



A Report on

State of Texas Compliance with Federal Requirements for the Research and Development Cluster for the Year Ended August 31, 2024

Lisa R. Collier, CPA, CFE, CIDA
State Auditor

The State of Texas complied in all material respects with the federal requirements for the Research and Development Cluster in fiscal year 2024.

As a condition of receiving federal funding, Title 2, Code of Federal Regulations, Section 200.501, requires non-federal entities that expend \$750,000 or more in federal awards in a fiscal year to obtain annual Single Audits. The Single Audit for the State of Texas included (1) all high-risk federal programs for which the State expended more than \$122,092,139 in federal funds during fiscal year 2024 and (2) other selected federal programs.

During fiscal year 2024 (from September 1, 2023, through August 31, 2024), the State of Texas expended \$81.4 billion in federal funds, and it reported a total of \$3.2 billion in expenditures for the Research and Development Cluster. The State Auditor's Office audited compliance with requirements for the Research and Development Cluster at eight higher education institutions, which spent approximately \$2.2 billion in federal Research and Development Cluster funds during fiscal year 2024.

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This audit was conducted in accordance with Title 31, United States Code, Section 7502.

INDEPENDENT AUDITOR'S REPORT

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For more information about this audit, contact Audit Manager Jennifer Brantley or State Auditor Lisa Collier at 512-936-9500.

February 2025 | Report No. 25-017

Key Points

\$2.2 billion in federal funding audited at **8 institutions**



Refer to the Background Information section for more details on the [Research and Development Cluster](#) and [IT General Controls](#).




The State Auditor’s Office audited the **Research and Development Cluster** at the following higher education institutions:

- Texas A&M Engineering Experiment Station
- Texas A&M University
- The University of Texas at Austin
- The University of Texas Health Science Center at Houston
- The University of Texas Health Science Center at San Antonio
- The University of Texas M.D. Anderson Cancer Center
- The University of Texas Medical Branch at Galveston
- The University of Texas Southwestern Medical Center

There were no findings identified for Texas A&M University, The University of Texas Health Science Center at Houston, and The University of Texas M.D. Anderson Cancer Center. The six findings identified at the remaining institutions for the Research and Development Cluster are summarized in Figure 1 on the next page.

Figure 1

Research and Development Cluster Findings Identified

<p>Higher Education Institution</p> 	<p>Compliance Requirement and Finding Classification ^a</p>	
	<p>Equipment and Real Property Management</p> <p><i>Significant Deficiency and Noncompliance</i></p>	<p>IT General Controls</p> <p><i>Significant Deficiency</i></p>
<p>Texas A&M Engineering Experiment Station</p>	<p>×</p>	
<p>The University of Texas at Austin</p>	<p>×</p>	
<p>The University of Texas Health Science Center at San Antonio</p>	<p>×</p>	
<p>The University of Texas Medical Branch at Galveston</p>	<p>×</p>	<p>×</p>
<p>The University of Texas Southwestern Medical Center</p>	<p>×</p>	

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

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

Similarly, compliance findings are classified as either noncompliance or material noncompliance; material noncompliance indicates a more serious reportable issue.

The auditor’s determination of whether an instance of noncompliance or a control weakness was material for the purpose of reporting an audit finding is in relation to each type of compliance requirement for the Research and Development Cluster as a whole.

Summary of Management Responses

Management agreed with the audit findings. Specific management responses, including the views of responsible officials and corrective action plans, are presented immediately following each finding in this report.

Background Information

Research and Development Cluster

As defined in Title 2, Code of Federal Regulations, Section 200.1, “research” is a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. “Development” is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. “Research and development” (R&D) refers to all research activities, both basic and applied, and all development activities performed by non-federal entities. The term “research” also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other R&D activities and when such activities are not included in the instruction function.

The R&D Cluster is a group of closely related programs that share common compliance requirements. Federal agencies award R&D Cluster funds to non-federal entities on the basis of applications or proposals submitted.

The federal government sponsors R&D activities under a variety of types of awards, most commonly grants, cooperative agreements, and contracts, to achieve objectives agreed upon between the federal awarding agency and the non-federal entity. The types of R&D conducted under these awards vary widely. The objective of an individual project is explained in the federal award.

The 2024 Office of Management and Budget (OMB) *Compliance Supplement* identified eight compliance areas as subject to audit for the R&D Cluster, including seven standard compliance areas (Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Equipment and Real Property Management, Period of Performance, Procurement and Suspension and Debarment, and Subrecipient Monitoring) and one Special Test and Provision (Key Personnel).

IT General Controls

Higher education institutions must establish and maintain effective internal controls over federal awards that provide reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

In addition to the eight compliance areas tested for the R&D Cluster, auditors also tested certain information technology (IT) general controls over the institutions’ IT systems used to process and manage federal R&D Cluster funds. Those controls included (1) user access, (2) password parameters, (3) change management, and (4) system maintenance.



Report on Compliance for the Research and Development Cluster; and Report on Internal Control Over Compliance Required by the Uniform Guidance

The Honorable Greg Abbott, Governor
The Honorable Glenn Hegar, Comptroller of Public Accounts
The Honorable Dan Patrick, Lieutenant Governor
The Honorable Dustin Burrows, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

Report on Compliance for the Research and Development Cluster

Opinion on the Research and Development Cluster

We have audited the State of Texas's (State) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Research and Development Cluster for the year ended August 31, 2024. The State's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Research and Development Cluster for the year ended August 31, 2024.

Basis for Opinion on the Research and Development Cluster

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

This audit was conducted as part of the State of Texas Statewide Single Audit for the year ended August 31, 2024. As such, the Research and Development Cluster was selected as a major program based on the State of Texas as a whole for the year ended August 31, 2024. The State does not meet the Uniform Guidance requirements for a program-specific audit and the presentation of the Schedule of Federal Program Expenditures does not conform to the Uniform Guidance Schedule of Expenditures of Federal Awards. However, this audit was designed to be relied on for the State of Texas opinion on federal compliance, and in our judgment, the audit and this report satisfy the intent of those requirements.

We are required to be independent of the State and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the Research and Development Cluster. Our audit does not provide a legal determination of the State's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the State's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the State's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore, it is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the State's compliance with the requirements of the Research and Development Cluster as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures

include examining, on a test basis, evidence regarding the State’s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the State’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the State’s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance that are required to be reported in accordance with the Uniform Guidance and that are described in the accompanying schedule of findings and questioned costs as items:

Higher Education Institution	Compliance Requirement	Finding Number
Texas A&M Engineering Experiment Station	Equipment and Real Property Management	2024-101
The University of Texas at Austin	Equipment and Real Property Management	2024-102
The University of Texas Health Science Center at San Antonio	Equipment and Real Property Management	2024-103
The University of Texas Medical Branch at Galveston	Equipment and Real Property Management	2024-105
The University of Texas Southwestern Medical Center	Equipment and Real Property Management	2024-106

Our opinion on the Research and Development Cluster is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the State’s responses to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The State’s responses were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed

to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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

Higher Education Institution	Compliance Requirement	Finding Number
Texas A&M Engineering Experiment Station	Equipment and Real Property Management	2024-101
The University of Texas at Austin	Equipment and Real Property Management	2024-102
The University of Texas Health Science Center at San Antonio	Equipment and Real Property Management	2024-103
The University of Texas Medical Branch at Galveston	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management Equipment and Real Property Management Period of Performance Procurement and Suspension and Debarment Subrecipient Monitoring Special Tests and Provisions – Key Personnel	2024-104

Higher Education Institution	Compliance Requirement	Finding Number
The University of Texas Medical Branch at Galveston	Equipment and Real Property Management	2024-105
The University of Texas Southwestern Medical Center	Equipment and Real Property Management	2024-106

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the State’s responses to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The State’s responses were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

Schedule of Federal Program Expenditures

The accompanying Schedule of Federal Program Expenditures for the Research and Development Cluster for the State for the Year Ended August 31, 2024, is presented for purposes of additional analysis. This information is the responsibility of the State’s management and has been subjected only to limited auditing procedures and, accordingly, we express no opinion on it. However, we have audited the Statewide Schedule of Expenditures of Federal Awards in a separate audit, and the opinion on the Statewide Schedule of Expenditures of Federal Awards is included in the *State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2024*.

Lisa R. Collier, CPA, CFE, CIDA
 State Auditor

February 21, 2025

**Schedule of Federal Program Expenditures for the
Research and Development Cluster for the State of Texas
for the Year Ended August 31, 2024**

Schedule of Federal Program Expenditures

Higher Education Institutions Audited	Federal Program Expenditures
Texas A&M Engineering Experiment Station	\$155,936,316
Texas A&M University	\$182,345,363
The University of Texas at Austin	\$684,460,765
The University of Texas Health Science Center at Houston	\$217,495,330
The University of Texas Health Science Center at San Antonio	\$162,018,732
The University of Texas M.D. Anderson Cancer Center	\$308,935,825
The University of Texas Medical Branch at Galveston	\$162,039,861
The University of Texas Southwestern Medical Center	\$354,322,301
Total Audited Research and Development Cluster Federal Program Expenditures	\$2,227,554,494

Note 1: Total expenditures do not sum exactly due to rounding.

Note 2: This schedule of federal program expenditures is presented for informational purposes only. For the State’s complete Schedule of Expenditures of Federal Awards, see the *State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2024*.

Note 3: Federal expenditures for the Research and Development Cluster at state entities not included in the scope of this audit totaled \$993,574,139 for the year ended August 31, 2024.

Note 4: The Research and Development Cluster includes many programs funded by various federal agencies. For a list of Research and Development expenditures by program or by federal awarding agency, see the *State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2024*.



Schedule of Findings and Questioned Costs

Section I Summary of Auditor’s Results

Financial Statements

Issued under separate cover. See State Auditor’s Office report entitled *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2024*.

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? No ✓

Significant deficiency(ies) identified? Yes ✗

Type of auditor’s report issued on compliance for major federal programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with Title 2, Code of Federal Regulations, Section 200.516(a)? Yes ✗

Identification of major programs:

Assistance Listing Number	Name of Federal Program or Cluster
Cluster	Research and Development

Dollar threshold used to distinguish between type A and type B programs: \$122,092,139

Auditee qualified as low-risk auditee? No

Section 2

Financial Statement Findings

Issued under separate cover. See State Auditor's Office report entitled *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2024*.

Section 3

Federal Award Findings and Questioned Costs

This section identifies significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, as required to be reported by Title 2, Code of Federal Regulations, Section 200.516(a).

Texas A&M Engineering Experiment Station

Reference No. 2024-101

Equipment and Real Property Management

Federal Program Title:	Research and Development Cluster
Federal Agency:	U.S. Department of Defense; National Science Foundation; and U.S. Department of Health and Human Services
Assistance Listing Number:	See below
Pass-Through Agency:	Texas A&M University Health Science Center; and Harvard University
Award Number:	See below
Award Period:	See below
Statistically Valid Sample:	No and not intended to be a statistically valid sample
Type of Finding:	Significant Deficiency and Noncompliance
Questioned Costs:	None
Repeat Finding:	No

A recipient's property records for equipment acquired with federal funds must be maintained accurately and include all of the following: a description of the equipment; serial number or other identification number; the source of funding for the equipment, including the federal award identification number; indication of who holds the title; acquisition date; cost of the equipment; the percentage of federal participation in the cost of the equipment; the location, use, and condition of the equipment; and ultimate disposition data, including the date of disposal and sale price (Title 2, Code of Federal Regulations (CFR), Section 200.313(d)(1)). A control system must be developed to ensure that adequate safeguards are in place to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft must be investigated (Title 2, CFR, Section 200.313(d)(3)).

The Engineering Experiment Station did not maintain accurate and complete property records for 3 (5 percent) of 63 equipment items tested. Specifically:

- For two items, the property records contained incorrect locations. The errors occurred because the Engineering Experiment Station either (1) did not enter property records accurately and completely into its asset management system or (2) did not always follow its policies and procedures to update property records as needed.
- The Engineering Experiment Station was not able to locate one item selected for testing. As a result, the institution could not demonstrate that the item was properly safeguarded. After

auditors brought the issue to the Engineering Experiment Station’s attention, the institution filed a missing or stolen property report.

Not maintaining accurate and complete property records and not adequately safeguarding equipment increases the risk that equipment may be misused, lost, or stolen.

The following awards were affected by the equipment issues discussed above:

Assistance Listing No.	Assistance Listing Title	Award Number	Award Year
12.910	Research and Technology Development	M1901607	December 1, 2018, to May 30, 2024
47.070	Computer and Information Science and Engineering	IIS-1755943	April 1, 2018, to March 31, 2021
93.855	Allergy and Infectious Diseases Research	109669-5064867	July 2, 2013, to December 31, 2018

Recommendations

The Engineering Experiment Station should strengthen controls to ensure that it:

- Maintains accurate and complete property records for all equipment acquired with federal funds.
- Adequately safeguards its equipment to prevent loss or theft of equipment.

Management’s Response

Views of Responsible Officials:

The Texas A&M Engineering Experiment Station (TEES) acknowledges and agrees with the finding. TEES will work to develop and implement corrective action to further improve processes.

Corrective Action Plan:

TEES Property Management will continue working with departments to increase their awareness regarding the updating of location information in a timely manner. Departments will also be reminded regularly to notify property management of missing and/or stolen property when discovered and to submit the appropriate forms. Property Management will increase communication to departments regarding the replacement of asset tags that have

been damaged and/or are missing. A listserv has been established by TEES to effectively and efficiently communicate this information to the departments.

Implementation Date: February 2025

Responsible Person: Jennifer Caddel, Inventory & Property Control Coordinator

The University of Texas at Austin

Reference No. 2024-102

Equipment and Real Property Management

Federal Program Title:	Research and Development Cluster
Federal Agency:	U.S. Department of Defense; National Aeronautics and Space Administration; National Science Foundation; U.S. Department of Energy; and U.S. Department of Health and Human Services
Assistance Listing Number:	See below
Pass-Through Agency:	Southern States Energy Board; and Universities Space Research Association
Award Number:	See below
Award Period:	See below
Statistically Valid Sample:	No and not intended to be a statistically valid sample
Type of Finding:	Significant Deficiency and Noncompliance
Questioned Costs:	None
Repeat Finding:	2021-103, 2018-109, 2015-134, 2014-155, 2013-176, 13-161, and 12-170

A recipient's property records for equipment acquired with federal funds must be maintained accurately and include all of the following: a description of the equipment; serial number or other identification number; the source of funding for the equipment, including the federal award identification number; indication of who holds the title; acquisition date; cost of the equipment; the percentage of federal participation in the cost of the equipment; the location, use, and condition of the equipment; and ultimate disposition data, including the date of disposal and sale price (Title 2, Code of Federal Regulations (CFR), Section 200.313(d)(1)). A control system must be developed to ensure that adequate safeguards are in place to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft must be investigated (Title 2, CFR, Section 200.313(d)(3)).

In addition, The University of Texas at Austin's (University) *Handbook of Business Procedures* requires that a university inventory barcode (asset tag) be affixed to capitalized or controlled equipment items and the required information be submitted to Inventory Services for processing within 30 days of receipt of equipment.

The University did not maintain accurate and complete property records for 12 (19 percent) of 63 equipment items tested. For one item discussed below, the property record contained multiple errors. Specifically:

- For six items, the property records contained either no or incorrect serial numbers. Additionally, for two of those items the asset tag numbers located on the items did not match the asset tag numbers in the property records.
- For four items, the property records contained incorrect locations. For three of those items, the locations in the property records did not match the current on-campus locations. For the other item, the location in the property record was not updated to indicate that the item had been relocated to Hawaii.

- For two items, the property records contained generic default information because the University did not follow its policy to submit the required information to Inventory Services for processing within 30 days of receipt of items.
- For one item, the property record indicated the item was in service. However, the item was transferred to the sponsor and the status was not updated in the property record.

Those errors occurred because the University either (1) did not enter property records accurately and completely into its asset management system or (2) did not always follow its policies and procedures to update property records as needed. The University relies on unit administrators within each department to provide the required information in the equipment property records.

In addition, the University did not follow its process to affix an asset tag for 6 (10 percent) of 61 equipment items tested. Specifically:

- For three items, the asset tags were affixed by the University at the time of testing.
- For two items, the asset tags could not be located.
- For one item, the asset had been relocated to Hawaii and the University could not provide evidence to demonstrate that the asset was appropriately tagged and adequately safeguarded.

Not maintaining accurate and complete property records and not adequately safeguarding equipment increases the risk that equipment may be misused, lost, or stolen.

The following awards were affected by the equipment issues discussed above:

Assistance Listing No.	Assistance Listing Title	Award Number	Award Year
12.300	Basic and Applied Scientific Research	N00024-07-D-6200-080CR-MS	August 27, 2013, to August 26, 2016
12.300	Basic and Applied Scientific Research	N00014-09-1-0908	April 1, 2009, to September 30, 2010
12.800	Air Force Defense Research Sciences Program	FA9550-20-1-0109	July 1, 2020, to June 30, 2021
12.800	Air Force Defense Research Sciences Program	FA9550-22-1-0307	July 1, 2022, to June 30, 2025
12.800	Air Force Defense Research Sciences Program	FA9550-08-1-0394	June 15, 2008, to November 14, 2008
43.001	Science	NAS2-97001	October 1, 2001, to September 30, 2004
47.070	Computer and Information Science and Engineering	1540931	June 1, 2016, to May 31, 2020
81.049	Office of Science Financial Assistance Program	DE-FG52-03NA00140	July 1, 2003, to September 30, 2007
81.049	Office of Science Financial Assistance Program	DE-SC0014156	August 15, 2015, to August 14, 2020

Assistance Listing No.	Assistance Listing Title	Award Number	Award Year
81.087	Renewable Energy Research and Development	DE-FG36-08G018016	June 1, 2010, to July 31, 2011
81.089	Fossil Energy Research and Development	SSEB-SECARB3-973-T13CR	October 1, 2007, to June 30, 2008
93.242	Mental Health Research Grants	5R01MH109682-01	September 23, 2016, to July 31, 2021
93.279	Drug Use and Addiction Research Programs	1R01DA054329-01A1	August 1, 2022, to May 31, 2027
93.859	Biomedical Research and Research Training	1K99GM151459-01	August 1, 2023, to July 31, 2025

Recommendations

The University should strengthen its controls to ensure that it:

- Maintains accurate and complete property records for all equipment acquired with federal funds.
- Adequately safeguards its equipment to prevent loss or theft of equipment.
- Appropriately affixes asset tags to equipment in accordance with its policies and procedures.

Management's Response

Views of Responsible Officials:

The University acknowledges and agrees with the audit findings. The University will work with the individual departments to improve their understanding of inventory policies and procedures and stress the importance of maintaining accurate records.

Corrective Action Plan:

The University has taken steps to identify and correct the deficiencies in Inventory's processes and external knowledge base. Inventory Services has reviewed their website and made the necessary updates to their inventory trainings and guides. In the near future, Inventory Services will create a web-based training module that will be required for departmental inventory contacts. Inventory will still offer individual training sessions to departmental inventory contacts.

Implementation Date: August 2025

Responsible Person: Christopher Ochoa, Inventory Manager

The University of Texas Health Science Center at San Antonio

Reference No. 2024-103

Equipment and Real Property Management

Federal Program Title:	Research and Development Cluster
Federal Agency:	U.S. Department of Defense; and U.S. Department of Health and Human Services
Assistance Listing Number:	See below
Pass-Through Agency:	N/A
Award Number:	See below
Award Period:	See below
Statistically Valid Sample:	No and not intended to be a statistically valid sample
Type of Finding:	Significant Deficiency and Noncompliance
Questioned Costs:	None
Repeat Finding:	2021-105

A recipient's property records for equipment acquired with federal funds must be maintained accurately and include all of the following: a description of the equipment; serial number or other identification number; the source of funding for the equipment, including the federal award identification number; indication of who holds the title; acquisition date; cost of the equipment; the percentage of federal participation in the cost of the equipment; the location, use, and condition of the equipment; and ultimate disposition data, including the date of disposal and sale price (Title 2, Code of Federal Regulations (CFR), Section 200.313(d)(1)).

The University of Texas Health Science Center at San Antonio (Health Science Center) did not maintain accurate property records for 4 (6 percent) of 62 equipment items tested. Specifically:

- For three items, the property records contained incorrect locations. For the first item, the location was not updated when it was moved during a renovation. For the second item, the location was not updated when the department moved to a different floor in the building. For the third item, the property record did not reflect the item's current location. These errors occurred because the Health Science Center staff responsible for the equipment did not update the property control department when the items were moved.
- For one item, the property record contained an incorrect serial number due to a manual entry error.

Not maintaining accurate and complete property records increases the risk that equipment may be misused, lost, or stolen.

The following awards were affected by the equipment issues discussed above:

Assistance Listing No.	Assistance Listing Title	Award Number	Award Year
12.420	Military Medical Research and Development	W81XWH-13-2-0065	September 30, 2013, to March 31, 2021
93.121	Oral Diseases and Disorders Research	R21 DE14928	May 1, 2003, to April 30, 2005
93.242	Mental Health Research Grants	R01 MH60118	May 1, 2001, to April 30, 2027
93.866	Aging Research	P01 AG019316	March 1, 2007, to January 31, 2013

Recommendation

The Health Science Center should strengthen controls to ensure that it maintains accurate property records for all equipment acquired with federal funds.

Management's Response

Views of Responsible Officials:

UT Health-San Antonio acknowledges and agrees with the finding.

Corrective Action Plan:

UT Health-San Antonio's Property Control group will continue to stress the importance of updating equipment locations in a timely manner. The University's Property Control practices will be enhanced to emphasized compliance with our property policies. The Property Control Office will continue to perform more rigorous spot audit reviews subsequent to the annual inventory process for respective departments with federally funded assets.

Implementation Date: February 2025

Responsible Person: Yvette Martinez, Senior Director of Financial Affairs

The University of Texas Medical Branch at Galveston

Reference No. 2024-104

General Controls

The following compliance areas were impacted:

Activities Allowed or Unallowed

Allowable Costs/Cost Principles

Cash Management

Equipment and Real Property Management

Period of Performance

Procurement and Suspension and Debarment

Subrecipient Monitoring

Special Tests and Provisions – Key Personnel

Federal Program Title:	Research and Development Cluster
Federal Agency:	Federal agencies that award Research and Development Cluster funds
Assistance Listing Number:	Multiple
Pass-Through Agency:	N/A
Award Number:	Multiple
Award Period:	Multiple
Statistically Valid Sample:	No and not intended to be a statistically valid sample
Type of Finding:	Significant Deficiency
Questioned Costs:	None
Repeat Finding:	No

An institution must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, Code of Federal Regulations (CFR), Section 200.303(a)).

The University of Texas Medical Branch at Galveston (Medical Branch) did not appropriately maintain certain systems it uses to manage its federal research and development awards. The Medical Branch asserted that the maintenance was postponed as the institution was evaluating the most effective approach for implementing certain upgrades. Not ensuring that systems are updated and supported increases the risk of data loss or security breaches. After auditors brought the issue to the institution's attention, the Medical Branch asserted that the appropriate maintenance was obtained.

Recommendation

The Medical Branch should ensure that all systems used to manage federal awards are appropriately maintained and supported.

Management's Response

Views of Responsible Officials:

Management agrees with the auditor's recommendation. Through analysis of the exceptions identified in the audit, the University implemented corrective action to reinstate maintenance and support.

Corrective Action Plan:

The Red Hat Enterprise Linux (RHEL) Extended Life Cycle Support license for UTMB's 51 PeopleSoft RHEL7 servers was received on Friday 10/4/2024 for service dates through 6/30/2025. Furthermore, these servers will be updated to RHEL9 in the first half of 2025.

Implementation Date: October 4, 2024

Responsible Person: Darwin VanDyke, IT Services – Director of Administrative & Research Information Systems

Reference No. 2024-105

Equipment and Real Property Management

Federal Program Title:	Research and Development Cluster
Federal Agency:	U.S. Department of Defense; and U.S. Department of Health and Human Services
Assistance Listing Number:	See below
Pass-Through Agency:	VaxDesign
Award Number:	See below
Award Period:	See below
Statistically Valid Sample:	No and not intended to be a statistically valid sample
Type of Finding:	Significant Deficiency and Noncompliance
Questioned Costs:	None
Repeat Finding:	No

A recipient's property records for equipment acquired with federal funds must be maintained accurately and include all of the following: a description of the equipment; serial number or other identification number; the source of funding for the equipment, including the federal award identification number; indication of who holds the title; acquisition date; cost of the equipment; the percentage of federal participation in the cost of the equipment; the location, use, and condition of the equipment; and ultimate disposition data, including the date of disposal and sale price (Title 2, Code of Federal Regulations (CFR), Section 200.313(d)(1)). A control system must be developed to ensure that adequate safeguards are in place to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft must be investigated (Title 2, CFR, Section 200.313(d)(3)).

The Medical Branch did not maintain accurate property records for 3 (5 percent) of 61 equipment items tested. Specifically:

- For two items, the property records contained incorrect locations. For one item, the location in the property record did not match the current location. For the second item, the location in the property record was not updated with the new room number after a renovation was completed.
- For one item, the property record contained a serial number that was recorded incorrectly.

In addition, the Medical Branch was unable to locate 8 (13 percent) of 61 equipment items selected for physical inspection. The Medical Branch asserted that the items were transferred to a surplus warehouse in preparation for disposal. However, the Medical Branch was not able to locate those items for testing because it did not have a process in place to track items in the warehouse. As a result, the Medical Branch was not able to demonstrate that those items were adequately safeguarded.

Not maintaining accurate and complete property records and not adequately safeguarding equipment increases the risk that equipment may be misused, lost, or stolen.

The following awards were affected by the issues discussed above:

Assistance Listing No.	Assistance Listing Title	Award Number	Award Year
12.000	Department of Defense	W81XWH-04-C-0139	September 29, 2004, to May 31, 2006
93.000	Department of Health and Human Services (HHS)	HHSN26620040009711 / N01-AI-40097	September 30, 2004, to September 30, 2010
93.113	Environmental Health	5P30ES00667615	April 1, 2005, to March 31, 2012
93.396	Cancer Biology Research	R01CA6008707	April 1, 1999, to January 31, 2004
93.837	Cardiovascular Diseases Research	5R01HL08055805S1	September 1, 2005, to August 31, 2012
93.855	Allergy and Infectious Diseases Research	5UC7AI070083-05	May 30, 2006, to April 30, 2012
93.855	Allergy and Infectious Diseases Research	R01AI093445	April 1, 2011, to March 1, 2016
93.855	Allergy and Infectious Diseases Research	RAI111464	April 1, 2018, to March 30, 2020
93.989	International Research and Research Training	5D43TW00659005 5R01AI02124224	September 1, 2003, to March 31, 2010 July 1, 2004, to June 30, 2009

Two awards were affected by the issues discussed above; however, due to the age of the assets, the award information was no longer available.

Recommendations

The Medical Branch should strengthen controls to ensure that it:

- Maintains accurate and complete property records for all equipment acquired with federal funds.
- Adequately safeguards and tracks all equipment sent to its surplus warehouse until appropriate disposition of that equipment.

Management's Response

Views of Responsible Officials:

Management agrees with the auditor's recommendation.

Corrective Action Plan:

UTMB will conduct a review of asset property records to ensure the serial numbers and locations are correct.

UTMB Finance will coordinate with UTMB Supply Chain to evaluate and strengthen controls related to assets in Surplus warehouse.

Implementation Date: November 1, 2025

Responsible Person: Mike Linton, Sr. Finance Manager

The University of Texas Southwestern Medical Center

Reference No. 2024-106

Equipment and Real Property Management

Federal Program Title:	Research and Development Cluster
Federal Agency:	U.S. Department of Defense; National Aeronautics and Space Administration; National Science Foundation; and U.S. Department of Health and Human Services
Assistance Listing Number:	12.000; 43.000; 47.000; and 93.000
Pass-Through Agency:	University of Washington; Northwestern University; University of Toronto; The University of Texas at Arlington; Duke University Medical Center; Medical College of Wisconsin; Rogosin Institute Centers for Medical Research; University of Pittsburgh; Mayo Clinic; University of Pennsylvania; Yale University; University of California, San Diego; and University of Southern California
Award Number:	Multiple
Award Period:	Multiple
Statistically Valid Sample:	No and not intended to be a statistically valid sample
Type of Finding:	Significant Deficiency and Noncompliance
Questioned Costs:	None
Repeat Finding:	No

A recipient must conduct a physical inventory of equipment and reconcile the results with its property records at least once every two years (Title 2, Code of Federal Regulations (CFR), Section 200.313(d)(2)). A control system also must be developed to ensure that adequate safeguards are in place to prevent loss, damage, or theft of equipment. Any loss, damage, or theft of equipment must be investigated (Title 2, CFR, Section 200.313(d)(3)).

Based on an analysis of a population of 1,330 federal assets, The University of Texas Southwestern Medical Center (Medical Center) did not perform a physical inventory for 257 (19 percent) of those items as required. Although the Medical Center had a process in place to monitor the most recent date each asset was inventoried, the process was not sufficient to ensure a complete physical inventory of all assets was conducted at least once during fiscal years 2023 and 2024.

Not performing a biennial inventory of all assets increases the risk that equipment purchased with federal funds may be lost, stolen, or improperly disposed.

Recommendation

The Medical Center should strengthen controls to ensure that a complete physical inventory of equipment is conducted at least once every two years.

Management's Response

Views of Responsible Officials:

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective action to further improve the processes.

Corrective Action Plan:

The University has developed a project plan to identify all assets that require inventory to meet Uniform Guidance requirements. Tasks, milestones, and deliverables will drive completion of the project, with the imperative to meet federal regulations and alignment with operational procedures taking priority. Contemporaneous reporting will be enhanced to include aged inventory dates and allow for setting of inventory tasks across a continuum. Meeting Uniform Guidance requirements will take precedence when completing inventory of all federally sponsored equipment, and if in conflict with internal operations and/or processes. UT Southwestern Medical Center's Asset Management procedure manual(s) will be revised to include the new process, controls, and reports established to consistently and repeatedly meet Uniform Guidance requirements. Further, UT Southwestern's Sponsored Program Administration and Internal Audit teams will coordinate to perform ad hoc internal reviews to assure the respective project plan has been completed and new process continues to meet the requirements of Uniform Guidance respective asset management inventory requirements. Implementation of this plan will commence February 1, 2025, with asset inventory being fully compliant with Uniform Guidance prior to July 31, 2025. Internal reviews will continue for a minimum period of two fiscal years, through FY27.

Implementation Date: February 1, 2025

Responsible Person: Megan G. Marks, PhD, Associate Vice President, Sponsored Programs Administration

Sharonda Lawson, Director, Sourcing and Contract Management

Timothy Martin, Director, Purchasing

Section 4

Summary Schedule of Prior Audit Findings

Federal regulations (Title 2, Code of Federal Regulations, Section 200.511(a)) state, “the auditee is responsible for follow-up and corrective action on all findings.” As part of this responsibility, the auditee reports the corrective action it has taken for each finding for the Research and Development Cluster in the 2023 Summary Schedule of Prior Audit Findings that was not identified as implemented. See State Auditor’s Office report entitled *State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2023*.

The Summary Schedule of Prior Audit Findings for the year ended August 31, 2024, has been prepared to address these responsibilities.

The University of Texas at Austin

Reference No. 2021-103

Equipment and Real Property Management

Federal Agencies:	U.S. Department of Defense, National Science Foundation, U.S. Department of Energy, U.S. Department of Education, U.S. Department of Health and Human Services
Federal Program Title:	Research and Development Cluster
Award Number:	See below
Award Years:	See below
Statistically Valid Sample:	No and not intended to be a statistically valid sample
Type of Finding:	Significant Deficiency and Non-Compliance
Questioned Costs:	\$0
Repeat Finding:	2018-109, 2015-134, 2014-155, 2013-176, 13-161, and 12-170
Initial Year Written:	2012
Status:	Partially Implemented

A recipient’s property records for equipment acquired with federal funds must be maintained accurately and include all of the following: a description of the equipment; serial number or other identification number; the source of funding for the equipment, including the federal award identification number; who holds the title; acquisition date and cost of the equipment; the percentage of federal participation in the cost of the equipment; the location, use, and condition of the equipment; and ultimate disposition data, including the date of disposal and sale price (Title 2, Code of Federal Regulations (CFR), Section 200.313(d)(1)).

The University of Texas at Austin (University) did not maintain accurate and complete property records for 6 (9 percent) of 64 equipment items tested. Specifically, for each of those items, the property record was inaccurate or did not contain one of the following elements: serial number or other identification number, cost of equipment, item location, or disposition information. The University relies on unit administrators within each University department to provide the required information in the

equipment property records. Those errors occurred because the University either (1) did not enter property records accurately and completely into its asset management system or (2) did not always follow its policies and procedures to update property records as needed.

Not maintaining accurate and complete property records increases the risk that equipment may be misused, lost, or stolen.

The following awards were affected by the equipment issues discussed above:

Assistance Listing No.	Assistance Listing Title	Award Number	Award Year
12.000	U.S. Department of Defense	N00014-95-1-0885	June 1, 1995, to May 31, 1998
47.041	Engineering	EEC-1160494	September 1, 2012, to August 31, 2017
47.070	Computer and Information Science and Engineering	ACI-1341711	November 1, 2013, to October 31, 2019
47.076	Education and Human Resources	DGE-0549417	July 1, 2006, to October 31, 2012
84.116	Fund for the Improvement of Postsecondary Education	P116Z030032	September 1, 2003, to August 31, 2004
93.867	Vision Research	3R01EY016454-01	May 1, 2005, to April 30, 2025

Corrective Action

This finding was reissued as current year reference number 2024-102 (Equipment and Real Property Management).

The University of Texas Health Science Center at San Antonio

Reference No. 2021-105

Equipment and Real Property Management

Federal Agency:	U.S. Department of Health and Human Services
Federal Program Title:	Research and Development Cluster
Award Number:	See below
Award Period:	See below
Statistically Valid Sample:	No and not intended to be a statistically valid sample
Type of Finding:	Significant Deficiency and Noncompliance
Questioned Costs:	\$0
Repeat Finding:	No
Initial Year Written	2021
Status:	Partially Implemented

A recipient's property records for equipment acquired with federal funds must be maintained accurately and include all of the following: a description of the equipment; serial number or other identification number; the source of funding for the equipment, including the federal award identification number; who holds the title; acquisition date and cost of the equipment; the percentage of federal participation in the cost of the equipment; the location, use, and condition of the equipment; and ultimate disposition data, including the date of disposal and sale price (Title 2, Code of Federal Regulations (CFR), Section 200.313(d)(1)). A control system must be developed to ensure that adequate safeguards are in place to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft must be investigated (Title 2, CFR, Section 200.313(d)(3)).

The University of Texas Health Science Center at San Antonio (Health Science Center) did not maintain accurate property records for 8 (13 percent) of 62 equipment items tested. Specifically, for each of those eight equipment items, the property record contained an incorrect location, serial number, or both. Those errors occurred because the Health Science Center did not enter information into its property record accurately or the asset management department was not notified when there were changes to the equipment items, such as relocation.

In addition, the Health Science Center did not adequately safeguard 2 (3 percent) of 58 equipment items selected for physical inspection. The property record for each of those items indicated they were in-service; however, the Health Science Center was unable to locate the items when auditors selected them for testing.

Not maintaining accurate property records and not adequately safeguarding equipment increases the risk that equipment may be misused, lost, or stolen.

Corrective Action

This finding was reissued as current year reference number 2024-103 (Equipment and Real Property Management).



Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to (1) obtain an understanding of the internal controls over compliance for the Research and Development Cluster, assess the control risk of noncompliance, and perform tests of those controls unless the controls were deemed to be ineffective, and (2) express an opinion on whether the State has complied with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on the Research and Development Cluster in accordance with the Single Audit Act Amendments of 1996 and Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Scope

The audit scope covered federal funds that the State spent for the Research and Development Cluster from September 1, 2023, through August 31, 2024. The audit work included control and compliance testing at eight higher education institutions across the state.

Methodology

Audit fieldwork was conducted from June 2024 through December 2024. Except as discussed above in the Independent Auditor’s Report, we conducted this audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2, Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Sampling Methodology

Auditors selected nonstatistical samples for tests of compliance and controls for each direct and material compliance area identified based on the American Institute of Certified Public Accountants’ (AICPA) audit guide entitled *Government Auditing Standards and Single Audits* dated April 1, 2024. In determining the sample sizes for control and compliance test work, auditors assessed risk levels for inherent risk of noncompliance, control risk of noncompliance, risk of material noncompliance, detection risk of noncompliance, and audit risk of noncompliance by compliance requirement. Auditors selected nonstatistical samples primarily through random selection. In some cases, auditors selected additional items for compliance testing based on risk.

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

Addressing the Audit Objectives

During the audit, we performed the following:

- Interviewed higher education institution staff to gain an understanding of internal controls over compliance for the Research and Development Cluster.
- Identified relevant criteria applicable to the Research and Development Cluster:
 - Title 2, Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Appendix XI Compliance Supplement*.
 - Federal notices of award, award agreements, and award proposals.
 - Institution policies and procedures, including disclosure statements (DS-2 statements) and indirect cost rate plans.
 - Policies and procedures for each higher education institution audited.
- Collected and reviewed data, including:
 - Institution expenditure, procurement, equipment, cash draw, and subrecipient data.
 - Transactional support related to expenditures.
 - Federal notices of award, award agreements, and award proposals.
 - Information system support related to general controls over information systems that affect the control structure related to federal compliance.
- Conducted tests of compliance and of the controls identified for each direct and material compliance area, and performed analytical procedures when appropriate, including:
 - Analytical procedures on expenditure data to identify instances of noncompliance.
 - Compliance testing for samples of transactions for each direct and material compliance area.
 - Tests of design and operating effectiveness of key controls, as well as tests of design of non-key controls, to assess the sufficiency of each institution's control structure.
 - Tests of design and effectiveness of general controls over information systems that supported the control structure related to federal compliance.

Data Reliability and Completeness

Auditors assessed the reliability of Research and Development Cluster expenditure and General Ledger data as well as in-service equipment, disposed equipment, and procurement populations by (1) reviewing query language used to generate the data, (2) performing electronic testing, (3) reviewing existing information about the data and the system(s) that produced the data, and (4) interviewing institution staff knowledgeable about the data. Auditors determined that the data sets were sufficiently reliable for the purposes of the audit.

Audit Staff

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



- Valerie Bogan, CFE (Project Manager)
- Brandy Corbin, CFE (Assistant Project Manager)
- Tony White, CFE (Assistant Project Manager)
- Brady Bennett, MBA, CFE, CGAP (Team Lead)
- Pamela A. Bradley, CPA, CFE (Team Lead)
- Charlotte Carr, MEd (Team Lead)
- Alex Franklin, CFE (Team Lead)
- Rebecca Franklin, CFE, CISA, CGAP, CICA (Team Lead)
- Gabrielle Magadia, CFE (Team Lead)
- Jessica McGuire, MSA (Team Lead)
- Matthew Page (Team Lead)
- Daniel Spencer, MSA, CFE (Team Lead)
- Brenda Zamarripa, CIA, CGAP (Team Lead)
- Charlotte Carpenter, CPA
- Daniel Carr, CFE
- Alec Dickerson
- Allison Fries, CFE
- Karmalita Fults

- Alanna Glor
- Garrett Hadden
- Michael Harris
- Dirk Henson
- Colin Jackson
- David Johnson, CFE
- Cameron Keating
- Alex Kipple, CFE
- Kevin Mack
- Sam Minty
- Minh Nguyen
- Venus Santos, CFE, CISA
- Cynthia Saye
- Ansley Tarbet
- Theodore Ulmer
- Robby Webb
- Kiara White, MPP, CFE
- Josh Wright
- Dana Musgrave, MBA, CFE (Quality Control Reviewer)
- Jennifer Brantley, MS, CPA (Audit Manager)



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