



John Keel, CPA
State Auditor

State of Texas Financial Portion of the
Statewide Single Audit Report
for the Year Ended
August 31, 2012

February 2013
Report No. 13-555



State of Texas Financial Portion of the
**Statewide Single Audit Report for the
Year Ended August 31, 2012**

SAO Report No. 13-555
February 2013

Overall Conclusion

In our audit opinion dated February 21, 2013, we concluded that the basic financial statements for the State of Texas presented fairly, in all material respects, the financial position and activities of the State for the fiscal year ended August 31, 2012. The Office of the Comptroller of Public Accounts published our audit opinion as part of the Comprehensive Annual Financial Report for fiscal year 2012, which it has posted on its Web site at <http://www.window.state.tx.us/finances/pubs/cafr/>.

The financial statements provide a comprehensive view of the State's financial activities during the fiscal year and an overall picture of the financial position of the State at the end of the fiscal year. The State successfully contends with significant complexities in preparing its basic financial statements. Compiling financial information and ensuring its accuracy for more than 200 state agencies and higher education institutions is a major undertaking.

The financial statements convey the use of approximately \$120.5 billion during the fiscal year, a decrease of \$4.1 billion or 3.3 percent since the prior fiscal year.¹ The State's assets on August 31, 2012, totaled \$231.4 billion, an increase of \$19.5 billion or 9.2 percent since the prior fiscal year. The State's cash and cash equivalents increased by \$10.1 billion since the prior fiscal year. The State sold approximately \$9.8 billion in State of Texas Tax and Revenue Anticipation Notes on August 21, 2012; that amount was approximately the same amount the State sold in the prior fiscal year.

Basic Financial Statements

The State's basic financial statements include both government-wide and fund financial statements:

- Government-wide financial statements display information about the State as a whole, except for its fiduciary activities.
- Fund financial statements for the State's governmental and proprietary funds provide information on the major funds individually and nonmajor funds in the aggregate. Fiduciary statements include financial information for fiduciary funds.

¹ The \$120.5 billion in annual expenditures exceeded the \$96.1 billion appropriated for fiscal year 2012 primarily because:

- Certain expenditures (such as higher education institutions' expenditures of funds held outside of the State Treasury) are included in the Comprehensive Annual Financial Report but are not included in the General Appropriations Act.
- The Comprehensive Annual Financial Report presents actual expenditures of federal funds, while the General Appropriations Act presents estimated amounts for federal funds.
- The Comprehensive Annual Financial Report is presented on an accrual basis, while the General Appropriations Act is presented primarily on a cash basis.

Auditing financial statements is not limited to reviewing the numbers in those statements. Conducting this audit also requires the State Auditor's Office to obtain a sufficient understanding of the agencies and higher education institutions and their operating environments—including obtaining an understanding of the internal controls over systems and processes that the agencies and higher education institutions use to record their financial activities—to assess the risk of material misstatement of the financial statements. Through that effort, auditors identified specific weaknesses in information technology access controls that the Texas Education Agency should correct to improve the reliability of its financial information. Those weaknesses are discussed in Chapter 2-A of this report.

The State Auditor's Office also audited the State's Schedule of Expenditures of Federal Awards (SEFA) in relation to the Comprehensive Annual Financial Report for fiscal year 2012. The Office of the Comptroller of Public Accounts prepares the SEFA by using SEFA data from all state agencies and higher education institutions that made federal expenditures during the fiscal year. The State Auditor's Office and KPMG LLP (KPMG) audited the processes for preparing SEFA information at 17 agencies and 13 higher education institutions. That audit work included following up on SEFA findings identified in audits of prior fiscal years at 3 agencies and 9 higher education institutions. Auditors identified errors related to the SEFA information at 3 agencies and 7 higher education institutions. Those errors are discussed in Chapter 2-B of this report.

To avoid duplication of effort, the State Auditor's Office relies on KPMG's testing of the internal controls over certain systems and processes. While testing the State's compliance with federal requirements, KPMG identified a material weakness in the managed care program at the Health and Human Services Commission that was caused by inadequate segregation of duties and the use of a manual calculation process for payments to managed care organizations. The managed care program is material to the State's financial statements, and total payments to managed care providers for fiscal year 2012 totaled approximately \$9 billion. The material weakness KPMG identified is related to both financial processes and federal compliance. As of April 2012, the managed care program includes approximately 85 percent of the individuals covered by Medicaid in Texas. For more information see finding 13-14 in *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012*, by KPMG.

The State Auditor's Office conducts this audit so that the State can comply with federal legislation (the Single Audit Act Amendments of 1996); state statute (Texas Government Code, Section 403.013(c)); and grant requirements to obtain an opinion regarding the fair presentation of its basic financial statements and a report on internal controls related to those statements. The results of this audit are used primarily by companies that review the State's fiscal integrity to rate state-issued bonds, the Legislature, and by federal agencies that award grants.

Key Points

The financial systems and controls at the agencies audited enable the State to prepare materially accurate basic financial statements.

The financial systems and controls at the four agencies audited and included in this report (the Health and Human Services Commission, the Office of the Comptroller of Public Accounts, the Texas Education Agency, and the Texas Workforce Commission) enable the State to prepare materially accurate basic financial statements.

However, auditors identified weaknesses in information technology access controls at the Texas Education Agency.

Certain agencies and higher education institutions should strengthen their processes for preparing and reporting information on their SEFAs.

Auditors identified errors significant to the accuracy of the SEFAs prepared by 10 (33 percent) of the 30 agencies and higher education institutions at which SEFA information was audited. Those errors were caused by a lack of adequate preparation and review of SEFA information at those agencies and higher education institutions. In addition, some higher education institutions incorrectly prepared their SEFAs by award year instead of by fiscal year for federal funds from the Student Financial Assistance cluster of federal programs.

Auditors communicated less significant financial reporting or SEFA issues to management of certain agencies and higher education institutions in writing.

Summary of Management's Responses

The agencies and higher education institutions generally agreed with the recommendations in this report.

Summary of Information Technology Review

Auditors reviewed the significant accounting and information systems at the agencies audited. Specifically, auditors identified systems that compiled and contained data used to prepare the Comprehensive Annual Financial Report and then reviewed basic data protection controls such as security, access, application development and control, and data recovery. As discussed in the detailed findings, auditors identified certain user access control weaknesses at the Texas Education Agency. Correcting those weaknesses will help to ensure the reliability of that agency's financial information.

Summary of Objective, Scope, and Methodology

The audit objective was to determine whether the State's basic financial statements present fairly, in all material respects, the balances and activities for the State of Texas for the fiscal year ended August 31, 2012.

The Statewide Single Audit is an annual audit for the State of Texas. It is conducted so that the State complies with (1) the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133 and (2) state statute requiring that an audited Comprehensive Annual Financial Report be provided to the Governor.

The scope of the financial portion of the Statewide Single Audit included an audit of the State's basic financial statements and a review of significant controls over financial reporting and compliance with applicable requirements.

The scope of the federal compliance portion of the Statewide Single Audit included an audit of the State's SEFA, a review of compliance for each major program, and a review of significant controls over federal compliance. The State Auditor's Office contracted with KPMG to provide an opinion on compliance for each major program and internal control over compliance. The State Auditor's Office provided an opinion on the State's SEFA. Information on the federal compliance portion of the Statewide Single Audit is included in a separate report entitled *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012* by KPMG.

The audit methodology consisted of collecting information, identifying risk, conducting data analyses, performing selected audit tests and other procedures, and analyzing and evaluating results against established criteria. Auditors assessed the reliability of data by (1) performing electronic tests of required data elements, (2) reviewing existing information about data and the systems that produced the data, and (3) interviewing agency officials knowledgeable about data. Auditors determined that the data was sufficiently reliable for the purposes of this audit.

Contents

Independent Auditor's Report 1

Chapter 1	
Summary of Auditor's Results	2

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.....	3
--	---

Schedule of Findings and Responses 7

Chapter 2	
Financial Statement Findings	8

Chapter 2-A	
The Texas Education Agency Should Strengthen Access Controls.....	8

Chapter 2-B	
Agencies and Higher Education Institutions Should Strengthen Their Review of Their Schedules of Expenditures of Federal Awards	10

Chapter 3	
Federal Award Findings and Questioned Costs.....	20

Summary Schedule of Prior Audit Findings 21

Chapter 4	
Summary Schedule of Prior Audit Findings	22

Chapter 4-A	
The Health and Human Services Commission Should Strengthen Controls Over Payments and Eligibility for Public Assistance Programs	23

Chapter 4-B	
The Office of the Comptroller of Public Accounts Should Strengthen Information Security Controls	25

Chapter 4-C
The Department of Transportation Should Strengthen
Controls Over Information Technology 26

Chapter 4-D
Agencies and Higher Education Institutions Should
Strengthen Their Review of Their Schedules of
Expenditures of Federal Awards 28

Appendices

Appendix 1
Objective, Scope, and Methodology 34

Appendix 2
Agencies and Higher Education Institutions Audited 38

Independent Auditor's Report

*State of Texas Financial Portion of the
Statewide Single Audit Report for the
Year Ended August 31, 2012*

Summary of Auditor's Results

Financial Statements

- | | |
|--|-------------|
| 1. Type of auditor's report issued: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. Noncompliance material to financial statements noted? | No |

Federal Awards

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2012 was included in Chapter 2-B of this report. All other fiscal year 2012 federal award information was issued in a separate report (see *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012*, by KPMG LLP).



**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***

The Honorable Rick Perry, Governor
The Honorable Susan Combs, Comptroller of Public Accounts
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Joe Straus III, Speaker of the House of Representatives
and
Members of the Texas Legislature
State of Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of and for the year ended August 31, 2012, and have issued our report thereon dated February 21, 2012. Our report includes a reference to other auditors. Except as discussed in the following paragraph, we conducted our audit in accordance with 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. Other auditors audited the financial statements of the entities listed below in the section titled "Work Performed by Other Auditors." This report does not include the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. The financial statements of the Texas Local Government Investment Pool (TexPool) were not audited in accordance with *Government Auditing Standards*.

We have chosen not to comply with a reporting standard that specifies the wording to be used in discussing restrictions on the use of this report. We believe the use of such wording is not in alignment with our role as a legislative audit function.

Internal Control Over Financial Reporting

Management of state agencies and higher education institutions is responsible for establishing and maintaining effective internal control over the State's financial reporting. In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures 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 State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies. 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.

Summary of Findings	
Agency or Higher Education Institution	Finding Numbers
Texas Education Agency	13-555-01
Multiple agencies and higher education institutions	13-555-02

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State’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*.

We noted certain matters that we reported to management of the entities audited in writing.

Work Performed by Other Auditors

The State Auditor's Office did not audit the entities and funds listed in the table below. These entities were audited by other auditors.

Entities Audited by Other Auditors	Scope of Work Performed
Texas Lottery Commission	An audit of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Texas Lottery Commission was conducted as of and for the year ended August 31, 2012.
The University of Texas System	An audit of the consolidated balance sheet of the University of Texas System, as of and for the year ended August 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year then ended was conducted.
Texas Local Government Investment Pool (TexPool)	An audit of the statements of pool net assets and the related statements of changes in pool net assets of TexPool was conducted as of and for the years ended August 31, 2012, and August 31, 2011.

This report, insofar as it relates to the entities listed in the table above, is based solely on the reports of the other auditors.

Other Work Performed by the State Auditor's Office

We issued opinions on the following financial statements, which are consolidated into the basic financial statements of the State of Texas:

- *A Report on the Audit of the Teacher Retirement System's Fiscal Year 2012 Financial Statements* (State Auditor's Office Report No. 13-009, November 2012).
- *A Report on the Audit of the Employees Retirement System's Fiscal Year 2012 Financial Statements* (State Auditor's Office Report No. 13-012, December 2012).
- *A Report on the Audit of the Department of Housing and Community Affairs' Fiscal Year 2012 Financial Statements* (State Auditor's Office Report No. 13-014, December 2012).
- *A Report on the Audit of the Permanent School Fund's Fiscal Year 2012 Financial Statements* (State Auditor's Office Report No. 13-015, December 2012).
- *A Report on the Audits of the Fiscal Year 2012 Financial Statements of the Department of Transportation, the Central Texas Turnpike System, and the Texas Mobility Fund* (State Auditor's Office Report No. 13-016, January 2013).
- *A Report on the Audit of the Office of the Fire Fighters' Pension Commissioner's Fiscal Year 2012 Financial Statements* (State Auditor's Office Report No. 13-017, January 2013).

Management's responses to the findings identified in our audit are included in the accompanying schedule of findings and responses. We did not audit management's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of the Governor, the Legislature, audit committees, boards and commissions of the State, federal awarding agencies, and pass-through entities. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

John Keel, CPA
State Auditor

February 21, 2013

Schedule of Findings and Responses

*State of Texas Financial Portion of the
Statewide Single Audit Report for the
Year Ended August 31, 2012*

Financial Statement Findings

This chapter identifies the significant deficiencies related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

Chapter 2-A

The Texas Education Agency Should Strengthen Access Controls

Issue 1

The Texas Education Agency Should Strengthen Access Controls for Its Database Servers

Reference No. 13-555-01

Type of finding: Significant Deficiency

The Texas Education Agency (Agency) did not terminate access to its database servers in a timely manner. Auditors identified five active user accounts that belonged to personnel who were no longer employed by the Agency. Two of those 5 personnel had separated from the Agency 11 months prior to when auditors tested those user accounts; the remaining personnel had separated from the Agency 9 months, 6 months, and 3 months prior to when auditors tested those user accounts. Additionally, the Agency did not change the password for a database server account after the individual responsible for that account left the Agency.

The Agency removed the five user accounts discussed above and changed the password for the database server account discussed above after auditors brought those matters to its attention.

Title 1, Texas Administrative Code, Section 202.20(1), requires agencies to protect information resources against unauthorized access, disclosure, modification, or destruction, whether accidental or deliberate, as well as to assure the availability, integrity, utility, authenticity, and confidentiality of information. Not terminating the access of former employees increases the risk of inappropriate modification or compromise of data.

Recommendations

The Agency should:

- Routinely monitor user access to its database servers to protect information resources.
- Immediately deactivate user accounts when the employment of personnel ends.

- Immediately change passwords for database server accounts that the Agency does not deactivate when personnel responsible for those accounts leave the Agency.

Management's Response

Status as of 02/12/2013: All Recommendations Implemented

Contact: Chief Information Officer

Management agrees with the findings.

As noted above, the Agency removed the five user accounts and changed the password for the Financial School Program (FSP) database server account after auditors brought those matters to its attention. The Agency will follow a documented process for the DBAs to maintain and regularly monitor a secured internal list of all FSP database privileged user accounts and passwords.

Recommendation #1: At a minimum, TEA DBAs will follow the documented process to review the FSP database privileged user accounts list and update and/or remove inactive accounts during each fiscal year.

Recommendation #2: Following the documented process, TEA DBAs will immediately deactivate FSP user accounts upon official notification of an employee's termination of employment.

Recommendation #3: Following the documented process, TEA DBAs will immediately change passwords for database server accounts upon official notification of an employee's termination of employment.

Agencies and Higher Education Institutions Should Strengthen Their Review of Their Schedules of Expenditures of Federal Awards

Reference No. 13-555-02

(Prior Audit Issues 12-555-05, 11-555-17, 10-555-26, and 09-555-19)

Type of finding: Significant Deficiency

Schedule of Expenditures of Federal Awards (SEFA)

Each agency, college, and university that expends federal awards is required to prepare a Schedule of Expenditures of Federal Awards (SEFA). Federal awards include federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities [Office of Management and Budget (OMB) Circular A-133, Section .105].

Federal financial assistance includes any assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance [OMB Circular A-133, Section .105].

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts.

The agencies and higher education institutions discussed below did not appropriately prepare or adequately review their fiscal year 2012 Schedules of Expenditures of Federal Awards (SEFAs) (see text box for additional information). Therefore, the SEFAs those agencies and higher education institutions submitted to the Office of the Comptroller of Public Accounts (Comptroller's Office) contained errors.

The 3 agencies and 7 higher education institutions discussed below reported \$2.66 billion in federal expenditures, or 5 percent of the total federal expenditures the State of Texas reported for fiscal year 2012. The errors listed below were not material to the fiscal year 2012 SEFA for the State of Texas or to the fiscal year 2012 Comprehensive Annual Financial Report for the State of Texas. However, collectively, these errors represent control weaknesses that could be significant to the State's SEFA.

Department of Public Safety

On its SEFA, the Department of Public Safety (DPS):

- Incorrectly included \$54,896 in expenditures for one Catalog of Federal Domestic Assistance (CFDA) program on its SEFA.
- Incorrectly excluded \$278,458 in expenditures for 6 CFDA's on its SEFA.
- Incorrectly classified \$17,711 in expenditures on its SEFA.
- Reported \$1,157,834 using revenue instead of expenditures for 3 CFDA's on its SEFA.
- Could not provide adequate supporting documentation for adjustments it made to 5 CFDA's totaling \$2,156,595.
- Understated federal revenue by \$269,043 in the notes to its SEFA due to the errors identified above.
- Overstated deferred revenue by \$12,072 in the notes to its SEFA due to the errors identified above.

Recommendations

DPS should:

- Improve the preparation process for its SEFA to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Strengthen its review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Maintain adequate supporting documentation for all expenditures it reports on its SEFA.
- Use expenditure data to report all CFDA's on its SEFA.

Management's Response

The Department agrees with the four recommendations. DPS converted to a new accounting system (USAS) in 2012, this was the first Schedule of Expenditure of Federal Award (SEFA) produced from that system. While USAS provides an improved accounting structure, and reporting for DPS's \$442 million of 2012 federal funds, we did experience some challenges as the result of the conversion.

DPS will take steps to:

- *Improve the preparation process for its SEFA to help ensure that we prepare our SEFA correctly and that the SEFA submitted to the Comptroller's Office is complete and accurate.*
- *Strengthen the review process to help ensure that we prepare the SEFA correctly and that the SEFA submitted to the Comptroller's Office is complete and accurate.*
- *Maintain adequate supporting documentation for all expenditures reported on the SEFA.*
- *Use expenditure data to report all CFDA's on the SEFA.*

Implementation Date: November 2013

Responsible Person: Deputy Assistant Director, Grants and Accounting

Office of the Attorney General

Program Income

Program income is gross income received that is directly generated by a federally funded project during the grant period. Program income includes income from fees for services performed.

Source: U. S. Office of Management and Budget Compliance Supplement 2012, Part 3 Compliance Requirements, June 2012.

The Office of the Attorney General (OAG) incorrectly excluded \$10,890,726 in expenditures paid from program income for one CFDA from its SEFA (see text box for additional information).

Recommendation

The OAG should strengthen its review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.

Management's Response

We believe the SEFA was prepared in accordance with the State's requirements and instructions. Total agency expenditures and revenues, including program income, were reported accurately on the operating statement (Exhibit II) of the Annual Financial Report. However, based on the auditor's recommendation, we will ensure that the program income is also included on the SEFA in the future. Management has already initiated additional review procedures to ensure program income is reported on the SEFA in the future.

Implementation Date: Already Implemented

Responsible Person: Director of Accounting

Parks and Wildlife Department

The Parks and Wildlife Department (Department) used information from the Uniform Statewide Accounting System (USAS) to prepare its SEFA and the notes to its SEFA. However, the Department was unable to reconcile information in its internal accounting system with information in USAS, and the total fiscal year 2012 expenditures of federal funds recorded in each of those two systems differed by approximately \$300,000.

The Comptroller of Public Accounts' *Reporting Requirements for Fiscal Year 2012 Annual Financial Reports for State Agencies and Universities* requires each state agency to ensure and certify that its financial data correctly reflects its financial position as of August 31, 2012, as recorded in USAS and the agency's internal accounting system.

Recommendation

The Department should reconcile its internal accounting system with USAS.

Management's Response

TPWD agrees with the audit finding as it relates specifically to SEFA reporting and reconciliation and will implement the recommendation put forth by the SAO. TPWD currently conducts reconciliation of GL revenues and expenditures from the internal accounting system with revenue and expenditure information in USAS. However, in response to the recent SEFA review in fall 2012, TPWD has redefined how to properly classify billing expenditures by fiscal year (FY) and is currently developing a reconciliation process to tie invoiced expenditures directly to revenue reimbursements.

Implementation Date: These modified procedures will be put in place during FY13 and should increase efficiencies and enhance the agency's ability to properly reconcile federal expenditures in the internal accounting system to federal revenues in USAS, consistent with SEFA reporting.

Responsible Person: TPWD Grants and Contracting Director

Texas Southern University

On its SEFA, Texas Southern University (TSU) incorrectly reported expenditures for three CFDA's in the Student Financial Assistance Cluster of federal programs using award year instead of fiscal year. As a result, it incorrectly included \$1,866,335 in expenditures on its SEFA. Additionally, TSU incorrectly included \$2,625 in expenditures for another CFDA. Those errors caused TSU to overstate federal revenue by \$1,863,710 in the notes to its SEFA.

Recommendation

TSU should strengthen its review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.

Management's Response

Management is in agreement and will take appropriate steps to make changes to accommodate this recommendation.

Effective FY13 TSU – Business Affairs department will collaborate with all responsible areas involved in the recording of expenditures and the review of SEFA. We will make procedural and process changes to ensure future SEFA expenditures are reported correctly. Specifically, federal student assistance expenditures will be reported in the SEFA on a fiscal year basis instead of award year basis. Additional review of Student Financial Assistance Year-End

adjustments relating to federal programs expenditure will be completed. Finally, analysis and verification prior to submission of the final numbers for SEFA reporting will be completed to provide adequate controls and ensure accurate reporting.

Implementation Date: April 1, 2013

Responsible Persons: Director Research Financial service and Director Business Affairs

University of North Texas

On its SEFA, the University of North Texas (UNT):

- Incorrectly reported expenditures for four CFDA's in the Student Financial Assistance Cluster of federal programs using award year instead of fiscal year. As a result, UNT (1) incorrectly included \$6,257,520 and (2) incorrectly excluded \$278,738 in expenditures on its SEFA. UNT also incorrectly included \$6,255,520 of those expenditures in the notes to its SEFA and understated federal revenue by \$276,738 in the notes to its SEFA.
- Could not provide adequate support for excluding \$361,374 in expenditures from its SEFA. UNT asserted that it excluded those expenditures because it had a vendor relationship with other state entities; however, UNT could not provide support for that assertion.

Recommendations

UNT should:

- Strengthen its review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Confirm all pass-throughs and vendor relationships with other state entities and maintain documentation of those pass-throughs and vendor relationships.

Management's Response

We concur with the auditor's findings and recommendations. Financial aid reporting procedures will be modified to ensure compliance with GASB 33 and the State Comptroller's reporting requirements for SEFA. Pass-thru confirmation processes will be modified to ensure the collection and retention of documentary evidence supporting our reporting assertions.

Implementation Date: Reporting cycle ending August 31, 2013

Responsible Person: Associate Vice President for Finance and Controller

The University of Texas at Arlington

On its SEFA, the University of Texas at Arlington (UT-Arlington):

- Incorrectly classified \$160,980,077 in expenditures as Federal Family Education Loans (CFDA 84.032) on its SEFA and in the notes to its SEFA when it should have classified those expenditures as Federal Direct Student Loans (CFDA 84.268).
- Incorrectly reported expenditures for one CFDA in the Student Financial Assistance Cluster of federal programs using award year instead of fiscal year. As a result, UT-Arlington incorrectly excluded \$3,067,329 in expenditures from its SEFA and from the notes to its SEFA.
- Incorrectly classified \$9,900 in expenditures on its SEFA.
- Did not identify (\$218) in expenditures as American Recovery and Reinvestment Act expenditures on its SEFA.
- Overstated federal pass-through revenue by \$50,394 in the notes to the SEFA. That occurred because UT-Arlington incorrectly reported revenue received from vendor relationships with other state entities as federal pass-through revenue.
- Incorrectly listed (\$454) in expenditures as federal revenue received from a vendor relationship with the federal government, rather than as other reconciling items, in a note to its SEFA.
- Did not include in its SEFA a note regarding depository libraries for government publications.

Recommendations

UT-Arlington should:

- Strengthen its review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Prepare and submit all required notes to its SEFA to the Comptroller's Office.

Management's Response

UTA will strengthen its review process to help ensure that the SEFA is complete and accurate.

Now that we are aware of the Depository Library we will include it in our notes.

Implementation Date: We will have these responses implemented for our FY2013 SEFA report.

Responsible Person: Director of Financial Reporting

The University of Texas at Austin

On its SEFA, the University of Texas at Austin (UT-Austin):

- Incorrectly classified \$878,521 in expenditures related to 7 CFDA's as part of the Research and Development cluster of federal programs.
- Incorrectly reported expenditures for one CFDA in the Student Financial Assistance Cluster of federal programs using award year instead of fiscal year. As a result, UT-Austin incorrectly included \$238,338 in expenditures on its SEFA and in the notes to its SEFA.

Recommendation

UT-Austin should strengthen its process for identifying CFDA's that are part of the Research and Development cluster of federal programs to help ensure that it includes only appropriate CFDA's in that cluster on its SEFA.

Management's Response

This CFDA expenditure discrepancy did not occur due to inadequate preparation or review of the 2012 Schedules of Expenditures of Federal Awards. The decision to defer Pell was intentional due to the fact that the tuition and fee revenue that is paid by Pell is deferred except for the number of class days that occur in the fiscal year. To properly match revenues and expenses, a decision was made by UT System to defer the related scholarship expenses to properly match the scholarship expense with the revenues for those class days. Now that it has been brought to our attention that GASB 33 requires us to recognize Pell when all eligibility requirements are met, we will no longer defer Pell and will recognize it in the award year.

Implementation Date: This will occur in 2013.

Responsible Person: Finance Manager

The University of Texas at El Paso

On its SEFA, the University of Texas at El Paso (UT-El Paso):

- Incorrectly reported expenditures for seven CFDA's in the Student Financial Assistance Cluster of federal programs using award year instead of fiscal year. As a result, UT-El Paso (1) incorrectly included \$1,070,902 in expenditures on its SEFA and (2) incorrectly excluded \$253,570 in expenditures from its SEFA. UT-El Paso also incorrectly included \$839,817 in expenditures in the notes to its SEFA and understated federal revenue by \$22,485 in the notes to its SEFA.
- Did not include in its SEFA a note regarding depository libraries for government publications.

Recommendations

UT-El Paso should:

- Strengthen its review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Prepare and submit all required notes to its SEFA to the Comptroller's Office.

Management's Response

We concur with the findings.

The finding related to the Student Financial Aid Cluster was a result of incorrect parameters set in the Banner system for the report. The download will be corrected for this year's SEFA.

Implementation Date: August 31, 2013

Responsible Person: Interim Director of Financial Aid

The finding related to the depository library is easily correctable as the language will simply be added to the SEFA notes for the Year ending August 31, 2013.

Implementation Date: August 31, 2013

Responsible Person: Associate Vice President of Business Affairs/Comptroller

The University of Texas - Pan American

On its SEFA, the University of Texas – Pan American (UT-Pan American) incorrectly reported expenditures for one CFDA in the Student Financial Assistance Cluster of federal programs using award year instead of fiscal year. As a result, UT-Pan American incorrectly excluded \$10,220,346 in expenditures on its SEFA and in the notes to its SEFA.

Recommendation

UT-Pan American should strengthen its review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.

Management's Response

Management concurs with the Audit Finding and Recommendation. UT Pan American will continue to strengthen its review process to help ensure that the SEFA is prepared correctly and that the SEFA submitted to the Comptroller's Office is complete and accurate.

UT Pan American will change its reporting methodology to reflect fiscal year total activity instead of award year total activity for the Financial Assistance Cluster Federal Direct Student Loans (CFDA #84.268) as SEFA New Loans Processed and in the SEFA Notes.

Implementation Date: June 30, 2013

Responsible Person: Associate Comptroller

The University of Texas Southwestern Medical Center

On its SEFA, the University of Texas Southwestern Medical Center (UTSWMC):

- Incorrectly reported expenditures for three CFDAs in the Student Financial Assistance Cluster of federal programs using award year instead of fiscal year. That caused \$484,877 in expenditures to be incorrectly included on the SEFA and \$396,811 in expenditures to be incorrectly excluded from the SEFA, and the notes to the SEFA incorrectly reflected the net difference of \$88,066.

- Did not identify \$20,360 in expenditures related to one CFDA as part of the Research and Development cluster of federal programs.

Recommendation

UTSWMC should strengthen its review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.

Management's Response

Expenditures will be included for Student Financial Assistance within the SEFA and in the notes to the SEFA based on fiscal year criteria rather than award year criteria. The net effect of utilizing the award year rather than fiscal year to report expenditures resulted in an overstatement of expenditures reported on the SEFA of approximately .04%.

CFDA 93.847 was erroneously included in a non-research cluster which represented one award out of a total of approximately 700 awards on the SEFA. Awards are reviewed at the time that they are created to ensure proper setup and reviewed at year end to ensure that expenditures identified as research in the accounting system are also reflected on the SEFA within the research cluster. Further reviews will be included by reviewing descriptive text of CFDA numbers to further enhance current reviews to ensure that CFDA numbers are included in the proper cluster on the SEFA.

Implementation Date: August 31, 2013

Responsible Person: Assistant Vice President Accounting and Post Awards Administration

Federal Award Findings and Questioned Costs

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2012 was included in Chapter 2-B of this report. All other fiscal year 2012 federal award information was issued in a separate report. See *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012*, by KPMG LLP.

Summary Schedule of Prior Audit Findings

*State of Texas Financial Portion of the
Statewide Single Audit Report for the
Year Ended August 31, 2012*

Summary Schedule of Prior Audit Findings

Federal regulations (Office of Management and Budget Circular A-133) state that “the auditee is responsible for follow-up and corrective action on all audit findings.” As part of this responsibility, the auditees report the corrective actions they have taken for the findings reported in:

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2007 (State Auditor’s Office Report No. 08-555, April 2008).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2008 (State Auditor’s Office Report No. 09-555, April 2009).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009 (State Auditor’s Office Report No. 10-555, March 2010).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010 (State Auditor’s Office Report No. 11-555, February 2011).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2011 (State Auditor’s Office Report No. 12-555, February 2012).

The Summary Schedule of Prior Audit Findings (for the year ended August 31, 2012) has been prepared to address these responsibilities.

The Health and Human Services Commission Should Strengthen Controls Over Payments and Eligibility for Public Assistance Programs

Issue 1

The Health and Human Services Commission Should Strengthen Controls Over Payment Processing

Reference No. 12-555-01
(Prior Audit Issues 11-555-01 and 10-555-01)

Type of finding: Material Weakness

The Health and Human Services Commission (Commission) continues to have inadequate controls to address risks related to system and server access, security over sensitive documentation, and physical security over computing resources.

Additionally, the Commission does not review interfaced payment transactions prior to releasing those transactions for payment into the Uniform Statewide Accounting System (USAS). The weekly interfaced payment transaction batch sizes during fiscal year 2011 ranged from approximately 5,600 transactions to more than 45,700 transactions. The large volume of payment transactions and the lack of review and approval increase the risk that a payment error could go undetected.

As the State Auditor's Office reported in March 2010², the issues in the payment process represent a material weakness. The Commission completed an audit to address this material weakness in February 2011. The results of the Commission's audit confirmed the existence of the issues the State Auditor's Office reported in March 2010. As a result of the Commission's audit, the Commission performed in-depth analysis and documented processes and controls related to the payment process. The Commission made significant progress in identifying and strengthening controls over the payment process during fiscal year 2011. To reduce the severity of the weakness, the Commission indicated that it implemented additional improvements in the payment processing controls structure after the end of fiscal year 2011. The Commission also indicated that it is committed to additional improvements to further ensure that payment data is secure, accurate, complete, and appropriately authorized.

To minimize the risks associated with disclosure, auditors communicated details regarding these issues directly to the Commission.

² See *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009*, State Auditor's Office Report No. 10-555, March 2010.

Corrective Action and Management's Responses

Corrective action was taken

Issue 2

The Health and Human Services Commission Should Review User Accounts and Business Rules in Its Premiums Payable System

Reference No. 12-555-02
(Prior Audit Issues 11-555-04, 10-555-09, and 09-555-13)

Type of finding: Significant Deficiency

Premiums Payable System (PPS)

PPS is an internal system the Commission uses to determine risk group placement for clients who are eligible to receive managed care services. Business rules within PPS direct clients into the appropriate risk groups based on various eligibility attributes.

Texas Integrated Eligibility Redesign System (TIERS)

TIERS is a browser-based system that supports eligibility determination and benefits calculation for Medicaid, Temporary Assistance to Needy Families, the Supplemental Nutrition Assistance Program, and Medicaid for Elderly People with Disabilities.

Auditors identified certain control weaknesses related to user access and business rules in the Commission's Premiums Payable System (PPS).

During fiscal year 2011, the Commission developed a process for reviewing user access and developed and implemented a review of the business rules in PPS. However, the Commission did not conduct the user access review, and it did not document its review of the business rules.

In addition, in fiscal year 2011, the Commission did not correct a risk group's business rules that the State Auditor's Office determined were incorrect in fiscal year 2010. The assignment of clients to that risk group in PPS relies on eligibility determinations made in the Texas Integrated Eligibility Redesign System (TIERS), and issues with TIERS cause incorrect risk group assignment in PPS. As a result, 957 individuals whose age may have exceeded program eligibility requirements were enrolled in that risk group during fiscal years 2010 and 2011, and the Commission paid approximately \$2.6 million in premiums for those individuals.

Without reviewing the eligibility data for those 957 individuals, the Commission cannot identify whether it paid appropriate premiums related to those individuals or whether it should place those individuals into a different risk group or Medicaid service model.

Corrective Action and Management's Responses

Corrective action was taken.

The Office of the Comptroller of Public Accounts Should Strengthen Information Security Controls

Issue 1

The Office of the Comptroller of Public Accounts Should Strengthen Access Controls for Treasury Division Automated Systems

Reference No. 12-555-03
(Prior Audit Issues 11-555-08, 10-555-15, 09-555-02, and 08-555-01)

Type of finding: Significant Deficiency

Since April 2008, the State Auditor's Office has reported that the Office of the Comptroller of Public Accounts (Comptroller's Office) has allowed internal system program developers to have access to production data for its Treasury Division's automated systems.³

The Comptroller's Office allows two internal system program developers to have access to production data for the Treasury Division's automated systems. These systems were developed using a programming language that has limited security options. After auditors brought this issue to the Comptroller's Office's attention during the audit of fiscal year 2007, the Treasury Division reduced the number of program developers who had this access from 15 to 2. The Treasury Division is in the process of replacing its automated systems with another application that can be implemented with more advanced security features. It also has strengthened controls over access to its automated systems.

**Title 1, Texas Administrative Code,
Section 202.20(1)**

Information resources residing in the various state agencies of state government are strategic and vital assets belonging to the people of Texas. These assets shall be available and protected commensurate with the value of the assets. Measures shall be taken to protect these assets against unauthorized access, disclosure, modification, or destruction, whether accidental or deliberate, as well as to assure the availability, integrity, utility, authenticity, and confidentiality of information. Access to state information resources shall be appropriately managed.

The Texas Administrative Code requires agencies to take measures to protect data from unauthorized access, disclosure, modification, or destruction, whether accidental or deliberate (see text box). Granting excessive access and not providing for proper segregation of duties increases the risk of fraud, data corruption, potential service disruption, and loss of state revenue. Because the Treasury Division processes billions of dollars in revenue, the loss of even a single day's interest due to data manipulation or destruction would affect state revenue. However, nothing came to auditors' attention to indicate that automated systems had been compromised.

³ See *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2010*, State Auditor's Office Report No. 11-555, February 2011; *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2009*, State Auditor's Office Report No. 10-555, March 2010; *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2008*, State Auditor's Office Report No. 09-555, April 2009; and *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2007*, State Auditor's Office Report No. 08-555, April 2008.

Corrective Action and Management's Responses

Corrective action was taken.

Chapter 4-C

The Department of Transportation Should Strengthen Controls Over Information Technology

Issue 1

The Department of Transportation Should Strengthen Its Management of Access to Certain Financial Systems

Reference No. 12-555-04
(Prior Audit Issues 11-555-07 and 10-555-01)

Type of finding: Significant Deficiency

To protect the integrity of its information resources, the Department of Transportation (Department) should strengthen its management of access to certain financial systems.

The Department should strengthen its reviews of system access.

In its compliance monitoring report guidelines, the Department has established specific criteria and guidelines for reviewing user access to systems. The Department's Technology Services Division (TSD) provides quarterly reports covering access to applicable systems to the Department's offices of primary responsibility (OPR). The OPRs are responsible for reviewing those reports, determining whether access is appropriate, and taking appropriate action to correct access as needed. In addition, the Department's *Information Security Manual* requires Department districts, divisions, offices, and regions (DDOR) to maintain documentation of annual access reviews and provide a summary of annual access reviews to TSD.⁴

The Department does not maintain summaries of reviews of user access as required by its *Information Security Manual*. As a result, the Department does not have sufficient evidence that it performs reviews of user access and takes appropriate action as needed. Maintaining such documentation would help demonstrate the effectiveness of user access reviews, enhance Department management's assurance that systems are secure, and help ensure that the Department complies with its security policy.

The Department should strengthen its management of system access.

The Department does not have adequate controls to prevent users from performing system administrator activities, including migrating code to the production environment. Auditors tested system administrator access to the server that houses the Department's Revenue Logging System (DLOG) and

⁴ OPRs are "owners" of certain information technology applications. There may be more than one OPR in a DDOR.

determined that five programmers, one systems analyst, and the manager of the programmers had system administrator level access.

The Department's *Information Security Manual* states that system administrator privileges should be restricted to persons responsible for system administration management or security. Complying with that requirement can help to limit the possibility of unauthorized or undetected access to, modification of, disclosure of, or destruction of data. Compliance also can help to ensure user accountability.

In testing two Department automated systems and the server that houses them, auditors also identified the following:

- Three domain administrators who were no longer employed by a contractor still had super user access to the server that houses the Department's Right of Way Information System (ROWIS) and DLOG.
- Four users who were no longer employed by the Department still had access to DLOG. Auditors identified this same issue in the audit of fiscal year 2010, when three former Department employees still had access to DLOG (see *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010*, State Auditor's Office Report No. 11-555, February 2011).
- Two users had certain access rights to the Automated Purchasing System when those access rights were not necessary based on the users' job duties.
- One user has duplicate user IDs to access the server that houses ROWIS and DLOG.
- Two user accounts with access to the server that houses DLOG could not be identified as belonging to valid users.

User accounts associated with users whose employment has been terminated, users with inappropriate access, and user accounts that cannot be traced to a valid user increase the risk of unauthorized or undetected access to, modification of, disclosure of, or destruction of Department information. The Department's *Information Security Manual* states:

Access controls protect [Department] information resources against unauthorized disclosure, modification, or destruction. Varying levels of control ensure that only authorized users access [Department] software systems or sensitive data. When a user's employment status or job functions change, a user's access authorization must be removed or modified appropriately and immediately.

Without adequate review and monitoring of user access, users with inappropriate access to Department information resources may go undetected and unaddressed.

Corrective Action and Management's Responses

Partially implemented. See current year finding 2012-2 in A Report on the Audits of the Fiscal Year 2012 Financial Statements of the Department of Transportation, the Central Texas Turnpike System, and the Texas Mobility Fund (State Auditor's Office Report No. 13-016, January 2013).

Chapter 4-D

Agencies and Higher Education Institutions Should Strengthen Their Review of Their Schedules of Expenditures of Federal Awards

Reference No. 12-555-05

(Prior Audit Issues 11-555-17, 10-555-26, and 09-555-19)

Type of finding: Significant Deficiency

Schedule of Expenditures of Federal Awards (SEFA)

Each agency, college, and university that expends federal awards is required to prepare a Schedule of Expenditures of Federal Awards (SEFA). Federal awards include federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities [Office of Management and Budget (OMB) Circular A-133, Section .105].

Federal financial assistance includes any assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance [OMB Circular A-133, Section .105].

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts.

The agencies and higher education institutions discussed below did not appropriately prepare or adequately review their fiscal year 2011 Schedules of Expenditures of Federal Awards (SEFAs) (see text box for additional information). Therefore, the SEFAs these agencies and higher education institutions submitted to the Office of the Comptroller of Public Accounts (Comptroller's Office) contained errors.

The 3 agencies and 9 higher education institutions discussed below reported \$3.0 billion in federal expenditures, or 4.7 percent of the total federal expenditures the State of Texas reported for fiscal year 2011. The errors listed below were not material to the fiscal year 2011 SEFA for the State of Texas or to the fiscal year 2011 Comprehensive Annual Financial Report for the State of Texas. However, collectively, these errors

represent control weaknesses that could be significant to the State's SEFA.

Adjutant General's Department

The Adjutant General's Department (AGD) did not have documented policies and procedures for the preparation of its SEFA and, during this audit, it provided multiple revisions of its SEFA. The AGD also prepared its SEFA using federal revenue, rather than federal expenditures, and it was unable to provide documentation to support that its federal expenditures reconciled with

its federal revenue. Office of Management and Budget (OMB) Circular A-133 requires entities to report all federal awards expended by federal program (Catalog of Federal Domestic Assistance [CFDA] number) in their SEFAs.

Based on the method the AGD used to prepare its SEFA, auditors determined that the AGD incorrectly classified \$5,710,983 in expenditures for four CFDA numbers on its SEFA. In addition, the AGD incorrectly classified \$662,000 in the deferred revenue note to its SEFA.

Corrective Action and Management's Responses

Corrective action was taken.

Department of Public Safety

For two CFDA numbers, the Department of Public Safety (DPS) incorrectly reported \$183,420,993 as direct expenditures on its SEFA, rather than as pass-through expenditures to non-state entities. DPS also did not submit a deferred revenue note to its SEFA to the Comptroller's Office until auditors brought this matter to its attention.

Corrective Action and Management's Responses

See current year finding 13-555-02.

Department of Rural Affairs

During fiscal year 2011, the functions of the Department of Rural Affairs (DRA) were taken over by two other state agencies. As a result of that transition, DRA did not include \$57,022,459 in expenditures for one CFDA number on its SEFA. Because that error was a result of the transition, it is not expected to occur again. In addition, DRA incorrectly reported \$3,572,810 as pass-through expenditures to non-state entities, rather than as direct expenditures, on its SEFA. Effective October 1, 2011, DRA became part of the Department of Agriculture.

Corrective Action and Management's Responses

Corrective action was taken.

Texas A&M International University

Texas A&M International University (TAMIU) prepared its SEFA (except for the Student Financial Assistance cluster of federal programs) using federal revenue, rather than federal expenditures, and it was unable to provide documentation to support that its federal expenditures reconciled with its federal revenues. OMB Circular A-133 requires entities to report all federal awards expended by federal program (CFDA number) in their SEFAs. TAMIU also incorrectly classified \$35,000 in expenditures for one CFDA number and listed expenditures of \$4,512 as Medicare Part D, rather than as Consolidated Omnibus Budget Reconciliation Act (COBRA), in a note to its SEFA.

Corrective Action and Management's Responses

Corrective action was taken.

Texas A&M University System Health Science Center

The Texas A&M University System Health Science Center (TAMU-HSC) did not include the ending balance of previous years' loans of \$3,772,040 for one CFDA number in a note to its SEFA.

Corrective Action and Management's Responses

Corrective action was taken.

Texas Southern University

Texas Southern University (TSU) incorrectly reported \$549,776 as pass-through expenditures to non-state entities, rather than as direct expenditures, on its SEFA. It also did not include the ending balance of previous years' loans of \$2,007,245 for one CFDA number in a note to its SEFA.

Corrective Action and Management's Responses

See current year finding 13-555-02.

The University of Texas at Arlington

The University of Texas at Arlington (UT-Arlington):

- Incorrectly included \$514 in expenditures for one CFDA number.

- Incorrectly excluded \$68,593 in expenditures for two CFDA numbers.
- Incorrectly double-counted \$1,925,248 in expenditures for ten CFDA numbers.
- Incorrectly classified \$145,948,425 in expenditures on its SEFA. \$145,927,625 of those expenditures were also incorrectly classified in the notes to its SEFA.
- Incorrectly classified \$1,758,872 in expenditures as part of the Research and Development cluster of federal programs.

Corrective Action and Management's Responses

See current year finding 13-555-02.

The University of Texas at Austin

The University of Texas at Austin (UT-Austin) incorrectly classified \$233,448 in expenditures as part of the Research and Development cluster of federal programs. Additionally, UT-Austin incorrectly included \$20,896,963 in expenditures on its SEFA and in the notes to its SEFA.

Corrective Action and Management's Responses

See current year finding 13-555-02.

The University of Texas at El Paso

The University of Texas at El Paso (UTEP) incorrectly classified expenditures in the wrong CFDA numbers for three CFDAs. The State Auditor's Office previously reported the same issue in February 2011 (see *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010*, State Auditor's Office Report No. 11-555, February 2011). For fiscal year 2011, UTEP incorrectly classified \$2,027,759 in expenditures for those same three CFDA numbers on its SEFA.

Corrective Action and Management's Responses

See current year finding 13-555-02.

The University of Texas Health Science Center at San Antonio

The University of Texas Health Science Center at San Antonio (UTHSC-SA):

- Incorrectly classified \$47,638,508 in expenditures as Federal Family Education Loans (CFDA number 84.032) on its SEFA and in the notes to its SEFA when it should have classified those expenditures as Federal Direct Student Loans (CFDA number 84.268).
- Incorrectly reported expenditures in the Student Financial Assistance Cluster of federal programs using award year instead of fiscal year. As a result, it (1) incorrectly included \$307,914 in expenditures on its SEFA and in the notes to its SEFA and (2) incorrectly reported the ending balance of previous years' loans, resulting in an understatement of \$13,315 in the notes to its SEFA.
- Incorrectly excluded \$21,641 from the deferred revenue note to its SEFA.

Corrective Action and Management's Responses

Corrective action was taken.

The University of Texas - Pan American

The University of Texas – Pan American (UT-Pan Am) incorrectly classified \$1,131,763 in expenditures as American Recovery and Reinvestment Act expenditures on its SEFA. It also did not include the ending balance of previous years' loans of \$6,641,174 for one CFDA number in the notes to its SEFA. In addition, UT-Pan Am included \$6,974,567 in student loan expenditures in a note to its SEFA; however, the type of note in which UT-Pan Am included those expenditures was not applicable to student loan expenditures.

Corrective Action and Management's Responses

See current year finding 13-555-02.

The University of Texas Southwestern Medical Center

The University of Texas Southwestern Medical Center (UTSWMC):

- Incorrectly classified \$23,596,710 in expenditures as Federal Family Education Loan (CFDA number 84.032) on its SEFA and in the notes to its SEFA when it should have classified those expenditures as Federal Direct Student Loans (CFDA number 84.268).

- Incorrectly classified \$2,652 in expenditures on its SEFA as Kidney Diseases, Urology and Hematology Research (CFDA number 93.849), when it should have classified those expenditures as Diabetes, Digestive, and Kidney Diseases Extramural Research (CFDA number 93.847).

Corrective Action and Management's Responses

See current year finding 13-555-02.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The audit objective was to determine whether the State's basic financial statements present fairly, in all material respects, the balances and activities for the State of Texas for the fiscal year ended August 31, 2012.

The Statewide Single Audit is an annual audit for the State of Texas. It is conducted so that the State complies with the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133 and Texas Government Code, Section 403.013(c).

Scope

The scope of the financial portion of the Statewide Single Audit included an audit of the State's basic financial statements and a review of significant controls over financial reporting and compliance with applicable requirements. The opinion on the basic financial statements, published in the Comprehensive Annual Financial Report for the fiscal year ended August 31, 2012, was dated February 21, 2013.

The scope of the federal compliance portion of the Statewide Single Audit included an audit of the State's Schedule of Expenditures of Federal Awards (SEFA), a review of compliance for each major program, and a review of significant controls over federal compliance. The State Auditor's Office contracted with KPMG LLP to provide an opinion on compliance for each major program and internal control over compliance. The State Auditor's Office provided an opinion on the State's SEFA. Information on the federal compliance portion of the Statewide Single Audit is included in a separate report entitled *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012*, by KPMG LLP.

Methodology

The audit methodology consisted of collecting information, identifying risk, conducting data analyses, performing selected audit tests and other procedures, and analyzing and evaluating the results against established criteria.

Auditors assessed the reliability of the State's data by (1) performing electronic tests of required data elements, (2) reviewing existing information about data and the systems that produced the data, and (3) interviewing agency officials knowledgeable about data. Auditors determined that the data was sufficiently reliable for the purposes of this audit.

Information collected and reviewed included the following:

- Agency and higher education institution policies and procedures.
- Agency and higher education institution systems documentation.
- Agency and higher education institution accounting data.
- Agency and higher education institution year-end accounting adjustments.
- Agency and higher education institution fiscal year 2012 annual financial reports.
- Agency and higher education institution fiscal year 2012 SEFA submissions to the Office of the Comptroller of Public Accounts.

Information systems reviewed included the following:

- Agency and higher education institution internal accounting systems.
- Uniform Statewide Accounting System (USAS).
- State Property Accounting (SPA) system.

Procedures and tests conducted included the following:

- Evaluating automated systems controls.
- Performing analytical tests of account balances.
- Comparing agency and higher education institution accounting practices with Office of the Comptroller of Public Accounts' reporting requirements.

Criteria used included the following:

- Texas statutes.
- Texas Administrative Code.
- General Appropriations Act (82nd Legislature).
- The Office of the Comptroller of Public Accounts' policies and procedures.
- Office of the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*.
- Agency and higher education institution policies.
- U. S. Office of Management and Budget Circular A-133.

- Generally accepted accounting principles as established by existing authoritative literature including, but not limited to, literature published by the Governmental Accounting Standards Board and the Financial Accounting Standards Board.

Project Information

Audit fieldwork was conducted from June 2012 through December 2012. Except as discussed in the following paragraph, we conducted this audit in accordance with 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. 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.

We have chosen not to comply with a reporting standard that specifies the wording to be used in discussing restrictions on the use of the report. We believe this wording is not in alignment with our role as a legislative audit function.

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

- Brianna C. Lehman, CPA (Project Manager)
- William J. Morris, CPA (Assistant Project Manager)
- Robert Pagenkopf (Assistant Project Manager)
- Robert H. (Rob) Bollinger, CPA, CFE
- John Boyd, CIDA
- Robert Burg, CPA, CFE
- Jason Carter, MBA
- Michelle DeFrance, CPA
- Lauren Godfrey, CIA, CGAP
- Rachel Lynne Goldman, CPA
- Anna Howe
- Jules Hunter, CPA, CIA
- Joyce Inman, CGFM

- Tracy L. Jarratt, CPA, CISA
- Michael Karnes
- Robert G. Kiker, CGAP
- Thomas Andrew Mahoney, CGAP
- Edgar Flores-Morales
- Laura Nienkerk, MACy, CIA
- Cecile Norton
- Fabienne Robin
- Anthony W. Rose, MPA, CPA, CGFM
- Kendra Shelton, CPA
- Steven M. Summers, CPA, CISA, CFE
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Angelica M. Ramirez, CPA (Audit Manager)

Agencies and Higher Education Institutions Audited

Financial accounts were audited at the following agencies:

- Health and Human Services Commission
- Office of the Comptroller of Public Accounts
- Texas Education Agency
- Texas Workforce Commission

Schedules of expenditures of federal awards at the following agencies and higher education institutions were audited by either the State Auditor's Office or KPMG LLP:

- | | |
|--|--|
| ▪ Adjutant General's Department | ▪ Texas A&M International University |
| ▪ Commission on Environmental Quality | ▪ Texas A&M University |
| ▪ Department of Aging and Disability Services | ▪ Texas Education Agency |
| ▪ Department of Family and Protective Services | ▪ Texas Southern University |
| ▪ Department of Housing and Community Affairs | ▪ Texas Workforce Commission |
| ▪ Department of Public Safety | ▪ University of North Texas |
| ▪ Department of State Health Services | ▪ The University of Texas at Arlington |
| ▪ Department of Transportation | ▪ The University of Texas at Austin |
| ▪ General Land Office | ▪ The University of Texas at El Paso |
| ▪ Health and Human Services Commission | ▪ The University of Texas at San Antonio |
| ▪ Higher Education Coordinating Board | ▪ The University of Texas Health Science Center at Houston |
| ▪ Office of the Attorney General | ▪ The University of Texas Health Science Center at San Antonio |
| ▪ Parks and Wildlife Department | ▪ The University of Texas Southwestern Medical Center |

- Water Development Board

Follow up on prior year schedule of expenditures of federal awards findings was conducted at the following agency and higher education institutions:

- Department of Agriculture
- Texas A&M University System Health Science Center
- The University of Texas – Pan American

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Joe Straus III, Speaker of the House, Joint Chair
The Honorable Thomas “Tommy” Williams, Senate Finance Committee
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Harvey Hilderbran, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Boards, Commissions, Chancellors, Executive Directors, and Presidents of the Following Agencies and Higher Education Institutions

Adjutant General's Department
Commission on Environmental Quality
Department of Aging and Disability Services
Department of Agriculture
Department of Family and Protective Services
Department of Housing and Community Affairs
Department of Public Safety
Department of State Health Services
Department of Transportation
General Land Office
Health and Human Services Commission
Higher Education Coordinating Board
Office of the Attorney General
Office of the Comptroller of Public Accounts
Parks and Wildlife Department
State Energy Conservation Office
Texas A&M International University
Texas A&M University
Texas A&M University Health Science Center
Texas Education Agency
Texas Southern University
Texas Workforce Commission
University of North Texas
The University of Texas at Arlington
The University of Texas at Austin
The University of Texas at El Paso
The University of Texas Health Science Center at Houston
The University of Texas Health Science Center at San Antonio
The University of Texas - Pan American
The University of Texas at San Antonio
The University of Texas Southwestern Medical Center
Water Development Board



This document is not copyrighted. Readers may make additional copies of this report as needed. In addition, most State Auditor's Office reports may be downloaded from our Web site: www.sao.state.tx.us.

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9500 (Voice), (512) 936-9400 (FAX), 1-800-RELAY-TX (TDD), or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

To report waste, fraud, or abuse in state government call the SAO Hotline: 1-800-TX-AUDIT.