



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 21, 2023

**MEMORANDUM FOR JESSICA MILANO, ACTING CHIEF RECOVERY OFFICER,
DEPARTMENT OF THE TREASURY**

FROM: Deborah L. Harker /s/
Assistant Inspector General for Audit

SUBJECT: Desk Review of State of Texas' Use of Coronavirus Relief
Fund Proceeds (OIG-CA-23-034)

Please find the attached desk review memorandum¹ on the State of Texas' use of Coronavirus Relief Fund (CRF) proceeds. The CRF is authorized under Title VI of the Social Security Act, as amended by Title V, Division A of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Under a contract monitored by our office, Castro & Company, LLC (Castro), a certified independent public accounting firm, performed the desk review. Castro performed the desk review in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Federal Offices of Inspector General* standards of independence, due professional care, and quality assurance.

In its desk review, Castro personnel reviewed documentation for a non-statistical selection of 63 transactions reported in the quarterly Financial Progress Reports (FPR) and questioned costs of \$17,288,574.87 (see attached schedule of monetary benefits).

Castro determined that the expenditures related to Direct Payments greater than or equal to \$50,000 and Aggregate Payments to Individuals² complied with the CARES Act and Treasury's Guidance. However, the expenditures related to Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, and Aggregate Reporting less than \$50,000³ did not comply with CARES Act and Treasury's Guidance.

¹ The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) assigned the Department of the Treasury Office of Inspector General with responsibility for compliance monitoring and oversight of the receipt, disbursement, and use of Coronavirus Relief Fund (CRF) payments. The purpose of the desk review is to perform monitoring procedures of the prime recipient's receipt, disbursement, and use of CRF proceeds as reported in the grants portal on a quarterly basis.

² Obligations and expenditures for payments made to individuals, regardless of amount, are required to be reported in the aggregate in the grants portal to prevent inappropriate disclosure of personally identifiable information.

³ Recipients are required to report CRF transactions greater than or equal to \$50,000 in detail in the grants portal. Transactions less than \$50,000 can be reported as an aggregate lump-sum amount by type (contracts, grants, loans, direct payments, and transfers to other government entities).

Additionally, Castro determined that Texas' risk of unallowable use of funds is high. As such, Castro recommends that the Department of the Treasury (Treasury) Office of Inspector General (OIG) obtain documentation from Texas management and follow-up on necessary reporting corrections. Further, based on Texas' responsiveness to Treasury OIG's requests and its ability to provide sufficient documentation, Castro recommends that Treasury OIG determine if a focused audit is feasible for Contracts greater than or equal to \$50,000 and Grants greater than or equal to \$50,000.

Treasury OIG and Castro met with Texas management to discuss questioned costs. Texas management told us that they made updates to the grants portal in subsequent cycle submissions which they believe have addressed all the findings contained in this report.

In connection with the contract, we reviewed Castro's desk review memorandum and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express an opinion on Texas' use of the CRF proceeds. Castro is responsible for the attached desk review memorandum and the conclusions expressed therein. Our review found no instances in which Castro did not comply in all material respects, with *Quality Standards for Federal Offices of Inspector General*.

We appreciate the courtesies and cooperation provided to Castro and our staff during the desk review. If you have any questions or require further information, please contact me at (202) 486-1420, or a member of your staff may contact Lisa DeAngelis, Deputy Assistant Inspector General for Audit, at (202) 487-8371.

cc: Jordan Hall, Deputy Chief of Staff, Office of the Texas Governor
Michelle. A. Dickerman, Deputy Assistant General Counsel, Department of the Treasury
Victoria Collin, Chief Compliance & Finance Officer, Office of Recovery Programs, Department of the Treasury
Christopher Sun, Director of Data and Reporting, Office of Recovery Programs, Department of the Treasury
Wayne Ference, Partner, Castro & Company, LLC

Attachment

Schedule of Monetary Benefits

According to the Code of Federal Regulations,⁴ a questioned cost is a cost that is questioned due to a finding:

- (a) which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds;
- (b) where the costs, at the time of the review, are not supported by adequate documentation; or
- (c) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Questioned costs are to be recorded in the Department of the Treasury's (Treasury) Joint Audit Management Enterprise System (JAMES).⁵ The amount will also be included in the Office of Inspector General (OIG) Semiannual Report to Congress. It is Treasury management's responsibility to report to Congress on the status of the agreed to recommendations with monetary benefits in accordance with 5 USC Section 405(b) of the Inspector General Act of 1978.

<u>Recommendation</u>	<u>Questioned Costs</u>
Recommendation No. 1	\$17,288,574.87

The questioned cost represents amounts provided by Treasury under the Coronavirus Relief Fund. As discussed in the attached desk review, \$17,288,574.87 is Texas' expenditures reported in the grant-reporting portal that lacked supporting documentation and included ineligible expenditures.

⁴ 2 CFR § 200.84 – Questioned Cost

⁵ JAMES is Treasury's audit recommendation tracking system.

Desk Review of the State of Texas

July 21, 2023

OIG-CA-23-034

MEMORANDUM FOR DEBORAH L. HARKER,
ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM: Wayne Ference
Partner, Castro & Company, LLC

SUBJECT: Desk Review of the State of Texas

On September 1, 2021, we initiated a desk review of the State of Texas' (Texas) use of the Coronavirus Relief Fund (CRF) authorized under Title VI of the Social Security Act, as amended by Title V, Division A of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).¹ The objective of our desk review was to evaluate Texas' documentation supporting its uses of CRF proceeds as reported in the GrantSolutions² portal and to assess the risk of unallowable use of funds. The scope of our desk review was limited to obligation and expenditure data for the period of March 1, 2020 through June 30, 2021 as reported in Cycles 1³ through 5⁴ in the GrantSolutions portal.

As part of our desk review, we performed the following:

- 1) reviewed Texas' quarterly Financial Progress Reports (FPRs) submitted in the GrantSolutions portal through June 30, 2021;
- 2) reviewed the *Department of the Treasury's (Treasury) Coronavirus Relief Fund Guidance* as published in the Federal Register on January 15, 2021;⁵

¹ P.L. 116-136 (March 27, 2020)

² GrantSolutions, a grant and program management Federal shared service provider under the U.S. Department of Health and Human Services, developed a customized and user-friendly reporting solution to capture the use of CRF payments from recipients.

³ Calendar quarter ending June 30, 2020.

⁴ Calendar quarter ending June 30, 2021.

⁵ Coronavirus Relief Fund Guidance as published in the Federal Register (January 15, 2021) https://home.treasury.gov/system/files/136/CRF-Guidance-Federal-Register_2021-00827.pdf

Desk Review of the State of Texas

- 3) reviewed Treasury Office of Inspector General's (OIG) *Coronavirus Relief Fund Frequently Asked Questions Related to Reporting and Recordkeeping*;⁶
- 4) reviewed Treasury OIG's monitoring checklists⁷ of Texas' quarterly FPR submissions for reporting deficiencies;
- 5) reviewed other audit reports issued, such as Single Audit reports, and those issued by the Government Accountability Office and other applicable Federal agency OIGs for internal control or other deficiencies that may pose risk or impact the Texas' uses of CRF proceeds;
- 6) reviewed Treasury OIG Office of Investigations (OI), the Council of the Inspectors General on Integrity and Efficiency Pandemic Response Accountability Committee (PRAC),⁸ and Treasury OIG Office of Counsel input on issues that may pose risk or impact Texas' uses of CRF proceeds;
- 7) interviewed key personnel responsible for preparing and certifying Texas' GrantSolutions portal quarterly FPR submissions, as well as officials responsible for obligating and expending CRF proceeds;
- 8) made a non-statistical selection of Contracts, Grants, Direct Payments, Aggregate Reporting,⁹ and Aggregate Payments to Individuals¹⁰ data identified through GrantSolutions reporting; and
- 9) evaluated documentation and records used to support Texas' quarterly FPRs.

Based on our review of Texas' documentation supporting the uses of CRF proceeds as reported in the GrantSolutions portal, we found that uses of CRF proceeds for Direct Payments greater than or equal to \$50,000 and Aggregate

⁶ Department of the Treasury Office of Inspector General *Coronavirus Relief Fund Frequently Asked Questions Related to Reporting and Recordkeeping* OIG-20-028R; March 2, 2021

⁷ The checklists are used by Treasury OIG personnel to monitor the progress of prime recipient reporting in the GrantSolutions portal. GrantSolutions quarterly submission reviews are designed to identify material omissions and significant errors, and where necessary, include procedures for notifying prime recipients of misreported data for timely correction. Treasury OIG follows the *CRF Prime Recipient Quarterly GrantSolutions Submissions Monitoring and Review Procedures Guide*, OIG-CA-20-029R to monitor the prime recipients quarterly.

⁸ Section 15010 of P.L. 116-136 established the Pandemic Response Accountability Committee within the Council of the Inspectors General on Integrity and Efficiency to promote transparency and conduct and support oversight of covered funds (see Footnote 17 for a definition of covered funds) and the coronavirus response to (1) prevent and detect fraud, waste, abuse, and mismanagement; and (2) mitigate major risks that cut across program and agency boundaries.

⁹ Recipients are required to report CRF transactions greater than or equal to \$50,000 in detail in the GrantSolutions portal. Transactions less than \$50,000 can be reported as an aggregate lump-sum amount by type (contracts, grants, loans, direct payments, and transfers to other government entities).

¹⁰ Obligations and expenditures for payments made to individuals, regardless of amount, are required to be reported in the aggregate in the GrantSolutions portal to prevent inappropriate disclosure of personally identifiable information.

Desk Review of the State of Texas

Payments to Individuals complied with the CARES Act and Treasury's Guidance. However, we determined that Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, and Aggregate Reporting less than \$50,000 did not comply with the CARES Act and Treasury's Guidance.

Castro's desk review resulted in total questioned costs of \$17,288,574.87. Additionally, we determined that Texas' risk of unallowable use of funds is high. As such, Castro recommends Treasury OIG obtain documentation from Texas management and follow-up on necessary reporting corrections. Further, based on Texas' responsiveness to Treasury OIG's requests and its ability to provide sufficient documentation, we recommend Treasury OIG determine if a focused audit is feasible for Contracts greater than or equal to \$50,000 and Grants greater than or equal to \$50,000.

Non-Statistical Transaction Selection Methodology

Treasury issued a CRF payment to Texas of \$8,038,314,290.90. As of Cycle 5,¹¹ Texas' cumulative obligations and expenditures were \$6,843,708,309.22 and \$6,570,641,654.27, respectively. Texas' cumulative obligations and expenditures by payment type, as reported in GrantSolutions through Cycle 5, are summarized below.

Payment Type	Cumulative Obligations	Cumulative Expenditures
Contracts >= \$50,000	\$ 3,135,424,033.56	\$ 2,863,344,685.95
Grants >= \$50,000	\$ 873,775,780.47	\$ 873,775,779.78
Loans >= \$50,000	\$ -	\$ -
Transfers >= \$50,000	\$ -	\$ -
Direct Payments >= \$50,000	\$ 4,351,867.14	\$ 4,351,867.14
Aggregate Reporting < \$50,000	\$ 31,332,187.71	\$ 31,297,878.26
Aggregate Payments to Individuals (in any amount)	\$ 2,798,824,440.34	\$ 2,797,871,443.14
Totals	\$ 6,843,708,309.22	\$ 6,570,641,654.27

Castro made a non-statistical selection of Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payments to Individuals. Selections were made using auditor judgment based on information and risks identified in reviewing audit reports, the GrantSolutions portal reporting anomalies¹² identified by the Treasury OIG CRF monitoring team, and review of Texas' FPR submissions. Castro noted Texas did not obligate or

¹¹ Calendar quarter ending June 30, 2021.

¹² Treasury OIG has a pre-defined list of risk indicators that are triggered based on data submitted by recipients in the FPR submissions that meet certain criteria. Castro reviewed these results provided by Treasury OIG for Texas.

Desk Review of the State of Texas

expend CRF proceeds for Loans greater than or equal to \$50,000, or Transfers¹³ greater than or equal to \$50,000, therefore, we did not make a selection of transactions from these categories.

The number of transactions (59) we selected to test were based on Texas' total CRF award amount and our overall risk assessment of Texas. To allocate the number of transactions (59) by payment type (Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payments to Individuals), we compared the payment type dollar amounts as a percentage of cumulative obligations for Cycle 5.¹⁴ Treasury OIG identified four anomaly transactions, for a total of 63 transactions tested. The four anomalies were potential duplicate payments from the Contracts greater than or equal to \$50,000 payment type.

Background

The CARES Act appropriated \$150 billion to establish the CRF. Under the CRF, Treasury made payments for specified uses to States and certain local governments; the District of Columbia and U.S. Territories, including the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands; and Tribal governments. Treasury issued a CRF payment to Texas for \$8,038,314,290.90. The CARES Act stipulates that a recipient may only use the funds to cover costs that—

- (1) are necessary expenditures incurred due to the public health emergency with respect to the coronavirus disease 2019 (COVID-19);
- (2) were not accounted for in the budget most recently approved as of March 27, 2020; and
- (3) were incurred between March 1, 2020 and December 31, 2021.¹⁵

Section 15011 of the CARES Act, requires each covered recipient¹⁶ to submit to Treasury and the PRAC, no later than 10 days after the end of each calendar

¹³ A transfer to another government entity is a disbursement or payment to a government entity that is legally distinct from the prime recipient.

¹⁴ Calendar quarter ending June 30, 2021.

¹⁵ P.L. 116-260 (December 27, 2020). The period of performance end date of the CRF was extended through December 31, 2021 by the Consolidated Appropriations Act, 2021. The period of performance end date for tribal entities was further extended to December 31, 2022 by the State, Local, Tribal, and Territorial Fiscal Recovery, Infrastructure, and Disaster Relief Flexibility Act, Division LL of the Consolidated Appropriations Act, 2023, P.L. 117-328, December 29, 2022, 136 Stat. 4459.

¹⁶ Section 15011 of P.L. 116-136 defines a covered recipient as any entity that receives large covered funds and includes any State, the District of Columbia, and any territory or possession of the United States.

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quarter, a report that contains (1) the total amount of large covered funds^{17,18} received from Treasury; (2) the amount of large covered funds received that were expended or obligated for each project or activity; (3) a detailed list of all projects or activities for which large covered funds were expended or obligated; and (4) detailed information on any level of sub-contracts or sub-grants awarded by the covered recipient or its sub-recipients.

The CARES Act assigned Treasury OIG the responsibility for compliance monitoring and oversight of the receipt, disbursement, and use of CRF proceeds. Treasury OIG also has authority to recoup funds in the event that it is determined a recipient failed to comply with requirements of subsection 601(d) of the Social Security Act, as amended, (42 U.S.C. 801(d)).

Desk Review Results

Our review of Texas' quarterly FPR submissions through June 30, 2021 found that Texas complied with the Reporting Timeline as required under Treasury OIG Guidance OIG CA-20-021, *Coronavirus Relief Fund Reporting and Record Retention Requirements*. However, we identified a reporting variance, as detailed below.

As a result of our reconciliation procedures, we determined that expenditures recorded in GrantSolutions for Aggregate Reporting less than \$50,000 were \$31,297,878.26 while the expenditures per the general ledger detail were \$26,030,237.78, resulting in a variance of \$5,267,640.48 as of June 30, 2021. We corroborated that Texas made corrections for variances within its Cycle 6¹⁹ submission except for a required adjustment of \$3,924,219.87 to Aggregate Reporting less than \$50,000. Texas personnel plan to make this remaining adjustment in subsequent cycles; therefore, we question unsupported expenditure amounts of \$3,924,219.87 for Aggregate Reporting less than \$50,000.

Summary of Testing Results

Other than Contracts greater than or equal to \$50,000 and Grants greater than or equal to \$50,000, transactions selected for detailed review were supported by documentation and were allowable expenditures in accordance with the CARES Act and Treasury's guidance. We noted that the Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate

¹⁷ Section 15010 of P.L. 116-136 defines covered funds as any funds, including loans, that are made available in any form to any non-Federal entity, not including an individual, under Public Laws 116-123, 127, and 136, as well as any other law which primarily makes appropriations for Coronavirus response and related activities.

¹⁸ Section 15011 of P.L. 116-136 defines large covered funds as covered funds that amount to more than \$150,000.

¹⁹ Calendar quarter ending September 30, 2021.

Desk Review of the State of Texas

Payments to Individuals were necessary expenditures due to the COVID-19 public health emergency, were not accounted for in the budget most recently approved as of March 27, 2020, and were incurred during the covered period. The transactions selected for testing were not selected statistically, and therefore results cannot be extrapolated to the total universe of transactions.

The following table includes the total cumulative expenditure population amount and the expenditure amount tested. Within the table below, we have included a summary of unsupported and ineligible expenditures identified as questioned costs. Additionally, in the far-right column, we have identified the expenditures that Castro tested without exceptions noted. See the Desk Review Results section below this table for a detailed discussion of questioned costs and other issues identified throughout the course of our desk review.

Summary of Expenditure Testing and Recommended Results – As of Cycle 5²⁰

Payment Type	Cumulative Expenditure Population Amount	Cumulative Expenditure Tested Amount	Unsupported Reconciling Items ²¹	Unsupported Exception	Ineligible Exception	Castro Reviewed Value Without Exception (per Support)
Contracts >= \$50,000	\$2,863,344,685.95	\$2,587,265,699.17	\$ -	\$ -	\$ 487,370.00	\$ 2,586,778,329.17
Grants >= \$50,000	\$ 873,775,779.78	\$ 48,859,938.09	\$ -	\$ 12,876,985.00	\$ -	\$ 35,982,953.09
Loans >= \$50,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers >= \$50,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Direct Payments >= \$50,000	\$ 4,351,867.14	\$ 306,879.00	\$ -	\$ -	\$ -	\$ 306,879.00
Aggregate Reporting < \$50,000	\$ 31,297,878.26	\$ 95,433.48	\$ 3,924,219.87	\$ -	\$ -	\$ 95,433.48
Aggregate Payments to Individuals (in any amount)	\$2,797,871,443.14	\$ 2,238,609.00	\$ -	\$ -	\$ -	\$ 2,238,609.00
Totals	\$6,570,641,654.27	\$2,638,766,558.74	\$ 3,924,219.87	\$ 12,876,985.00	\$ 487,370.00	\$ 2,625,402,203.74

²⁰ Calendar quarter ending June 30, 2021.

²¹ As a result of our reconciliation procedures, we determined that expenditures recorded in GrantSolutions were \$31,297,878.26 while the expenditures per the general ledger detail were \$26,030,237.78, resulting in a variance of \$5,267,640.48 as of June 30, 2021. We corroborated corrections made by Texas for all variances within its Cycle 6 submission (September 30, 2021) except for a required adjustment of \$3,924,219.87, which we question. However, we do not consider this amount to be tested and so we have excluded this amount from the "Cumulative Expenditure Tested Amount" column.

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Contracts Greater Than or Equal to \$50,000

We determined that Texas' Contracts greater than or equal to \$50,000 did not comply with the CARES Act and Treasury's Guidance. During our review of Contracts greater than or equal to \$50,000, we determined that Texas included ineligible expenditures of \$487,370.00 within its GrantSolutions submissions. We selected 23 transactions to test. For one out of the 23 original selections, we selected 11 expenditure transactions as sub-selections.²² During our review, we identified the following exceptions.

For one out of 23 selections, we reviewed invoice supporting documentation and noted that the expenditure amount differed from what was recorded in GrantSolutions. After adjustments made by Texas, we identified inclusion of ineligible costs of \$487,370.00. Specifically, Texas reported \$55,244,961.42 of ineligible contract expenditures in GrantSolutions. As of Cycle 5,²³ Contracts greater than or equal to \$50,000 was overstated by \$55,244,961.42. Castro verified that Texas personnel removed \$54,757,591.42 of these expenditures as of Cycle 8;²⁴ however, Texas personnel had not yet removed the remaining ineligible costs of \$487,370.00 from its CRF reporting. Castro questions this expenditure balance.

Texas personnel stated that this contract included audit services such as building dashboard reporting tools and dashboard management tools for emergencies covering agency programs originating from various funding sources, not just CRF. Castro was able to agree vendor invoices to expenditures claimed within GrantSolutions without exception. However, Texas personnel were not able to support the proportion of these charges that was related to CRF. Texas personnel were in the process of reviewing the eligibility of expenditures claimed as CRF and told us that a portion of these transactions was pending approval to be claimed using Federal Emergency Management Agency (FEMA) funding. Once this approval was obtained, Texas personnel told us that they would make adjustments in subsequent GrantSolutions cycles to remove the ineligible portions of this balance.

Texas personnel told us that they did not believe this to be an exception and had intentionally charged the full invoice amount, including expenditures directly attributed to FEMA funded projects, to CRF with the intention of moving the expenditures later to the appropriate funding source. Texas personnel stated that most of the expenditures attributed to FEMA have since been removed from CRF

²² Due to the high volume of transactions at the original transaction selection level, we obtained and utilized a general ledger detail listing to make a sub-selection of transactions needed to test obligations and expenditures at the detailed transaction level.

²³ Calendar quarter ending June 30, 2021.

²⁴ Calendar quarter ending March 31, 2022.

Desk Review of the State of Texas

claims. Texas personnel told us that they were still determining additional adjustments to be made, and that upon completion, they would update this within a future cycle submission.

Grants Greater Than or Equal to \$50,000

We determined Texas' Grants greater than or equal to \$50,000 did not comply with the CARES Act and Treasury's Guidance. We noted a lack of supporting documentation that resulted in questioned expenditures of \$12,876,985.00. As part of our procedures, we selected six transactions to test. For two out of the six selections, we selected 10 expenditure transactions as sub-selections. During our review, we identified the following exceptions.

For two out of six selections tested, we identified a portion of the tested balance where expenditures per external vendor invoices were \$4,151,000 less than what was recorded in GrantSolutions. The Texas Region IV Education Service Center (ESC – Region IV), the entity responsible for administering the distance learning grant program, utilized the school district's original distance learning equipment orders to generate intergovernmental invoices between ESC – Region IV and the school districts. Upon inspection of third-party vendor invoices that support actual equipment received by the school districts, Castro determined that the school districts made changes to their original orders that resulted in lower than originally anticipated expenditures. However, ESC – Region IV did not adjust its intergovernmental invoices to reflect the changed order quantity and prices. As Texas personnel utilized the balance of intergovernmental invoices instead of actual expenditures incurred to report its expenditures in GrantSolutions, this resulted in an overstatement of \$4,151,000 to Texas' reported expenditures. We question these costs as unsupported.

For one out of six selections, we identified unsupported expenditure amounts of \$8,725,985, as Texas did not provide sufficient documentation to support the expenditure balances reported for ESC – Region IV as of Cycle 5.²⁵ Additionally, we determined that the ESC – Region IV grant balance did not represent a valid grant balance within GrantSolutions, as the majority of these costs were not reported to the correct sub-recipient. Instead of reporting this balance under ESC – Region IV as the sub-recipient within GrantSolutions, Texas should have reported the school districts as the GrantSolutions sub-recipients.

Texas personnel told us that ultimately, this transitory ESC – Region IV distance learning equipment balance would be fully drawn down for equipment administered to school districts and the only GrantSolutions balances with ESC – Region IV as the sub-recipient would be the administrative costs charged by ESC –

²⁵ Calendar quarter ending June 30, 2021.

Desk Review of the State of Texas

Region IV for running the bulk purchase program. However, Texas was unable to provide support to evidence administrative costs incurred by ESC – Region IV as this amount was still being determined. As ESC – Region IV continued to allocate equipment to the ultimate grant sub-recipients (school districts), Texas personnel told us that they planned to remove additional expenditures from ESC – Region IV and to post additional expenditures to the respective school districts that received that equipment. Texas personnel told us that they were in the process of reconciling these balances and determining the final administrative costs to be charged as CRF claims for ESC – Region IV. As such, we question \$8,725,985 in expenditures as unsupported.

Based on the issues noted above, we determined Texas did not comply with Treasury OIG Guidance OIG-CA-20-021 *CRF Reporting and Record Retention Requirements* because the official authorized to certify that the data was true, accurate, and complete did not ensure that its submission met all the Treasury OIG Guidance requirements.

Direct Payments Greater Than or Equal to \$50,000

We determined Texas' Direct Payments greater than or equal to \$50,000 did not comply with Treasury's Guidance. We identified misclassification exceptions of \$1,385,602.40 reported as Direct Payments greater than or equal to \$50,000 that should have been reported in the Aggregate Reporting less than \$50,000 payment type. We are not questioning these costs as the support for these transactions was adequate to determine eligibility of expenditures. However, we determined these exceptions to be a reporting misclassification. As part of our procedures, we selected one transaction to test. We then selected five expenditure transactions as sub-selections.

For the one selection tested, we obtained and reviewed the underlying obligation support and noted that the obligation consisted of expense report claims for 576 individual transactions, each with their own purchase order dates, purchase order numbers, and invoice numbers. We determined that Texas should have reported each of these transactions as separate Direct Payment entries within GrantSolutions, each with its own cumulative obligation and expenditure balances and payment dates. This does not comply with Treasury OIG's reporting requirements to individually report direct payment transactions (for both cumulative expenditure and obligation reported balances).

Additionally, for one of the five sub-selections tested, we determined that the expenditure value reported was misclassified. We performed data analytics over the remaining balance of selections not tested. Including the one sub-selection,

Desk Review of the State of Texas

we identified 572 transactions that were similarly misclassified. As of Cycle 5,²⁶ Texas personnel reported expenditure values in the Direct Payments greater than or equal to \$50,000 payment type that were overstated by \$1,385,603 and Aggregate Reporting less than \$50,000 payment type was understated by the same amount.

Texas personnel told us that the state agency should have treated each purchase order separately and reported it accordingly. Texas personnel told us that they would make adjustments to GrantSolutions in a future reporting cycle. We are not questioning these costs as the support for these transactions was adequate; however, we determined the amount tested was a reporting misclassification.

Conclusion

Based on the results of our desk review, we found that Texas personnel timely filed quarterly FPR reports in the GrantSolutions portal. We also found that uses of CRF proceeds for Direct Payments greater than or equal to \$50,000 and Aggregate Payments to Individuals complied with the CARES Act and Treasury's Guidance. However, we determined that Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, and Aggregate Reporting less than \$50,000 did not comply with the CARES Act and Treasury's Guidance.

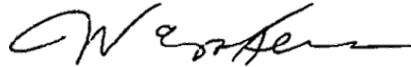
Castro's desk review resulted in total questioned costs of \$17,288,574.87. Additionally, we determined that Texas' risk of unallowable use of funds is high. As such, Castro recommends Treasury OIG obtain documentation from Texas management and follow-up on necessary reporting corrections. Further, based on Texas' responsiveness to Treasury OIG's requests and its ability to provide sufficient documentation, we recommend Treasury OIG determine if a focused audit is feasible for Contracts greater than or equal to \$50,000 and Grants greater than or equal to \$50,000.

²⁶ Calendar quarter ending June 30, 2021.

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All work completed with this letter complies with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Federal Offices of Inspectors General*, which require that the work adheres to the professional standards of independence, due professional care, and quality assurance to ensure the accuracy of the information presented.²⁷ We appreciate the courtesies and cooperation provided to our staff during the desk review.

Sincerely,

A handwritten signature in black ink, appearing to read "Wayne Ference". The signature is fluid and cursive, with a long horizontal stroke at the end.

Wayne Ference
Partner, Castro & Company, LLC

²⁷ <https://www.ignet.gov/sites/default/files/files/Silver%20Book%20Revision%20-%208-20-12r.pdf>