrier Free Living or the Center for Independent Living without written approval of the Commission.

VII. This agreement may be modified in writing at any time by mutual consent of both parties. Termination of the agreement may be accomplished by 30 days written notice by either party.

VIII. In the event of termination of this agreement prior to the end of the project period, all finished or unfinished documents, data, studies, and reports prepared by the Coalition for Barrier Free Living or the staff of the Center for Independent Living shall, at the option of the Commission, become its property.

IX. Renewal of this agreement will be predicated upon an annual review of Center activities, progress in meeting goals and objectives outlined in the program narrative of the grant, and Federal appropriations available for the purpose of this agreement.

Doyle Wheeler — 3-13-80

Deputy Commissioner
Texas Rehabilitation Commission — Date

Joyce Frieden — 3/12/80

President
Coalition for Barrier Free Living — Date