In our audit opinion dated February 22, 2024, 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, 2023.

The Office of the Comptroller of Public Accounts (Comptroller’s Office) prepared the basic financial statements and published our audit opinion as part of the Annual Comprehensive Financial Report (ACFR) for fiscal year 2023, which it intends to post on its website at https://comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/.

The consolidated 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. Compiling the State’s consolidated financial statements is a major undertaking; those financial statements combine financial information for more than 200 state agencies and higher education institutions.
Figure 1 summarizes the State’s key financial information for fiscal year 2023.

Figure 1

**Fiscal Year 2023 Financial Summary (in billions)**

| Total Assets: |
| $458.5B |
| $186.7B Capital Assets |
| $123.6B Investments |
| $96.8B Cash Equiv. |
| $51.4B Other |
| Total Liabilities: |
| $216.9B |
| $62.0B Bonds Payable |
| $54.5B Pension |
| $52.9B OPEB* |
| $47.5B Other |
| Net Position: |
| $201.4B |
| $199.0B$ |

*OPEB is other postemployment benefits.

$ The $199.0 billion in annual expenditures exceeded the $150.9 billion appropriated for fiscal year 2023 primarily because:

- Certain expenditures (such as higher education institutions’ expenditures of funds held outside the State Treasury) are included in the Annual Comprehensive Financial Report (ACFR) but are not included in the General Appropriations Act (GAA).
- The ACFR presents actual expenditures of federal funds, while the GAA presents estimated amounts for federal funds.
- Additional pension and OPEB-related expenditures are included in the ACFR but are not included in the GAA.
Fiduciary Funds

The State is the trustee or fiduciary for 11 defined benefit pension and OPEB plans and 1 defined contribution pension plan. The State is also responsible for other assets that can be used only for trust beneficiaries. All state fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. Those activities are reported separately from other financial activities because the State cannot use the assets to finance its operations. The State’s fiduciary responsibilities include ensuring that assets reported in those funds are used for their intended purposes. The financial activity and balances for those fiduciary activities are not included in the fiscal year 2023 totals presented above.

Auditor Responsibilities

Auditing the basic financial statements is not limited to verifying 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.

Schedule of Expenditures of Federal Awards (SEFA)

Current Year Findings. The State Auditor’s Office also audited the State’s SEFA in relation to the ACFR for fiscal year 2023 and issued an unmodified opinion. The Comptroller’s Office prepares the SEFA by using self-reported SEFA data from all state agencies and higher education institutions that made federal expenditures during the fiscal year. The State Auditor’s Office and CliftonLarsonAllen LLP (CLA) audited the processes for preparing SEFA information at 25 agencies and higher education institutions. Auditors identified errors related to the SEFA information at nine agencies and higher education institutions. Those errors are discussed in Chapter 2 of this report.
Prior Year Findings. As part of the audit work for SEFA, auditors performed prior-year finding follow-up work at nine agencies and higher education institutions and determined that recommendations for one of those findings was not yet fully implemented (see the Summary Schedule of Prior Year Audit Findings in Chapter 4-B of this report).

Figure 2

Compliance with the Single Audit Act

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 may be used by bond-rating companies, the Legislature, and federal agencies that award grants.

Summary of Management Response

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The agencies and higher education institutions agreed with the recommendations in this report.
Chapter 1
Summary of Auditor’s Results

Financial Statements

1. Type of auditor’s report issued: Unmodified

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

Findings regarding the Schedule of Expenditures of Federal Awards for fiscal year 2023 are included in Chapter 2 of this report. All other fiscal year 2023 federal award information was issued in a separate report (see State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2023, by CLA).
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Independent Auditor’s Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the consolidated financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Texas as of and for the year ended August 31, 2023, and the related notes to the consolidated financial statements, which collectively comprise the State of Texas’s basic financial statements, and have issued our report thereon dated February 22, 2024. Our report includes a reference to other auditors who audited the financial statements of the Department of Transportation, the University of Texas System, the Texas Lottery Commission, the Employees Retirement System, and the Texas Treasury Safekeeping Trust Company, as described in our report on the State of Texas’s consolidated financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.
Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the State’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State’s internal control. Accordingly, we do not express an opinion on the effectiveness of the State’s internal control.

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

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

Summary of Findings and Responses

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<th>Agency or Higher Education Institution</th>
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<tr>
<td>University of Houston</td>
<td>24-555-09</td>
</tr>
</tbody>
</table>
Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State’s consolidated financial statements are free from 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Auditors communicated certain issues that were not material or significant to the audit objectives in writing to the management of the audited entities.

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:


This report, insofar as it relates to the entities listed above, does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

State’s Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the State’s responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The State’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.
Purpose of this Report

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

Sincerely,

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

February 22, 2024
This section identifies the significant deficiencies related to the financial statements that are required to be reported in accordance with Government Auditing Standards. There are no significant deficiencies related to the State’s basic financial statements, but Chapter 2 discusses significant deficiencies related to the State’s Schedule of Expenditures of Federal Awards for fiscal year 2023.

Chapter 2
Schedules of Expenditures of Federal Awards – Current Findings

The agencies and higher education institutions discussed below did not appropriately prepare or adequately review their fiscal year 2023 Schedules of Expenditures of Federal Awards (SEFAs) (see text box for additional information). Therefore, the SEFAs that they submitted to the Office of the Comptroller of Public Accounts (Comptroller’s Office) contained errors.

State entities should strengthen the preparation and review of their Schedules of Expenditures of Federal Awards.

The agencies and higher education institutions audited reported $81.0 billion in federal expenditures, or 88 percent of the total federal expenditures that the State of Texas reported for fiscal year 2023. The errors listed below were not material to the fiscal year 2023 SEFA for the State of Texas or to the fiscal year 2023 Annual Comprehensive Financial Report for the State of Texas. However, collectively, they represent control weaknesses that could be significant to the State’s SEFA.

Schedule of Expenditures of Federal Awards (SEFA)

Each state entity that expends federal awards is required to prepare a SEFA and submit it to the Office of the Comptroller of Public Accounts (Comptroller’s Office). The expenditures are to be presented in the SEFA on the same accounting basis as each state entity’s fund financial statements.

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 [Title 2, U.S. Code of Federal Regulations (CFR), Section 200.1].

Federal financial assistance includes assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, non-cash contributions or donations of property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance [Title 2, CFR, Section 200.1].

Source: Reporting Requirements for Annual Financial Reports of State Agencies and Universities, Comptroller’s Office.
Department of State Health Services

Reference No. 24-555-01

**Type of finding: Significant Deficiency**

On its fiscal year 2023 SEFA, the Department of State Health Services (DSHS):

- Overstated federal expenditures related to ALN 93.994 by $23,899,533 by incorrectly including non-federal transactions within its Certified SEFA. As a result, DSHS overstated federal revenues by the same amount in Note 2.

- Overstated expenditures on its fiscal year 2023 SEFA by $46,733,217 for 43 Assistance Listing Number programs. The overstatement occurred because DSHS incorrectly included prior year accruals and excluded current year accruals. As a result, DSHS overstated federal revenues by the same amount in Note 2.

**Recommendation**

DSHS should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including reporting only federal transactions within the SEFA and recording accruals in the appropriate fiscal year.

**Management’s Response**

**Views of Responsible Officials**

DSHS agrees that SEFA preparation and review processes should be reviewed and strengthened. The procedures for SEFA reporting were incomplete.

**Corrective Action Plan**

To strengthen SEFA preparation and review processes, DSHS Accounting Section Director will oversee desk procedure updates, staff training and securing a contractor prior to the development of the next SEFA.

Implementation Date: August 31, 2024

Responsible Person: DSHS Accounting Section Director
Office of the Governor

Reference No. 24-555-02

Type of finding: Significant Deficiency

On its fiscal year 2023 SEFA, the Office of the Governor incorrectly classified $56,471,265 in expenditures related to ALN 21.027 as pass-through expenditures when they should have been reported as direct expenditures.

Recommendation

The Office of the Governor should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly by classifying expenditures appropriately by expenditure type.

Management’s Response

Views of Responsible Officials

The Office of the Governor acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the Office of the Governor has already developed a corrective action plan as discussed below.

Corrective Action Plan

The expenditures in question were for the Texas Travel Industry Recovery Grant Program (TTIR Program). The TTIR Program was established by Senate Bill 8 and signed into law by the Governor following the 87th Legislature, Third Called Session. The Program provides allows a successful applicant to receive up to $250,000 in reimbursement grants for the recovery of Texas businesses in the tourism, travel, and hospitality industry. This is a unique program for the Office of the Governor and has characteristics of both a grant and a contract. We followed the Texas Comptroller of Public Accounts guidelines for the classification of non-entity subrecipients and contractors and classified this program as a pass thru expenditures instead of direct expenditures. As we move forward with the program, we will make the correction to re-classify the expenditures and will treat all reimbursements for this grant as direct expenditures. The TTIR Program will end in FY24.
Texas Department of Agriculture

Reference No. 24-555-03

Type of finding: Significant Deficiency

On its fiscal year 2023 SEFA, the Texas Department of Agriculture (TDA):

- Incorrectly classified $421,283,999 in relation to 5 ALNs as direct expenditures when they should have been reported as pass-through to non-state entity expenditures.

- Did not identify $18,160,931 in expenditures related to 9 ALNs as COVID-19 related on the SEFA as required.

Recommendation

TDA should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly by (1) classifying expenditures appropriately by expenditure type and (2) identifying and reporting COVID-19-related expenditures as required.

Management’s Response

Views of Responsible Officials

The Texas Department of Agriculture (TDA) acknowledges and agrees with the findings.

- Non-monetary pass-through expenditures were noted as direct expenditures in error within the Schedules of Expenditures of Federal Awards (SEFA). The expenditures were reflected in the incorrect column.

- For several Assistance Listing Numbers (ALN) relating to “COVID-19” funds, the check box was not selected in the Comptroller SEFA web application, thus creating an error.
TDA will work to develop and implement a corrective action plan to further improve processes addressing the audit findings above.

Corrective Action Plan

The Texas Department of Agriculture (TDA) will develop a mechanism within Centralized Accounting and Payroll/Personnel System (CAPPS) to identify non-monetary activities. Revisions to current COVID-19 tracking will be implemented to aid in the preparation of Schedules of Expenditures of Federal Awards (SEFA). Additional quality control steps will be implemented for the SEFA prior to submission. Staff will attend training in Single Audit/Yellow Book, Annual Financial Report (AFR) and Comptroller AFR web applications.

Implementation Date: July 1, 2024
Responsible Person: Accounting Director

Lamar University

Reference No. 24-555-04

Type of finding: Significant Deficiency

On its fiscal year 2023 SEFA, Lamar University (Lamar):

• Misstated expenditures in relation to 5 ALNs due to timing differences between Lamar’s Student Financial Aid system and its accounting system. In addition, one of the five ALNs was understated due to the exclusion of administrative costs. Overall, expenditures related to these ALNs were overstated by $1,369,132. As a result, federal revenue in Note 2 was overstated by $199,245, and the New Loans Processed sections of Note 2 and Note 3a were overstated by $1,169,887.

• Overstated expenditures and revenue related to the Nursing Faculty Loan Program (ALN 93.264) within the Certified SEFA by $586,649 due to reporting the amount of federal funding received rather than the amount of new loans processed during fiscal year 2023. As a result, Note 2 was overstated by the same amount. In addition, the New Loans Processed section of Note 3a was understated by $20,369, and the Current Year Admin Cost Recovered section was overstated by $607,018.

• Overstated expenditures by $285,981 for ALN 97.036, Federal Disaster Grants – Public Assistance (Presidentially Declared Disasters). The overstatement occurred because Lamar incorrectly included expenditures associated with project worksheets that
FEMA approved in prior fiscal years. As a result, expenditures disclosed within Note 8 and federal revenue reported in Note 2 were overstated by the same amount. On its SEFA for Note 8, an agency should report only expenditures that were incurred in a prior fiscal year and associated with a project worksheet that FEMA approved in the current fiscal year.

**Recommendation**

Lamar should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including reporting expenditures in the appropriate fiscal year and, correctly categorizing expenditures related to loan programs.

**Management’s Response**

**Views of Responsible Officials**

The University accepts and agrees with the findings. Through analysis of the exceptions identified in the audit, the University will work to develop and implement procedures to further improve and enhance the process.

**Corrective Action Plan**

The University is implementing a monthly reconciliation process to validate the information reported by Financial Aid, Finance, and in the Common Origination and Disbursement (COD) system, as well as training and a thorough review process for the Schedule of Expenditures of Federal Awards (SEFA). The reconciliation and SEFA review processes will be formally documented to ensure proper procedures are followed by all responsible personnel. Internal training regarding revenue recognition for federal awards will be conducted annually as well as SEFA preparation. External training, when available, will also be utilized.

Implementation Date: March 2024

Responsible Person: Controller
Texas State University

Reference No. 24-555-05

Type of finding: Significant Deficiency

On its fiscal year 2023 SEFA, Texas State University (Texas State) overstated expenditures related to 3 ALNs by $426,309 due to timing differences between the University’s Student Financial Aid system and its accounting system. As a result, Federal Revenue in Note 2 was overstated by $97,918, and the New Loans Processed sections in Note 2 and Note 3a were overstated by $328,391.

Recommendation

Texas State should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including reporting expenditures in the appropriate fiscal year.

Management’s Response

Views of Responsible Officials

Texas State University acknowledges and agrees with the findings. The Financial Reporting & Accounting office and the Financial Aid and Scholarship office are both in agreement regarding the timing difference issue. A date/time stamp discrepancy occurred in a programmed job that spanned midnight on August 31, 2022. It caused the overstated expenditures between the amounts reported on the Schedule of Expenditures of Federal Awards versus the disbursed amounts listed within the Financial Aid system (Banner) in fiscal year 2023. Texas State University has developed and implemented corrective actions to prevent this timing issue. In addition, the University will implement further quality assurance measures going forward.
Corrective Action Plan

The Financial Aid and Scholarships office received confirmation from the vendor of the Financial Aid system (Banner) that processing disbursement batches near midnight can cause date/time stamp issues. The Financial Aid and Scholarships office changed the disbursement batch process by scheduling the job to start after midnight, effective September 16, 2022. This change in process will prevent further date/time stamp issues, and therefore ensure the expenditure and disbursement fiscal year totals within the financial system (SAP) and the Financial Aid system (Banner) are in synch.

Additional quality assurance measures will also be implemented as follows:

- At the end of the fiscal year, the Financial Reporting & Accounting office along with Financial Aid and Scholarships and Student Business Services offices will run preliminary expenditure totals for the given federal programs per fiscal year and review for synchronization between the two systems (Banner and SAP) to ensure there are no timing differences prior to submitting year-end reports.

- At the end of the fiscal year, the Financial Aid and Scholarships systems team will run a student detail query from Banner of all federal disbursements for the fiscal year to verify there are no date/time stamp issues and the accounting team within Financial Aid and Scholarships will verify the Banner disbursement totals agree with the preliminary fiscal year expenditure totals in SAP. The Financial Aid and Scholarship office will add these additional tasks to their respective team calendars where annual tasks are monitored and tracked.

Implementation Date: September 16, 2022 (batch process change)
February 1, 2024 (quality assurance measures)

Responsible Person: Director of Financial Reporting & Accounting
Associate Director, Financial Aid and Scholarships
The University of Texas at Arlington

Reference No. 24-555-06

Type of finding: Significant Deficiency

On its fiscal year 2023 SEFA, The University of Texas at Arlington (UT Arlington) understated the Nursing Student Loan Program (ALN 93.364) by $126,269. The loan program was new to the university during fiscal year 2023 and was overlooked during the SEFA preparation process. As a result, the New Loans Processed sections in Note 2 and Note 3a were understated by the same amount.

Recommendation

UT Arlington should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including updating SEFA preparation processes to capture all relevant student loan programs.

Management’s Response

Views of Responsible Officials

The University of Texas at Arlington (UTA) acknowledges and agree with the findings. Through analysis of the exceptions identified in the audit, UTA will work to develop and implement corrective action to further improve the processes.

Corrective Action Plan

UTA has already implemented significant process enhancements in this area. The year-end process has been updated to include steps to ensure that all relevant student loan program data is captured and reported, and the SEFA is prepared correctly.

Implementation Date: January 29, 2024

Responsible Person: Director of Financial Reporting
The University of Texas at Austin

Reference No. 24-555-07

Type of finding: Significant Deficiency

On its fiscal year 2023 SEFA, The University of Texas at Austin (UT Austin):

- Understated expenditures related to the Federal Work Study Program (ALN 84.033) by $1,293,822 due to the incorrect exclusion of administrative costs and a calculation error. As a result, Federal Revenue in Note 2 was understated by the same amount.

- Incorrectly reported administrative costs of $48,743 related to Perkins Loans Program (ALN 84.038) under New Loans Processed in Note 3a. As a result, Federal Revenue in Note 2 was understated by the same amount.

- Incorrectly reported Note 3a in relation to the Nursing Faculty Loan Program (ALN 93.264). UT Austin understated the beginning balance for ALN 93.264 by $719,260 and incorrectly calculated the ending balance for fiscal year 2023. As a result, the fiscal year 2023 ending balance was understated by $254,982.

- Overstated expenditures in Note 8 by $4,539,543. The University incorrectly included expenditures from fiscal year 2023. On its SEFA for Note 8, an entity should report only expenditures that were incurred in a prior fiscal year and associated with a project worksheet that FEMA approved in the current fiscal year.

Recommendation

UT Austin should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including reporting expenditures in the appropriate fiscal year and accurately calculating financial aid amounts as well as ending and beginning balances for loan programs.
Management’s Response

Views of Responsible Officials

The University acknowledges and agrees with the findings. 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 of Texas at Austin has updated our SEFA Procedures guide to ensure that expenditures are reported in the correct fiscal year and loan programs have accurate ending and beginning balances. We also plan on offering additional training on the use of our business intelligence report writer to ensure that financial aid amounts are calculated and recorded correctly.

Implementation Date: January 29, 2024
Responsible Person: Accountant II

The University of Texas at Dallas

Reference No. 24-555-08

Type of finding: Significant Deficiency

On its fiscal year 2023 SEFA, The University of Texas at Dallas (UT Dallas):

- Understated expenditures in relation to 3 ALNs by $179,707 due to incorrectly excluding student financial aid administrative costs. As a result, this caused Federal Revenue in Note 2 to be understated by the same amount.

- Overstated Note 8 by $574,456. The overstatement occurred because UT Dallas incorrectly included expenditures associated with project worksheets that FEMA approved in prior fiscal years. On its SEFA for Note 8, an entity should report only expenditures that were incurred in a prior fiscal year and associated with a project worksheet that FEMA approved in the current fiscal year.
Recommendation

UT Dallas should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including reporting expenditures in the appropriate fiscal year.

Management’s Response

Views of Responsible Officials

The University of Texas at Dallas acknowledges and agrees with the stated recommendation and will strengthen SEFA preparation and review practices.

Corrective Action Plan

The University’s SEFA procedures will be revised to include enhanced preparation and review controls pertaining to reporting student financial aid administrative costs and FEMA project expenditures.

Implementation Date: August 31, 2024

Responsible Person: Director, Receivables and Sponsored Accounting

University of Houston

Reference No. 24-555-09

Type of finding: Significant Deficiency

On its fiscal year 2023 SEFA, the University of Houston overstated expenditures by $1,353,472 for ALN 97.036, Federal Disaster Grants – Public Assistance (Presidentially Declared Disasters). The overstatement occurred because the University of Houston incorrectly included expenditures associated with project worksheets that FEMA approved in prior fiscal years. As a result, federal revenue reported in Note 2 was overstated by the same amount, and
expenditures disclosed in Note 8 were overstated by $1,374,778.¹ On its SEFA for Note 8, an entity should report only expenditures that were incurred in a prior fiscal year and associated with a project worksheet that FEMA approved in the current fiscal year.

Recommendation

The University of Houston should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including reporting expenditures in the appropriate fiscal year.

Management’s Response

Views of Responsible Officials

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

Corrective Action Plan

The University of Houston has updated its SEFA Standard Operating Procedures on how to determine the correct dollar amount included in the SEFA Schedule 1A and Note 8. In preparation of the SEFA, the preparer will review the “Date Awarded” on the PWs associated with the amount passed from Agency 575 – TDEM to the University. Those PWs with prior fiscal year beginning dates and prior year expenses will be excluded from the SEFA. Only those PWs with current year start dates will be included.

Implementation Date: January 26, 2024
Responsible Person: Financial Manager

¹ In relation to one project worksheet, the University of Houston reported fewer expenditures in the Certified SEFA than were disclosed in Note 8.
Chapter 3
Federal Award Findings and Questioned Costs

Findings regarding the State’s Schedule of Expenditures of Federal Awards for fiscal year 2023 was included in Chapter 2 of this report. All other fiscal year 2023 federal award information was issued in a separate report. See State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2023, by CLA.
Federal regulations (Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*) 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:


The Summary Schedule of Prior Audit Findings (for the year ended August 31, 2023) has been prepared to address these responsibilities.
Chapter 4-A
Controls Over Financial Reporting – Prior Finding

Office of the Comptroller of Public Accounts Should Strengthen Certain Controls Over Financial Reporting

Reference No. 23-555-01

Type of finding: Material Weakness

The Office of the Comptroller of Public Accounts (Comptroller’s Office) had a process to identify major funds, as defined by the Governmental Accounting Standards Board (GASB).

However, that process did not properly identify a major enterprise fund for fiscal year 2022. As a result, auditors concluded that there was a material weakness in the Comptroller’s Office’s internal control processes for financial reporting (see text box for additional information about material weaknesses).

The Comptroller’s Office’s major fund analysis did not identify that the Texas Water Development Board Funds, an enterprise fund, had met the required criteria to be reported as a major fund in the proprietary statements for fiscal year 2022. As a result, the Texas Water Development Board Funds were reported in the other nonmajor enterprise column in the proprietary statement of net position; proprietary statement of revenues, expenses, and changes in net position; and the proprietary statement of cash flows. The Texas Water Development Board Funds consist of $15.5 billion in assets and $10.2 billion in liabilities, and it has a net position of $5.3 billion.

The Comptroller’s Office corrected the presentation of its financial statements during the preparation of the State’s fiscal year 2022 Annual Comprehensive Financial Report once auditors brought this to management’s attention. As a result, the issue discussed above did not affect the accuracy of that report.

Implementation Status

Corrective action was implemented.
Chapter 4-B

Schedules of Expenditures of Federal Awards – Prior Findings

The agencies and higher education institutions discussed below did not appropriately prepare or adequately review their fiscal year 2022 Schedules of Expenditures of Federal Awards (SEFAs).

Department of Public Safety

Reference No. 23-555-02

Type of finding: Significant Deficiency

On its fiscal year 2022 SEFA, the Department of Public Safety (DPS):

- Overstated Disaster Assistance expenditures by $1,730,468 on Note 8. The overstatement occurred because DPS incorrectly included (1) expenditures associated with project worksheets that the Federal Emergency Management Agency (FEMA) approved in fiscal year 2021 and (2) expenditures incurred in fiscal year 2022 that were associated with a project worksheet approved during fiscal year 2022. On its SEFA for Note 8, an agency should report only expenditures that were incurred in a prior fiscal year and associated with a project worksheet that FEMA approved in the current fiscal year.

- Understated expenditures by $1,496,291 for Assistance Listing Number (ALN) 97.067, Homeland Security Grant Program, because all expenditures for the program were not recorded in the DPS general ledger.

- Did not identify $169,511,417 in expenditures for ALN 21.019, Coronavirus Relief Fund, as COVID-19 related on the SEFA as required.

Implementation Status

Corrective action was implemented.
Department of State Health Services

Reference No. 23-555-03

Type of finding: Significant Deficiency
On its fiscal year 2022 SEFA, the Department of State Health Services (DSHS) did not disclose on Note 8 to its SEFA $5,436,745 in Disaster Assistance Expenditures incurred in prior fiscal years as required. Specifically, DSHS should have disclosed the expenditures that were incurred in the prior fiscal year and associated with a project worksheet approved during fiscal year 2022.

Implementation Status
Corrective action was implemented.

Health and Human Services Commission

Reference No. 23-555-04

Type of finding: Significant Deficiency
On its fiscal year 2022 SEFA, the Health and Human Services Commission (HHSC):

- Incorrectly excluded $6,357,238 in provider relief fund payments. As a result, HHSC (1) understated expenditures on its SEFA by $6,357,238 and (2) understated federal revenue by $6,357,238 in Note 2 to its SEFA.
- Incorrectly classified $40,801,750 for ALN 21.027, Coronavirus State and Local Fiscal Recovery Funds, as pass-through expenditures. HHSC should have reported those expenditures as direct expenditures.
- Incorrectly classified $12,650,812 related to 2 ALNs as direct expenditures. HHSC should have reported those expenditures as pass-through expenditures.

Implementation Status
Corrective action was implemented.
Texas Department of Agriculture

Reference No. 23-555-05

**Type of finding: Significant Deficiency**

On its fiscal year 2022 SEFA, the Texas Department of Agriculture (TDA) understated expenditures by $1,796,107 related to 4 ALNs. The understatement occurred because TDA incorrectly calculated the non-monetary dollar amount of food distributions. As a result, Note 1 and Non-Monetary Reconciling Items in Note 2 each were understated by $1,796,107.

**Implementation Status**

Corrective action was implemented.

Texas Education Agency

Reference No. 23-555-06

**Type of finding: Significant Deficiency**

On its fiscal year 2022 SEFA, the Texas Education Agency (TEA) incorrectly classified $201,441,187 in expenditures related to 2 ALNs. Specifically, TEA did not identify the expenditures as COVID-19 related on the SEFA as required.

**Implementation Status**

Corrective action was implemented.
Texas Water Development Board

Reference No. 23-555-07

Type of finding: Significant Deficiency

On its fiscal year 2022 SEFA, the Texas Water Development Board (TWDB) incorrectly classified $28,762,182 related to 2 ALNs as direct expenditures. TWDB should have reported those expenditures as pass-through expenditures.

Implementation Status

Corrective action was implemented.

The University of Texas M.D. Anderson Cancer Center

Reference No. 23-555-08

Type of finding: Significant Deficiency

On its fiscal year 2022 SEFA, The University of Texas M.D Anderson Cancer Center (M.D Anderson) understated expenditures by $4,884,178 for ALN 97.036, Federal Disaster Grants – Public Assistance (Presidentially Declared Disasters). The understatement occurred because M.D. Anderson incorrectly excluded expenditures incurred in fiscal year 2021 that were associated with project worksheets that FEMA approved in fiscal year 2022. As a result, the federal revenue in Note 2 was understated by the same amount.

Implementation Status

Corrective action was implemented.
Reference No. 22-555-01
(Prior Audit Issue 21-555-02, 20-555-02, 19-555-01, 18-555-04, 17-555-04, 16-555-04, 15-555-05, 14-555-07, 13-555-02, 12-555-05, 11-555-17, 10-555-26, and 09-555-19)

Type of finding: Significant Deficiency

The agencies and higher education institutions discussed below did not appropriately prepare or adequately review their fiscal year 2021 Schedule of Expenditures of Federal Awards (SEFA). Therefore, the SEFAs that they submitted to the Office of the Comptroller of Public Accounts (Comptroller’s Office) contained errors.

Texas Department of Housing and Community Affairs

The Texas Department of Housing and Community Affairs (TDHCA) incorrectly classified $758,806,206 as pass-through expenditures to non-state entities related to 1 Assistance Listing Number on its fiscal year 2021 SEFA. That occurred because TDHCA incorrectly determined the expenditures to be related to a sub-recipient. Instead the expenditures were related to a contractor relationship, and TDHCA should have reported them as direct expenditures.

Implementation Status

Corrective action was implemented.
The University of Texas at Austin

The University of Texas at Austin (UT Austin) incorrectly classified expenditures related to the Research and Development cluster for 2 Assistance Listing Number (ALN) programs. Specifically:

- $564,967 of expenditures were incorrectly excluded from the Research and Development cluster for ALN 93.433, and
- $33,736 of expenditures were incorrectly included in the Research and Development cluster for ALN 84.334A.

As a result, the R&D cluster was understated by a net amount of $531,231. The errors occurred because these expenditures were incorrectly classified in the internal data that UT Austin used to prepare the SEFA.

Implementation Status

Corrective action was partially implemented.

Recommendation

UT Austin should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly by verifying that internal data is accurate and classifying expenditures in the appropriate clusters.

Management’s Response

Views of Responsible Officials 2021

The University of Texas at Austin acknowledges and agrees with the findings. Through analysis of the exceptions identified in the audit, the University of Texas at Austin will work to develop and implement corrective action to further improve the processes.
Corrective Action Plan 2021

SPAA management plans to implement improvements in the current SEFA validation process to ensure that the SEFA submission is accurate. We will undergo a thorough manual review quarterly of all awards on the SEFA to validate that R&D expenditures are accurately reported and classified in the appropriate clusters. SPAA will add CFDA and R&D data integrity checks on a quarterly basis. SPAA will add additional resources dedicated to performing monthly data integrity checks for all new award setups.

Implementation Date: Summer 2022

Responsible Person: SPAA Associate Director

Views of Responsible Officials 2022

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

Corrective Action Plan 2022

The University of Texas at Austin has recently updated our SEFA validation process to ensure that we are reporting all Assistance Listing (ALN) programs in the appropriate R&D and non-R&D clusters. This updated process includes a quarterly review of all new accounts on the SEFA to validate that each ALN is accurately assigned in our financial system. Our procedure guide is being revised to include the new steps in our SEFA validation process, and we also plan to provide additional training to develop more consistency with everyone involved in award setup.

Implementation Date: May 31st, 2023

Responsible Person: Associate Director, Office of Sponsored Projects
Views of Responsible Officials 2023

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

Corrective Action Plan 2023

The University of Texas at Austin has implemented a SEFA validation process to ensure that all Assistance Listing (ALN) programs are accurately reported in the appropriate R&D and non-R&D clusters. This validation process includes a review of all new financial accounts on the SEFA to verify that the R&D designation is accurately assigned to each ALN in our financial system. We have created a new procedure guide to document this SEFA validation process and will continue to provide staff training to develop more consistency within the award setup process.

Implementation Date: October 2023

Responsible Person: Associate Director, Office of Sponsored Projects
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 consolidated balances and activities for the State of Texas for the fiscal year ended August 31, 2023.

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 Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and (2) state statute requiring that an audited Annual Comprehensive Financial Report be provided to the Governor (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 Annual Comprehensive Financial Report (ACFR) for the fiscal year ended August 31, 2023, was dated February 22, 2024.

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 CliftonLarsonAllen LLP (CLA) 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, in relation to its opinion on the ACFR. 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 Year Ended August 31, 2023*, by CLA.

**Methodology**

Audit fieldwork was conducted from August 2023 through February 2024. 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 the State Auditor’s Office and those performing the audit be independent, and 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. The State Auditor’s Office implemented safeguards to maintain its independence to perform this audit. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To avoid duplication of effort, the State Auditor’s Office relied on CLA’s testing of the internal controls over certain systems and processes as they related to the financial portion of the Statewide Single Audit.

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 and higher education institution officials knowledgeable about data. Auditors determined that the data was sufficiently reliable for the purposes of the audit.
Addressing the Audit Objective

During the audit, we performed the following:

- Identified the relevant criteria:
  - Texas statutes.
  - The Texas Administrative Code.
  - The General Appropriations Act (87th Legislature).
  - The Comptroller’s Office’s policies and procedures.
  - The Comptroller’s Office’s Reporting Requirements for Annual Financial Reports of State Agencies and Universities.
  - Agency and higher education institution policies and procedures.
  - 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.

- Reviewed agency and higher education institution policies and procedures.

- Reviewed agency and higher education institution accounting data, which consisted of accounting data from agency and higher education institution accounting systems and accounting data from the Uniform Statewide Accounting System.

- Reviewed agency and higher education institution fiscal year 2023 annual financial reports.

- Reviewed agency and higher education institution year-end accounting adjustments.

- Evaluated automated systems controls, including agency internal accounting systems and the Uniform Statewide Accounting System.

- Performed analytical tests of account balances.
• Evaluated agency and higher education institution transactions.

• Compared agency and higher education institution accounting practices with the Comptroller’s Office’s reporting requirements.

• Evaluated selected agency and higher education institution fiscal year 2023 SEFA submissions to the Office of the Comptroller of Public Accounts (Comptroller’s Office).

• As part of the audit procedures performed on the SEFA, auditors selected a risk-based sample of generic Assistance Listing Numbers to test that the correct unique identifying number was reported.
Project Information

The following members of the State Auditor’s staff performed the audit of the Annual Comprehensive Financial Report:

- Anca Pinchas, CPA, CISA, CIDA (Project Manager)
- Elizabeth Gallegos, MAcc (Assistant Project Manager)
- Robert Pagenkopf, MBA, CFE (Assistant Project Manager)
- Robert H. (Rob) Bollinger, CPA, CGMA, CFE
- Robert Burg, MPA, CPA, CFE
- Daniel Carr
- Evan Cresap, CPA
- John Felchak, CISA
- Benjamin Fox
- Rachel Lynne Goldman, CPA, CISA, CFE
- Ben Hikida, Macy, CFE
- Taylor L. Huff, CFE
- Joyce Inman, CGFM
- Kevin Mack
- Emmanuel Melendez, CPA, CIA, CFE, MBA
- Elizabeth N. Padilla, CPA
- Erin Peloquin, CPA, CIDA, CISA, CRFAC
- Jessica Prieto, CPA, CISA
- Fabienne Robin, MBA, CFE
- Mark Snyder, CFE
- Ann E. Karnes, CPA (Quality Control Reviewer)
- Michael Owen Clayton, CPA, CISA, CFE, CIDA (Audit Manager)
The following members of the State Auditor’s staff performed the audit of the Schedule of Expenditures of Federal Awards:

- Jennifer Grant, CFE (Project Manager)
- Brandy Corbin, CFE (Assistant Project Manager)
- Charlotte Carpenter, CPA
- Daniel Carr
- Allison Fries, CFE
- Kamil Helou
- Henry Vander Vennet
- Dana Musgrave, MBA, CFE (Quality Control Reviewer)
- Becky Beachy, CIA, CGAP (Audit Manager)
Appendix 2

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 General Land Office.
- Texas Water Development Board.
- 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 CLA:

- Department of Family and Protective Services.
- Department of Public Safety (auditors performed only prior year finding follow up work).
- Department of State Health Services.
- Health and Human Services Commission.
- Higher Education Coordinating Board.
- Lamar University.
- Office of the Attorney General.
- Office of the Governor.
- Sam Houston State University.
- Texas A&M University.
- Texas Department of Agriculture.
• Texas Division of Emergency Management.
• Texas Department of Housing and Community Affairs.
• Texas Education Agency.
• Texas General Land Office.
• Texas State University.
• Texas Tech University.
• Texas Water Development Board (auditors performed only prior year finding follow up work).
• Texas Workforce Commission.
• The University of Texas at Arlington.
• The University of Texas at Austin.
• The University of Texas at Dallas.
• The University of Texas at El Paso.
• The University of Texas at San Antonio.
• The University of Texas M.D. Anderson Cancer Center (auditors performed only prior year finding follow up work).
• The University of Texas Rio Grande Valley.
• University of Houston.
• University of North Texas.
Copies of this report have been distributed to the following:

**Legislative Audit Committee**
- The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
- The Honorable Dade Phelan, Speaker of the House, Joint Chair
- The Honorable Joan Huffman, Senate Finance Committee
- The Honorable Robert Nichols, Member, Texas Senate
- The Honorable Greg Bonnen, House Appropriations Committee
- The Honorable Morgan Meyer, House Ways and Means Committee

**Office of the Governor**
- The Honorable Greg Abbott, Governor

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

- Department of Family Protective Services
- Department of Public Safety
- Department of State Health Services
- Health and Human Services Commission
- Higher Education Coordinating Board
- Lamar University
- Office of the Attorney General
- Office of the Comptroller of Public Accounts
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