



John Keel, CPA
State Auditor

A Report on
**The Audit of the Permanent School Fund's
Fiscal Year 2014 Financial Statements**

January 5, 2015

Members of the Legislative Audit Committee:

In our audit report dated December 19, 2014, we concluded that the Permanent School Fund's (the Fund) basic financial statements for fiscal year 2014 were materially correct and presented in accordance with accounting principles generally accepted in the United States of America. The Fund published our audit report as part of its basic financial statements, which it intends to post on its Web site at <http://tea.texas.gov>.

We also issued a report on internal control over financial reporting and on compliance and other matters as required by auditing standards (that report, including responses from management, is presented in the attachment to this letter). In that report, auditors identified a deficiency in the Texas Education Agency's information resource change management process that was reported as a significant deficiency in the Fund's internal control.

Our procedures were not intended to provide an opinion on internal control over financial reporting or to provide an opinion on compliance with laws and regulations. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance with laws and regulations.

Auditors will communicate certain issues that were not material or significant to the audit objectives in writing to the Fund's management.

As required by auditing standards, we will also communicate to the State Board of Education and School Land Board certain matters related to the conduct of a financial statement audit.

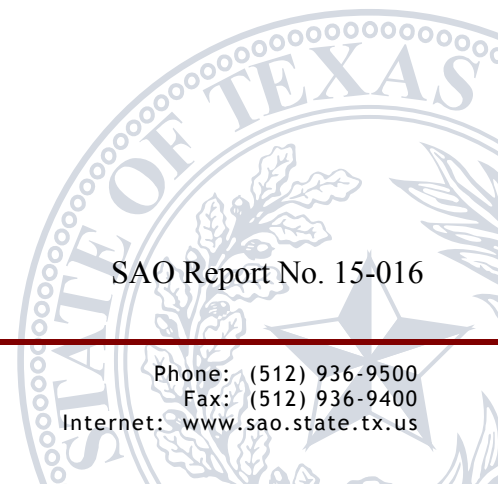
We appreciate the Fund's cooperation during this audit. If you have any questions, please contact Verma Elliott, Audit Manager, or me at (512) 936-9500.

Sincerely,

John Keel, CPA
State Auditor

Attachment

SAO Report No. 15-016



cc: The Honorable Rick Perry, Governor
Members of the State Board of Education
Ms. Barbara Cargill, Chair
Mr. Thomas Ratliff, Vice Chair
Mr. Lawrence A. Allen, Jr.
Ms. Donna Bahorich
Ms. Erika Beltran
Mr. David Bradley
Mr. Ruben Cortez, Jr.
Dr. Martha Dominguez
Ms. Patricia Hardy
Mr. Tom Maynard
Ms. Sue Melton-Malone
Mr. Ken Mercer
Ms. Geraldine Miller
Ms. Marisa Perez
Ms. Marty Rowley
Texas Education Agency
Mr. Michael Williams, Commissioner of Education
Mr. Holland Timmins, CFA, Executive Administrator and Chief Investment Officer, Permanent
School Fund
General Land Office and School Land Board
The Honorable George P. Bush, Land Commissioner and Chairman of the School Land Board
Mr. David S. Herrmann, School Land Board Member
Mr. Thomas Orr, Jr., School Land Board Member
Mr. Larry L. Laine, Chief Clerk



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Attachment



Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Independent Auditor's Report

Members of the State Board of Education
Members of the School Land Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Texas Permanent School Fund (Fund) as of and for the year ended August 31, 2014, and the related notes to the financial statements and have issued our report thereon dated December 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

Summary of Findings and Responses
Finding Number
2014-1

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Auditors communicated certain issues that were not material or significant to the audit objectives in writing to the Fund's management.

The Fund's Response to Finding

The Fund's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

John Keel, CPA
State Auditor

December 19, 2014

Schedule of Findings and Responses

Section 1

The Texas Education Agency Should Ensure That It Has Adequate Change Management Controls Over Its General Ledger System

Reference No. 2014-1

Type of finding: Significant Deficiency

The Texas Education Agency (Agency) did not have adequate change management controls for its general ledger system, the Integrated Statewide Administrative System (ISAS), during fiscal year 2014. The Agency assigned a designated programmer to migrate code changes into production for a given month and rotated that responsibility among the four programmers. However, programmers still had the ability to migrate their own changes to the production environment during the month they were assigned the responsibility of migrating code changes. Of the four program code changes that auditors tested, three were migrated to production by the programmer responsible for making the changes.

Title I, Texas Administrative Code, Sections 202.20 and 202.25, require changes to be made in an authorized manner and for state agencies to use a process for protecting systems from improper modification before, during, and after system implementation.

Proper segregation of duties should be in place to prevent a programmer who makes programming changes from migrating the code to production. Not having adequate change management controls, such as proper segregation of duties, increases the risk that the Agency's programmers could make unintended and/or unauthorized programming changes to the Agency's general ledger system.

Recommendation

The Agency should establish and implement a formal change management process that prevents programmers from migrating code changes they make to the production environment.

Management's Response

The Texas Education Agency implemented an interim solution to remediate the above recommendation while a long term solution was developed. The long term solution to the above recommendation was to implement STAT software, which allows for a complete separation of duties between the developer and migrator. The STAT software went into production on August 15, 2014 which is TEA's full solution to the above recommendation.

The individual responsible for implementing the recommendation is the CIO/CDO/IRM of the Information Technology Services / Statewide Education Data Systems Division.