

Table of Contents

Key Points of Report

Auditor's Reports	1
-------------------------	---

Our Compliments	7
-----------------------	---

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditor's Results.....	9
---	---

Section 2: Financial Statement Findings.....	11
---	----

Section 3: Federal Award Findings and Questioned Costs.....	13
--	----

Summary Schedule of Prior Audit Findings.....	77
---	----

Appendices

1 - Related Reports	119
---------------------------	-----

2 - Schedule of Federal Programs Examined.....	124
--	-----

Key Points of Report

The 1999 Statewide Single Audit Report

May 2000

Overall Conclusion

In general, State agencies and universities do a good job of controlling financial resources and complying with state and federal laws and regulations. However, we found some serious exceptions.

The annual Statewide Single Audit includes audits of the State's annual financial report and major federal programs. Because the same business processes are used for state and federal dollars, the federal program audit provides assurance that state funds are spent appropriately. The 33 audited federal programs represent 73 percent of \$18.7 billion of fiscal year 1999 federal funding.

Key Facts and Findings

- Contract administration continues to be a serious problem at the Commission on Alcohol and Drug Abuse, the Department of Housing and Community Affairs, the Department of Protective and Regulatory Services, and the Texas Education Agency. Despite improvements, monitoring of contractors is still not adequate to ensure the State receives agreed-upon services. In fiscal year 1999, the State paid contractors at least \$9.5 billion in federal funds to provide services to citizens.
- The accounting system and financial reporting continue to be a concern at the Texas Education Agency (Agency). Although the Agency has improved, policies and procedures do not ensure that financial data is accurate. For example, the federal program report did not show all federal award activity accurately. The Agency accounts for expenditures of approximately \$12 billion, which includes \$2 billion in federal funds.
- Five of eight universities audited did not report enrollment changes on time as required by the *Federal Family Education Loans* program (CFDA 84.032). Reporting changes in enrollment lets lenders know when students should begin repaying loans. Since 1995, 21 universities have not complied with these reporting requirements. Follow-up audits at 12 universities indicate that 11 have corrected the issue or made progress in correcting it.
- Four agencies—Department on Aging, Comptroller of Public Accounts, Department of Criminal Justice, and Teacher Retirement System—had no findings in all areas tested. In addition, all 29 agencies and universities audited for compliance with bond covenant requirements had no findings.

Contact

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Office of the State Auditor

Lawrence F. Alwin, CPA

This audit was conducted in accordance with Government Code, Section 321.013(c).



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AUSTIN, TEXAS 78701

LAWRENCE F. ALWIN, CPA
State Auditor

February 24, 2000

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*

The Honorable George W. Bush, Governor
and
Members of the Texas Legislature
State of Texas

Ladies and Gentlemen:

We have audited the financial statements of the State of Texas as of and for the year ended August 31, 1999, and have issued our report thereon dated February 24, 2000. Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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.

Compliance

As part of obtaining reasonable assurance about whether the State's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely

affect the State's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

The reportable condition for the state is described in the accompanying Schedule of Findings and Questioned Costs as item 00-555-47. We consider the reportable condition 00-555-47 to be a material weakness.

Work Performed by Other Auditors

The State Auditor's Office did not audit the following entities and funds. These entities were audited by other auditors:

Entities Audited by Other Auditors	Scope of Work Performed
Texas Guaranteed Student Loan Corporation	An audit of the consolidated balance sheets was conducted for the years ended September 30, 1999 and 1998; an audit of the compliance requirements in the <i>OMB Circular A-133 Compliance Supplement</i> was conducted for the year ended September 30, 1999.
Texas Workers' Compensation Insurance Fund	An audit of the balance sheets and the related statements of income and comprehensive income, changes in capitalization and retained earnings, and cash flows was conducted for the years ended December 31, 1998 and 1997.
Texas Local Government Investment Pool	An audit of the statements of assets and liabilities and the related statements of operations and changes in net assets was conducted for the years ended August 31, 1999 and 1998.
Texas Prepaid Higher Education Tuition Board	An audit of the primary government financial statements was conducted for the years ended August 31, 1999 and 1998.
Employees Retirement System	An audit of the general purpose financial statements and the combining financial statements of the pension plans was conducted for the year ended August 31, 1999.
Department of Housing and Community Affairs	An audit of the general purpose financial statements was conducted for the year ended August 31, 1999; an audit of the balance sheet of the Revenue Bond Enterprise Fund was conducted for the years ended August 31, 1999 and 1998.
Texas Lottery Commission	An audit of the balance sheet and the related statements of operations and retained earnings and cash flows was conducted for the year ended August 31, 1999.
Permanent University Fund	An audit of the investment assets and liabilities, the comparison summary of investment in securities, the related statements of investment income and the statements of changes in net investment assets was conducted for the year ended August 31, 1999.
The University of Texas System Long Term Fund	An audit of the University of Texas System Long Term Fund's assets and liabilities, and the comparison summary of investment in securities and the related statements of operations and changes in net assets was conducted for the years ended August 31, 1999 and 1998.
The University of Texas System Short Intermediate Term Fund	An audit of the University of Texas System Short Intermediate Term Fund's statements of assets and liabilities, including the schedule of investment in securities and the related statements of operations and changes in net assets was conducted for the years ended August 31, 1999 and 1998.

This report, insofar as it relates to those entities, is based solely on the reports of the other auditors.

Other Work Performed by the State Auditor's Office

In December 1999, we released *An Audit of the Financial Statements of the Teacher Retirement System of Texas for Fiscal Year Ended August 31, 1999* (SAO Report No. 00-006). *An Audit of the Financial Statements of the Permanent School Fund for the Fiscal Year Ended August 31, 1999* (SAO Report No. 00-017) was released in March of 2000. *An Audit of the Office of the Fire Fighters' Pension Commissioner Fiscal Year 1999 Financial Statements* (SAO Report No. 00-020) was released in April 2000.

This report is intended solely for the information and use of the Governor, the Legislature, audit committees, boards and commissions, management, and all federal and pass-through entities from which federal assistance was received. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor



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LAWRENCE F. ALWIN, CPA
State Auditor

February 24, 2000

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With *OMB Circular A-133*

The Honorable George W. Bush, Governor
and
Members of the Texas Legislature
State of Texas

Ladies and Gentlemen:

Compliance

We have audited the compliance of the State of Texas with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 1999. The State's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of management at each state entity. Our responsibility is to express an opinion on the State's compliance based on our audit.

The State of Texas general purpose financial statements include the operations of the Texas Guaranteed Student Loan Corporation and the Texas A&M University System Research Foundation, which received \$31,481,456 and \$57,032,556 respectively, in major federal programs which are not included in the Schedule of Findings and Questioned Costs during the year ended August 31, 1999. Our audit, described below, did not include the operations of the Texas Guaranteed Student Loan Corporation and the Texas A&M University System Research Foundation because these entities engaged other auditors to perform an audit in accordance with *OMB Circular A-133*.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

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.

As described in item 00-555-50 in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with one federal requirement regarding the reporting of enrollment changes that are applicable to its *Federal Family Education Loans* (CFDA 84.032) program. Compliance with such requirement is necessary, in our opinion, for the State to comply with both, the requirements applicable to that program, and to the Student Financial Assistance Cluster.

In our opinion, except for the noncompliance described in the preceding paragraph, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 1999. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with *OMB Circular A-133* and which are described in the accompanying schedule of findings and questioned costs as items:

1	6	11	17	22	29	34	39	44	49	56
2	7	12	18	24	30	35	40	45	51	
3	8	13	19	25	31	36	41	46	52	
4	9	14	20	26	32	37	42	47	54	
5	10	16	21	27	33	38	43	48	55	

(Only the last digit(s) of each finding reference number is listed. The first five digits of each reference number are 00-555.)

Internal Control Over Compliance

Management at each state entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with *OMB Circular A-133*.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs. Reportable conditions include all the items listed above in the compliance section of this report and also items:

15	23	28	53	57	58	59
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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions listed above, we consider findings 42, 46, 47, 51, and 52 to be material weaknesses.

Work Performed by Other Auditors

The State Auditor's Office did not audit several of the entities and funds of the State. These entities were audited by other auditors, as stated in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

Other Work Performed by the State Auditor's Office

In December 1999, we released *An Audit of the Financial Statements of the Teacher Retirement System of Texas for Fiscal Year Ended August 31, 1999* (SAO Report No. 00-006). *An Audit of the Financial Statements of the Permanent School Fund for the Fiscal Year Ended August 31, 1999* (SAO Report No. 00-017) was released in March of 2000. *An Audit of the Office of the Fire Fighters' Pension Commissioner Fiscal Year 1999 Financial Statements* (SAO Report No. 00-020) was released in April 2000.

This report is intended solely for the information and use of the Governor, the Legislature, audit committees, boards and commissions, management, and all federal and pass-through entities from which federal financial assistance was received. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

Our Compliments to Agencies and Universities With No Findings

We are pleased to report that the following entities visited had no findings in the areas tested. The management of these entities have established systems to ensure compliance with the state, federal, and/or bond regulations examined during the audit. While we recognize this accomplishment, it is important to understand that we may have only audited a very specific portion of the entity's operations. The scope of our audit work at these entities is described below.

Department on Aging (Department)

The primary focus of our audit was the Department's compliance with the federal requirements for three programs: *Nutrition Program for the Elderly (Commodities)* (CFDA 10.570), *Special Programs for the Aging—Title III, Part B* (CFDA 93.044) and *Special Programs for the Aging—Title III, Part C* (CFDA 93.045). The total expenditures for these programs in fiscal year 1999 were \$51 million. We gained an understanding of the internal control structure including the general control environment. Specific procedures were used to test for compliance with the major federal program requirements.

Comptroller of Public Accounts (Comptroller)

The primary focus of our audit at the Comptroller's office was the statewide consolidation process for preparing the *1999 Comprehensive Annual Financial Report (CAFR)*. We performed procedures to determine if the *CAFR* is materially accurate and presented in conformity with generally accepted accounting principles. We gained an understanding of the internal control structure for the consolidation process. We also tested the accuracy of the compilation of the annual financial reports for more than 200 state agencies, universities, and component units.

Department of Criminal Justice (Department)

The primary focus of our audit was the Department's compliance with the federal requirements for the *State Criminal Alien Assistance Program* (CFDA 16.606), representing \$39,043,217 in expenditures for fiscal year 1999. We gained an understanding of the internal control structure including the general control environment. Specific procedures were used to test for compliance with the major federal program requirements.

Teacher Retirement System

The scope of the audit included expressing an opinion on the Teacher Retirement System's financial statements and complying with applicable generally accepted auditing standards and Government Auditing Standards.

For the second consecutive year, we reported no significant audit recommendations in the area of financial reporting. The system's pension plan remains fully funded for the second consecutive year and current assets together with future contributions required by law will be sufficient to pay benefits to retirees and to current active members when they retire.

Bond Compliance Audits

The following table lists the names of the entities that had no findings for bond compliance audit work and the total dollars audited.

Agencies and Universities With No Bond Compliance Findings	
Agency or University Name	Total Amount of Bond Issues Outstanding as of August 31, 1999 (Thousands)
Angelo State University	0 ¹
Criminal Justice, Department of	1,820
Economic Development, Department of	99,335
General Land Office and Veterans' Land Board	1,334,314
Higher Education Coordinating Board	634,369
Housing and Community Affairs, Department of ²	1,215,612
Hospital Equipment Financing Council ³	0
Lamar University-Beaumont	0 ¹
Lamar University-Institute of Technology	0 ¹
Lamar University-Orange	0 ¹
Lamar University-Port Arthur	0 ¹
Midwestern State University	16,635
Military Facilities Commission	21,540
Public Finance Authority	2,950,903
Sam Houston State University	0 ¹
Southwest Texas State University	38,440
Stephen F. Austin State University	27,465
Texas A&M University System	934,844
Texas Southern University	63,775
Texas State Technical College	17,925
Texas State University System	183,075
Texas Tech University	150,568
Texas Tech University Health Sciences Center	24,002
Texas Woman's University	29,270
The University of Texas System	1,357,605
University of Houston System	143,330
University of North Texas	58,093
University of North Texas Health Science Center	17,720
Water Development Board	2,210,750
TOTAL	11,531,390

¹ These amounts are refunded by the Texas State University System.

² External auditors performed the bond compliance audit work.

³ This entity was abolished on August 31, 1999.

The *Office of Management and Budget (OMB) Circular A-133* requires the reporting of significant instances of noncompliance and questioned costs. This schedule includes a detailed list of findings and costs questioned as a result of the fiscal year 1999 Statewide Single Audit. Questioned costs are amounts charged to a federal program that may be unallowable. These costs result from noncompliance with requirements set by the federal grantor or federal legislation. The federal grantor will make the final determination as to the allowability of the costs. Unallowable costs may need to be returned to the federal grantor or program.

The findings, which make up Section 3 of this schedule, are organized by state agency or university. Findings are identified by unique reference numbers.

Section 1:

Summary of Auditor's Results

Financial Statements

1.	Type of auditor's report issued:	Unqualified
2.	Internal control over financial reporting:	
a)	Material weakness(es) identified?	Yes
b)	Reportable conditions identified not considered to be material weaknesses?	None Reported
c)	Noncompliance material to financial statements noted?	No

Federal Awards

1.	Internal Control over major programs:	
a)	Material weakness(es) identified?	Yes
b)	Reportable condition(s) identified not considered to be material weaknesses?	Yes
2.	Type of auditor's report issued on compliance for major programs?	Qualified ¹
3.	Any audit findings disclosed that are required to be reported in accordance with <i>OMB Circular A-133</i> , Section 510(a)?	Yes
4.	Dollar threshold used to distinguish between Type A and Type B programs:	\$30 million
5.	Auditee qualified as low-risk auditee?	No

¹ The report is qualified due to the Student Financial Assistance Cluster. All other major programs were unqualified.

6. Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.550	Food Distribution
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
10.570	Nutrition Program for the Elderly (Commodities)
14.239	HOME Investment Partnerships Program
16.606	State Criminal Alien Assistance Program
84.010	Title I Grants-Local Educational Agency
84.011	Migrant Education-Basic State for
84.186	Safe and Drug-Free Schools - State Grants
84.196	Education for Homeless Children and Youth
84.318	Technology Literacy Challenge Grant
93.116	Project Grants and Cooperative Agreement for Tuberculosis Control Program
93.217	Family Planning Services
93.268	Childhood Immunization Grants
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.658	Foster Care - Title IV-E
93.917	HIV Care Formula Grants
93.919	Cooperative Agreements for State-based Comprehensive Breast and Cervical Cancer Early Detection
93.940	HIV Prevention Activities-Health Department
93.958	Block Grant for Community Mental Health Services
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.991	Preventive Health and Health Services Block Grant
93.994	Maternal and Child Health Services Block Grant
Cluster	Food Stamp
Cluster	Special Education
Cluster	Child Nutrition
Cluster	Child Care
Cluster	Job Training Partnership Act
Cluster	Aging
Cluster	Medicaid
Cluster	Research and Development
Cluster	Student Financial Assistance

Section 2:

Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*. For fiscal year 1999, there was one finding relating to the financial statements.

Texas Education Agency

Reference No. 00-555-47

The Texas Education Agency (Agency) continues to have a material weakness in its accounting and reporting controls. (For more detail on this finding, see Section 3 of the Schedule of Findings and Questioned Costs, Texas Education Agency.)

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Federal Award Findings and Questioned Costs Contents

The State of Texas.....	15
Alcohol and Drug Abuse, Commission on	16
Attorney General, Office of the	26
Education Agency, Texas.....	27
Health and Human Services Commission.....	35
Health, Department of	33
Housing and Community Affairs, Department of	36
Human Services, Department of	41
Lamar University – Beaumont.....	45
Mental Health and Mental Retardation – Central Office, Department of.....	46
Protective and Regulatory Services, Department of	49
Texas A&M International University	56
Texas A&M University – Kingsville	57
Texas Agricultural Experiment Station	59
University of Houston – Clear Lake	72
The University of Texas at El Paso.....	63
The University of Texas at San Antonio	62
The University of Texas Medical Branch at Galveston	69
Workforce Commission, Texas	73

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Section 3:

Federal Award Findings and Questioned Costs

This section identifies reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, as required to be reported by *Office of Management and Budget Circular A-133*, Section .510(a). This section is organized by state agency or university.

The State of Texas

Reference No. 00-555-50

Comply With Requirements Regarding the Reporting of Enrollment Changes in the Federal Family Education Loans Program for the State of Texas

(Prior Audit Issue - 99-555-97)

CFDA 84.032 – Federal Family Education Loans

Contract/Award - N/A

The State of Texas continues to be in material noncompliance with the federal requirement of reporting enrollment changes in the *Federal Family Education Loans* program. Since this program comprises 73 percent of the Student Financial Assistance cluster, material

Questioned Cost:	\$0.00
U.S. Department of Education	

Material noncompliance is the failure to follow requirements, or a violation of prohibitions, established by law, regulation, contract, or grant that results in an aggregation of noncompliance that is material to the affected federal program.

noncompliance with this federal requirement also exists in the cluster. The *Federal Family Education Loans* program provided \$876 million in aid to Texas students in fiscal year 1999. Current audit results indicate that enrollment changes continue to be a problem at many universities. Continued noncompliance by universities with this requirement may result in delayed repayment of federal loans.

Source: AICPA Statement of Position 98-3, March 17, 1998, Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards

We have identified noncompliance with this requirement for 21 universities since material noncompliance for the State was originally reported in 1995. Since 1997, we have performed follow-up work at 12 universities. Eleven have either made progress toward correcting the issue or have resolved the issue.

Noncompliance with this requirement was reported at the following five universities of eight tested this year:

- The University of Texas at El Paso (See Reference No. 00-555-7)
- The University of Texas of the Permian Basin (See Related Reports Appendix)
- Lamar University - Beaumont (See Reference No. 00-555-10)
- Texas A&M University - Kingsville (See Reference No. 00-555-12)
- Texas A&M International University (See Reference No. 00-555-16)

The three universities that were in compliance with this requirement were:

- Stephen F. Austin State University
- University of Houston - Clear Lake
- The University of Texas Health Science Center at Houston

Title 34 of the Code of Federal Regulations, Section 682.610 (c), requires the institution to report enrollment changes to the guaranty agency or the Department within 60 days. If an institution does not expect to report enrollment changes on the Student Status Confirmation Report (SSCR) within the next 60 days, that institution is required to notify the guarantor or lender by letter within 30 days.

Recommendation:

We recommend that universities comply with enrollment change requirements.

Management's Response and Corrective Action Plan:

Management of the universities agree and plan to correct this issue.

Commission on Alcohol and Drug Abuse

State Auditor's Comment: The State Auditor's Office is currently conducting an audit that will provide additional information. The audit includes a review of contract administration, which will include site visits to service providers.

Reference No. 00-555-52

Improve Monitoring of Subrecipients

(Prior Audit Issue - 99-555-31, 99-555-33, 98-323-01)

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse
Contract/Award - N/A

A material weakness continued to exist in controls over the Commission on Alcohol and Drug Abuse's (Commission) monitoring of subrecipients. The Commission addressed some of the issues we identified last year by making improvements in the areas of closeouts, risk assessment, and single audit desk reviews.

Questioned Cost: \$ 0.00
 U.S. Department of Health and Human Services

Material weakness in internal control over compliance - A reportable condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Subrecipients - The Commission's subrecipients are primarily contractors who provide substance abuse services in accordance with the regulations for the Block Grants for Prevention and Treatment of Substance Abuse program.

Source: AICPA Statement of Position 98-3, March 17, 1998, Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards

However, due to lax enforcement of existing controls and inadequate processes, the risk remained high that the Commission would not detect subrecipients not in compliance with federal requirements in a timely manner. The Commission paid \$129 million in federal block grant funds to over 200 subrecipients in fiscal year 1999. Weak processes and controls over monitoring significantly impact the Commission's ability to ensure that federal awards are used for authorized purposes, that performance goals are achieved, and that unallowable expenses are recovered as required under *OMB Circular A-133* Subpart D, Section 400 (d)(3). Furthermore, these weaknesses may have limited the Commission's ability to identify and recover unallowable costs and excess payments.

At the time of this report, we had no evidence that providers incurred unallowable costs.

The following conditions indicate lax enforcement of controls and inadequate processes:

- **Inadequate process to identify high risk providers** - The Commission did not have well-defined criteria to determine whether a provider should be classified as high-risk. A high-risk provider is one that has inadequate financial systems and is not making sufficient progress toward meeting contract goals. The Commission needs to quickly identify high-risk providers who warrant additional oversight and technical assistance.
- **Inadequate process to move providers to unit cost** - The Commission did not have an adequate process to determine when treatment providers should be transitioned from the cost-reimbursement to the unit-cost payment method.

Payment Methods

Unit Cost - The Commission pays a subrecipient a set fee for each service after it is performed. The total paid under the Commission's contract is the lesser of the total payments made under unit cost or the amount of actual expenditures.

Cost Reimbursement - The Commission reimburses a subrecipient for expenses after the subrecipient has incurred the cost related to a service or product.

Advance - The Commission pays a subrecipient before the subrecipient has incurred the cost related to a service or product to be provided.

Generally, new providers who are developing their operations are paid based on cost-reimbursement, which covers all expenses related to their contracts. After a developmental period, providers should be converted to the unit-cost payment method, which pays a set fee based on the type of service rendered.

It is important to convert from the cost-reimbursement to the unit-cost payment method because cost-reimbursement tends to encourage spending, whereas unit cost tends to promote efficiency. However, the Commission lacked criteria for determining when a provider is ready to transition from the cost reimbursement to the unit cost payment method.

During fiscal year 1999, 48 out of 173 (28 percent) treatment programs were on cost-reimbursement contracts. These programs had contracts totaling \$17 million out of all treatment programs totaling \$69 million (24 percent). We

found that 13 of the 48 treatment programs (27 percent) were paid using the cost-reimbursement payment method for at least three years.

- Inadequate financial oversight - The Commission did not have adequate procedures to ensure that subrecipient financial reports were received and reviewed in a timely manner. It is important for the Commission to review financial reports in a timely manner so that it can identify and recover any misspent funds or excess payments quickly. Examples of the problems noted include:
 - Billing errors were unresolved at the end of the contract period. The Commission paid some bills that contained errors and did not resolve the errors in a timely manner. The errors totaled \$151,809 for 33 providers and included \$5,335 in errors that occurred under the new billing system. The new billing system was designed with edit checks to prevent billing errors from occurring, but errors did occur. We did not test the billing system, but it is apparent from these billing errors that the system was not working as it should have been.
 - Financial Status Reports were submitted late. Of the 50 reports we tested, we found that providers submitted 22 (44 percent) reports late. Under Commission rules, these reports should be submitted no later than 30 days after the end of the quarter (Title 40, Texas Administrative Code, Section 144.107(a)). We could not determine whether the status reports were reviewed in a timely manner because the Commission did not maintain a record of the initial review date.

- Inadequate cash management process - The Commission's cash management process was not designed to ensure that providers spent federal funds within three days as required under the Uniform Grant Management Standards, Subpart C, Section 37(a)(4). This is because Commission procedures allow for advance payments for some providers and quarterly reviews of provider cash balances. Generally, providers who received advance payments were allowed to request one-twelfth of their annual budget each month up to 30 days in advance under Commission rules (Title 40, Texas Administrative Code, Section 144.106(f)). We were informed that the automated system did not allow providers to request funds more than 15 days in advance. Even if advances are limited to 15 days, that still exceeds the three-day requirement. We found that 40 percent of fiscal year 1999 payments to providers were made using the advance payment method and totaled \$52 million.

The Commission had a procedure to identify providers with excess cash on a quarterly basis and instruct them to return excess cash to the Commission. Also, the Commission did not verify compliance with the three-day rule during on-site visits to providers.

- Inadequate program reviews for contract renewals - The Commission's process for reviewing programs for contract renewal was poorly planned and implemented. As a result, there was an increased risk that ineligible providers and those with substandard performance could have their contracts renewed.

In particular, we found that responsibility for performing reviews of contract renewal applications was reassigned, and review procedures were changed on short notice. Such last minute changes led to staff disputes and confusion about the review process and procedures. In addition, the Commission's review teams only evaluated renewal applications for programs with changes and did not review applications for other contract renewals. As a result, the contract renewal process was inefficient and ineffective.

The contract renewal process is one that occurs every year and, therefore, should be well defined and operate smoothly. (Prior audit issues 98-323-01 and 99-555-33.)

- Inadequate provider tracking systems - Systems for tracking provider information were incomplete, fragmented, and not easily accessible to staff, making it harder for Commission staff to perform effective oversight of providers. These deficiencies can lead to incorrect evaluations of provider performance and financial condition.

Recommendation:

We recommend that the Commission correct all of the deficiencies noted during our audit to ensure that providers are held accountable for spending funds properly and achieving the performance measures in their contracts.

Management's Response and Corrective Action Plan:

- Inadequate Process to Identify High Risk Providers - *The Commission agrees that high-risk providers be identified quickly. The Commission has been using the criteria contained in the UGMS Subpart B: Pre-Award Requirements __.12 Special Grant or Subgrant Conditions for "High-Risk" Grantees since fiscal year 1998. High-risk criteria are also included in Commission contract under provisions that cover sanctions.*

Current TCADA management has instituted an internal process to identify high-risk providers and develop and implement a corrective action plan. This process includes weekly management meetings intended to deal with provider issues and to ensure timely, corrective action against problem providers. The current process is well documented and will be codified in the agency's Contract Administration Manual by August 31, 2000.

Additionally, in order to address other issues raised in this report by the Auditors, current TCADA management will re-evaluate the high-risk criteria being used by the agency and its high-risk provider handling process. As revisions are made they will be submitted to the State Auditor's Office (SAO) for review and comment.

Implementation Date: May 31, 2000

Responsible Person: Deputies for Finance and Administration and Licensing and Enforcement

- Inadequate Process to Move Providers to Unit Cost - TCADA implemented a process, including criteria, to transition providers to unit cost - specified in TCADA Rule 144.108 (effective date September 1, 1999). Beginning with fiscal year 2001, the unit rate payment methodology will function solely as a unit rate. However, there are rural areas in the state where population density is so low, a treatment provider could not subsist on a contract paid under a unit rate. In those instances, TCADA will continue to support the continuum of care available to clients/participants in those rural areas and subcontracts may continue to receive a waiver and remain under a non-unit rate method.

Please note that TCADA Rule 144.108 speaks to when TCADA's providers transition from financial assistance method of payment to unit rate method of payment. However, under either method of payment, through fiscal year 2000, the contracts are cost reimbursement and not unit rate. Also, treatment providers who bill based on a unit rate submit quarterly financial status reports that are reviewed for surplus cash. Based on the final financial status report and closeout documentation, those organizations that have cash in hand over expenditures are required to repay the surplus amount back to the Commission.

Implementation Date: August 31, 2000

Responsible Person: Deputies for Finance and Administration and Licensing and Enforcement

- Inadequate Financial Oversight - Current agency management agrees that provider reports can be tracked more effectively and efficiently and is taking the necessary step to ensure that occurs.

The agency is also in the process of fine-tuning any programming needs in its new billing system and will resolve any problems with the system by July 31, 2000. As needed, follow-up with SAO will be requested to ensure that steps taken by TCADA to address this matter meet with their expectations.

Implementation Date: July 31, 2000

Responsible Person: Deputy for Finance and Administration

- Inadequate Cash Management Process - It is our intent that providers spend federal funds as required under the Uniform Grant Management Standards. TCADA believes that current TCADA Rule 144.106 captures both the spirit and the intent of the state and federal guidance in cash management.

It has been our interpretation that the "Financial Assistance" payment methodology has been viewed as a working capital advance and not subject to the three-day rule. However, we will work with federal authorities to clarify our interpretation of application of this federal rule. We will provide SAO with guidance received and make the necessary adjustments to TCADA Rule 144.106.

Implementation Date: August 31, 2000

Responsible Person: Deputy for Finance and Administration

- Inadequate Program Reviews for Contract Renewals - We agree that the fiscal year 1999 contract renewal process needed improvement and have made significant improvements for fiscal year 2000. There is now an identified timeline for contract renewal and specific renewal packets for programs under each strategy. For fiscal year 2000, six providers were placed on high risk status and, for the first time, shortened contracts were put into place in order to better oversee those with administrative weaknesses that could impact either dollars spent or contract performance.

Current TCADA management believes that there is still room for improvement in the renewal process and, as such, that system is being systematically addressed in the realigned organization.

Implementation Date: May 10, 2000

Responsible Person: The purchasing, procurement and processing unit of the Administrative Support Services Division will manage the timeline and packet issuance and return, while the Program Management and Fiscal Contract Management will be responsible for providing input on subcontractor performance for consideration during contract renewal.

- *Inadequate Provider Tracking System - TCADA has addressed the fiscal year 1999 deficiencies identified in the provider tracking system by centralizing information, with the exception of the detailed information relating to technical assistance and offender education. This data is currently being integrated. As a result of current changes staff at TCADA is now able to access the requisite information necessary to perform their job functions.*

Current TCADA management notes that while significant progress has been made recently to address this issue, there is still room for improvement. Specific actions that the agency will take to address pending issues in this area are formally addressed in the Agency's responses to the Texas Health and Human Services Commission's (HHSC) Process Review Report (issued January 21, 2000 by HHSC). TCADA management will continue to provide updates regarding these issues to respective oversight entities.

Implementation Date: July 31, 2000

Responsible Person: Deputy for Finance and Administration

State Auditor's Follow-Up Comment:

Regarding the cash management issue, Subpart C, Section 21(e) of the Uniform Grant Management Standards states that the awarding agency may provide cash on a working capital advance basis to the grantee "to cover its estimated disbursement needs **for an initial period** generally geared to the grantee's disbursing cycle." In contrast, the Commission's practice has been to allow providers to request and obtain advances over a period of several years, not just for an initial start-up period.

Regarding the provider tracking system, the Commission did not identify the specific actions it will take to address deficiencies in its system.

Reference No. 00-555-53

Improve Internal Audit Function

(Prior Audit Issue - 99-555-40)

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse Contract/Award - N/A

The internal audit function was ineffective in assessing the adequacy of the Commission's internal controls. For fiscal year 1999, internal audit completed one audit, one special project, and two of the three control self-assessments in its revised audit plan. Although documentation of work performed had improved, it continued to be inadequate because internal audit did not comply with auditing standards for three of the projects.

Documentation should contain enough information that a third party could determine whether the evidence supports the findings and recommendations.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

Instances in which auditing standards were not followed include:

- The overall adequacy and effectiveness of internal controls were not assessed and key controls were not tested.
- The work performed was inadequately documented.
- Audit work did not undergo quality assurance.
- There was insufficient follow up on audit findings.

Since the Board relies on internal audit to help identify internal control weaknesses and inefficiencies at the agency, it is imperative that the internal audit function be effective. We noted, however, that the Board did not evaluate the internal audit director on an annual basis as required by the internal audit charter.

Recommendation:

We recommend that the Board improve the internal audit function by, at a minimum, ensuring that internal audit complies with standards and performs audits that test and assess key controls and evaluating the internal audit director at least annually.

Management's Response and Corrective Action Plan:

The Board agrees with the State Auditor's assessment of the internal audit department. Accordingly, the Board has taken several steps to address the existing issues and to ensure the effectiveness of the function in the future.

- *The Board recognizes the importance of its oversight of the internal audit function and made changes to the composition of the Audit Committee late in fiscal year 1999 to increase the Committee's effectiveness. The Committee currently includes two individuals with business experience. The Chairperson is a CPA with extensive background in internal and external auditing.*
- *The Internal Audit Director responsible for the department's function during the period of time under review was removed from the position effective March 17, 2000. The Board will hire a new Internal Audit Director, who will be reviewed annually to comply with internal auditing standards. In addition, the Internal Audit function will be enhanced through contracted services with an external public accounting firm.*
- *The Audit Committee has met with the State Auditor's Office to more clearly understand the roles of the Audit Committee, the Internal Audit Department, and State Auditor's Office. The Committee has agreed to review the Audit Committee Charter, Internal Audit Department Charter, and Statement of Responsibilities on an annual basis to ensure compliance with internal auditing standards.*

Implementation Date: August 31, 2000

Responsible Person: Audit Committee

- *The audit plans for fiscal years 2000 and 2001 will be reassessed to better assess risk factors and address key internal control issues to more effectively assist agency management.*

Implementation Date: August 31, 2000

Responsible Person: Director of Internal Audit

- *Audit management will ensure that audit work follows standards, including documentation and follow-up procedures. Audit management will begin follow-up procedures on State Auditor findings and Internal Audit Department findings within 30 days of the expected completion date of the activity.*

Implementation Date: June 30, 2000

Responsible Person: Director of Internal Audit

- *Due to the small size and start-up nature of the audit shop, quality assurance review was not feasible at this time. In lieu of supervisory review, detailed audit procedures were discussed with the Director of Internal Audit and Audit Committee. Audit management will consider sharing review of workpapers with another small internal audit shop on a periodic basis.*

Implementation Date: August 31, 2000

Responsible Person: Director of Internal Audit

Reference No. 00-555-54

Create Policy for Executing Contracts

(Prior Audit Issue - 99-555-33, 98-323-01)

**CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse
Contract/Award - N/A**

The Commission did not have a formal written policy that all contracts should be signed by both parties before the September 1 start date of the contract. Until a valid written contract is executed, the respective responsibilities of each party are unclear. Consequently, disputes over the terms of the agreement are more difficult to resolve, and it may be harder to hold providers accountable for their performance.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

Although the Commission amended its rules to shorten the contracting process, the fiscal year 1999 procurement process was still too lengthy to ensure all contracts were signed by the start date of the contracts on September 1, 1999. We found that 59 out of 252 (23 percent) contracts were mailed to providers for signature on or after September 1, 1999. We also noted that contracts for the six highest-risk providers were mailed for signature after September 1, 1999.

Recommendation:

The Commission should create a policy and practice of having all contracts signed by both parties before the start date of the contracts and should begin the contracting process early enough to ensure compliance with that policy.

Management's Response and Corrective Action Plan:

TCADA management will propose a policy for Board consideration regarding this issue. The policy would generally require that all contracts be signed by both parties before the start date of the contract.

TCADA Rule 144.106 stipulates that payment may not be made to a subcontractor until a contract has been fully executed. For the period tested by the auditor, no provider received payment prior to full contract execution.

Implementation Date: September 1, 2000

Responsible Person: General Counsel

State Auditor's Follow-Up Comment:

We were unable to test the Commission's assertion that no provider received payment prior to full contract execution. This assertion was communicated to the auditor too late in the audit process to allow for its verification.

Reference No. 00-555-55

Comply With Period of Availability Requirements**CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse
Contract/Award - N/A**

The Commission did not have adequate controls to ensure compliance with period of availability requirements under the *Block Grant for Prevention and Treatment of Substance Abuse* program. Noncompliance with period of availability requirements may result in the loss of federal funds.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

The Commission initially deposited \$44,536 recovered from provider audits in an account where the funds could have been, but were not, re-expended outside the period of availability. These funds were recovered after the Commission received a February 22, 1999 directive from the Substance Abuse and Mental Health Services Administration clarifying that funds recovered as a result of a subrecipient audit should be returned to the federal government and not re-expended. We noted that the Commission did not return approximately \$23,000 of the \$44,536 in recovered

funds to the federal government within a reasonable period of time. As of February 16, 2000, the Commission still held those funds in an account where they were available for expenditure. After we brought this issue to the Commission's attention, staff members transferred the funds to a federal account where it is unavailable for expenditure.

We also noted that the Commission did not have written policies and procedures for complying with the period of availability requirements. Good business practices require written policies and procedures to promote consistency and accuracy in application.

Recommendation:

The Commission should:

- Return to the Substance Abuse and Mental Health Services Administration all funds recovered from audits within a reasonable period of time.
- Develop written policies and procedures for complying with the period of availability requirement and distribute them to Commission staff responsible for related program activities.

Management's Response and Corrective Action Plan:

The Commission agrees that all funds returned from provider audits should be transferred back to the federal government in compliance with the February 1999 directive from the U.S. Department of Health and Human Services (SAMHSA). As noted by the auditor, none of these funds were expended and we returned the full amount in February 2000.

While the February 1999 directive did not address length of time, current management at TCADA has addressed this issue with the development and implementation of a procedure to deposit audit refunds directly into Fund 0502 and to periodically process transfers back to SAMHSA. Review and transfer periods will now be no shorter than one month and no longer than one quarter.

Implementation Date: May 31, 2000

Responsible Person: Deputy for Finance and Administration

Reference No. 00-555-56

Comply With Independent Peer Review Requests

(Prior Audit Issue - 99-555-35, 98-323-05)

**CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse
Contract/Award - N/A**

The Commission did not comply with the independent peer review requirements of the *Block Grants for Prevention and Treatment of Substance Abuse* program. Noncompliance with these requirements may limit the peer review's effectiveness and can result in the loss of federal funds.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

We found that the Commission did not consider all treatment programs when selecting providers for peer review. Only providers with adult treatment programs were considered for peer review. Other treatment programs, such as youth treatment and specialized female treatment, were not considered. Under Code of Federal Regulations, Title 45, Section 96.136, the programs reviewed shall be representative of the total population of treatment programs.

Also, the Commission did not adequately document the process for selecting programs for peer review. As a result, the methodology to ensure the selection of only one program per region was unclear.

We also noted that the Commission allows providers to decline participation in the peer review, which may allow providers with problems to avoid a review.

Recommendation:

We recommend that the Commission:

- Establish procedures that ensure that peer reviews include a representative sample of all treatment programs.
- Document policies and methodologies for the peer review process so that they are correct and can be implemented consistently.
- Consider requiring all providers to participate in the peer review if selected.

Management's Response and Corrective Action Plan:

The Commission fully supports the federal peer review process. The Commission will continue to improve its policies and procedures to ensure the peer review process is applied consistently and in accordance with the federal regulations.

The Commission's practice to date has been driven by its interpretation of federal requirements. In light of this finding, however, the Commission has requested clarification from SAMHSA regarding applicable federal regulations. The Commission will provide the SAO with an update on the guidance it receives and will implement the appropriate procedures as directed by SAMHSA.

TCADA will also ensure that our sampling methodology is more clearly defined and well documented.

Implementation Date: August 31, 2000

Responsible Person: Deputy for Programs

State Auditor's Follow-Up Comment:

The auditor contacted an official of the Substance Abuse and Mental Health Services Administration's (SAMHSA) Center for Substance Abuse and Treatment, who concurred with our interpretation of federal requirements. We will use any clarification that SAMHSA provides in determining the Commission's compliance with peer review requirements during fiscal year 2000.

Reference No. 00-555-57

Improve Computer Security

(Prior Audit Issue - 99-555-38)

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse Contract/Award - N/A

The Commission's security procedures were inadequate to prevent and detect unauthorized access to its computer systems, although some improvements were made during fiscal year 1999. The Commission had the following deficiencies in security:

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

- An inadequate process to monitor and follow-up on internal access attempts and violations
- An inadequate process to ensure that the computer accounts of terminated employees were promptly deactivated
- Use of an employee exit form that includes a place for recording the computer passwords of terminated employees
- Lax controls over network administration computer accounts
- Employee computer security forms not signed in a timely manner

We noted that during fiscal year 1999, the Commission made some improvements in computer security and adopted an appropriate computer security policy. However, the above items still need to be addressed to protect confidential client information and other vital information resources.

Recommendation:

We recommend that the Commission:

- Capture and review failed log-ons for its computer network and the Integrated Management System. Also, tighten controls over network administration computer accounts.
- Establish a process to ensure that the accounts of terminating employees are deactivated by the last day of employment. A log of account deactivations, including communications between the departments involved in the termination/deactivation process, should be kept. Also, employee exit forms should not include a space for recording the computer passwords of terminating employees.
- Establish a process that will ensure security forms are signed prior to granting access to the agency information systems. The Commission should also take further steps to ensure that signed security forms are on file for all current employees.

Management's Response and Corrective Action Plan:

The Commission agrees that controls over network administration and system security should be improved.

- *Regarding capture and review of failed log-ons for its computer network and the Integrated Management System and tightening controls over network administration computer accounts, the Commission will: (1) revise Information Technology Policies and Procedures to incorporate recommendations, (2) train staff on revised policies and procedures, and (3) implement the revised policies and procedures.*

Implementation Date: June 30, 2000

Responsible Person: Information Technology Division Manager

- *Regarding establishing a process to ensure that the accounts of terminating employees are deactivated by the last day of employment and that a log of account deactivations be kept, a human resource process has been established including a log of account deactivations and communication between divisions. The information technology portion of the process will be reviewed and modified as necessary to strengthen the audit trail.*

Implementation Date: June 30, 2000

Responsible Person: Deputy for Finance and Administration and Information Technology Division Manager

- *Regarding establishing a process that will ensure security forms are signed prior to granting access to the agency information systems and ensuring that signed security forms are on file for all current employees, a process has been established through the human resource division. The information technology portion of the process will be reviewed and modified as necessary to strengthen the audit trail.*

Implementation Date: June 30, 2000

Responsible Person: Deputy for Finance and Administration and Information Technology Division Manager

Reference No. 00-555-58

Improve Documentation and Ensure Integrity of Services Management System

(Prior Audit Issue - 99-555-28)

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

Contract/Award - N/A

The Commission did not adequately document how the Services Management System (SMS) works or test that it functions as it should. SMS is a critical component of the Integrated Management System (IMS) and directly supports the Commission's critical business functions. SMS processes data related to provider billings, payments, and expenditures.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

Most parts of SMS were poorly documented, which makes it more difficult for Commission personnel to maintain, trouble-shoot, and modify the system. As a result, Commission staff may have spent much more time and effort deciphering how the

system works than would otherwise have been required. Turnover in programming staff can aggravate this problem. New programmers have to learn how the system works without the benefit of adequate documentation. The Commission is, however, beginning to document parts of the system as they undergo maintenance.

Also, the Commission did not test SMS to ensure that information from the system was complete and accurate and that data controls were working properly. Without testing, the Commission cannot be certain that the system is working as intended. We noted, however, that the Commission had appropriately tested other components of the IMS that were implemented since the prior year audit.

Recommendation:

We recommend that the Commission develop technical documentation describing how SMS functions. At a minimum, the Commission should focus on documenting an overview of SMS and the details of the most critical components or functions of the computer programs. System testing on SMS should also be performed, and it should be consistent with the testing done for other components of the IMS.

Management's Response and Corrective Action Plan:

The Commission agrees documentation of the SMS should be improved and that system testing of SMS should be performed.

- *Regarding improving documentation of the SMS, the Commission has hired staff to document the SMS and the most critical components or functions of the computer programs.*

Implementation Date: September 30, 2000

Responsible Person: Information Technology Division Manager

- *Regarding system testing of SMS, the Commission's staff will: (1) review testing plans for other components of the IMS, (2) select the most appropriate prior testing plan as a template and revise it for application to SMS, (3) hire contract staff to perform testing, and (4) if appropriate, based on test results, develop, test, and implement remediation.*

Implementation Date: September 30, 2000

Responsible Person: Information Technology Division Manager

Reference No. 00-555-59

Improve Plan for Disaster Recovery Plan

(Prior Audit Issue - 99-555-39)

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse
Contract/Award - N/A

The Commission's disaster recovery plan did not ensure operations could be resumed quickly to provide services to the public after a disaster, such as a fire or tornado. Information technology standards require that a plan be in place so that, in the event of a disaster, the agency can prevent the loss of critical data and resume operations quickly.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

We noted that the Commission improved its disaster preparedness during fiscal year 1999 by securing an emergency computer facility and by testing to make sure that their systems would run at the facility. Furthermore, the plan now describes general priorities and procedures for restoring computer processing capabilities.

However, the Commission had not established the specifics for implementing the recovery plan. The plan did not:

- Identify the computer hardware and software needed to run core operations.
- Describe critical tasks that information technology and business functions must perform.
- Establish recovery teams that include information technology staff and representatives of each critical business function.
- Assign responsibilities to each recovery team.
- Prioritize the tasks for each recovery team.

Recommendation:

We recommend that the Commission complete its disaster recovery plan so that it adequately describes how to respond to a disaster in a well-organized, coordinated manner. The plan should:

- Identify the computer hardware and software needed to run core operations.
- Describe critical tasks that information technology and business functions must perform.
- Establish recovery teams that include information technology staff and representatives of each critical business function.
- Assign responsibilities and prioritize the tasks for each recovery team.

Management's Response and Corrective Action Plan:

The Commission agrees that the agency's Disaster Recovery Plan should be improved.

TCADA contracted with a firm (DataLock) to complete a disaster recovery plan. An initial draft of that plan was received and has been subsequently updated. Commission staff will: (1) review and modify the two drafts as necessary to ensure that all SAO concerns are addressed and (2) ensure that the Plan is revised to incorporate changes related to the agency's recent reorganization. As revisions are made, they will be submitted to the SAO for review and comment.

Implementation Date: September 30, 2000

Responsible Person: Information Technology Division Manager

Office of the Attorney General

Reference No. 00-555-1

Ensure That Medical Support Enforcement Actions Are Complete and Accurate

CFDA 93.563 - Child Support Enforcement
 Contract/Award - N/A

The Office of the Attorney General (Office) did not meet the 75 percent required compliance rate for enforcement of non-custodial parents' medical support obligations. In a test of 45 case files, 14 cases (31.1 percent) had procedural errors in processing the medical support enforcement actions. Procedural errors included omitting medical support language in enforcement motions and failing to complete all appropriate entries on administrative enforcement forms.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

With an error rate of 31.1 percent, the Office exceeded the allowable error rate of 25 percent. Without complete and accurate enforcement processing, opportunities for obtaining medical support, such as health insurance coverage, may be missed.

In July 1999, the Office implemented a Texas Child Support Enforcement System enhancement intended to ensure that administrative enforcement forms are completed properly by automating the process of completing entries on these forms.

The *Child Support Enforcement* program handled more than 1.2 million child support cases in fiscal year 1999; of those, over 406,000 cases had medical support obligations.

Recommendation:

The Office should develop procedures to review enforcement actions to ensure that appropriate medical support entries are present, complete and accurate. The Office should also ensure that the implemented system enhancement is properly completing all appropriate entries on administrative enforcement forms.

Management's Response and Corrective Action Plan:

The OAG is committed to maintaining strong internal controls and accountability over the Child Support Enforcement program. The agency as a result of its evaluation function did identify, previously, the same procedural error which the SAO Report has drawn attention.

The primary error which the report identified, involves a procedural problem. Specifically certain appropriate entries were not completed on administrative enforcement forms forwarded to employers. The problem has been corrected as a result of a system enhancement completed during the summer of 1999. Since the program design and testing were not completed until July 1999, implementation of this corrective action did not occur until approximately 2/3 of the audit period had elapsed. Had this automated process been operative during the SAO audit period the finding would not have materialized. Management is therefore confident this enhancement will render the program to be in compliance next audit period.

To further improve the Medical Support Enforcement effort, the agency's training staff will modify the current enforcement training curriculum. These updates to the training curriculum should be in place the summer of 2000, and presented in all enforcement classes attended by the agency's child support enforcement officers. Particular attention will be given to newly established orders coming from court being forwarded to employers.

Implementation Date: August 31, 2000

Responsible Person: Deputy Director for Field Operations, Child Support Enforcement

Texas Education Agency

Reference No. 00-555-46

Strengthen Controls Over Subrecipient Monitoring

(Prior Audit Issue - 99-555-89)

- CFDA 84.010 - Title I Grants - Local Educational Agencies
- CFDA 84.011 - Migrant Education - Basic State Formula Grant Program
- CFDA 84.027 - Special Education State Grants
- CFDA 84.186 - Safe and Drug-Free Schools - State Grants
- Contract/Award - N/A

A material weakness in the Agency's monitoring of subrecipients continues to exist as it works to develop an agencywide monitoring plan. When the prior audit identified this issue, the Agency developed a corrective action plan that is scheduled to be complete in the fall of 2000.

Questioned Cost:	\$ 0.00
U.S. Department of Education	

A material weakness in internal control over compliance is a reportable condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Source: AICPA Statement of Position 98-3, March 17, 1998, Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards

However, until the Agency implements this plan and uses it in a monitoring cycle, we cannot adequately determine that prior year weaknesses have been resolved. As a result, the risk remains high for these programs that the Agency will not detect subrecipients not in compliance with federal requirements in a timely manner along with five programs audited in the prior year (see the Summary Schedule of Prior Audit Findings section of this report). The Agency distributed \$1 billion in federal funds to over 1,000 subrecipients through these four programs in fiscal year 1999.

If school district and charter school subrecipients are not spending funds as required, students may not receive the intended benefits of a program. Serious noncompliance could result in the loss of federal funding. We did not find any significant instances of noncompliance by subrecipients.

The Agency's decentralized monitoring functions make a strong agencywide monitoring plan imperative. The Agency's current oversight of its monitoring activities is not sufficient to ensure that there is effective monitoring of all subrecipients and that divisions properly share monitoring information. Monitoring tools and processes vary from program to program, and some do not consider all applicable federal requirements. For instance, the Agency's Division of Accountability and

Evaluation (DAE) monitors the programs listed above, but its monitoring tools do not cover all significant compliance requirements and financial aspects of federal programs.

According to *OMB Circular A-133 Subpart D, Section 400 (d)(3)*, the Agency must monitor subrecipients to ensure that federal awards are used for authorized purposes and that performance goals are achieved. In addition, Title 34 of the Code of Federal Regulations, Section 80.40, requires that the Agency monitor each "program, function, or activity" that is supported by federal funds to ensure that subrecipients comply with federal requirements and meet performance goals.

Recommendation:

The Agency should continue developing its agencywide monitoring plan as agreed to in the Agency's prior year corrective action plan to help ensure all applicable federal requirements are covered. As recommended previously, the monitoring oversight plan should include a process to track monitoring information and improve inter-division communication and the consistency of monitoring efforts. Also, we recommend that the Agency consult with the U.S. Department of Education's Office of Inspector General to ensure the new monitoring plan meets federal requirements.

Management's Response and Corrective Action Plan:

We believe the new subrecipient monitoring plan to be implemented in the fall of 2000 addresses the concerns noted by the State Auditor's Office. The Agency uses a variety of monitoring strategies to ensure subrecipient compliance, including on-site monitoring, desk reviews, and annual audits of school districts by independent auditors. It is important to note that neither the prior audit report nor the follow-up report found any evidence that subrecipients have incurred significant unallowable costs. The Department of Internal Operations has fully implemented risk-based monitoring of discretionary grants since April 1999, and significant progress has been made to transition to risk-based monitoring for formula grants. The Division of Accountability Evaluations (DAE) has used the District Effectiveness and Compliance (DEC) Accreditation Report Tracking (DART) system since September 1999 to track the submission of corrective actions and identify districts for follow-up visits. In addition, DEC visits have included a review of certain financial indicators in Title I Part A, Title IV, Migrant Education, and Special Education programs since the beginning of the 1999-2000 school year.

The Agency has responded expediently in developing an agencywide monitoring plan, recognizing its obligation not only to provide appropriate oversight for federal programs, but also to ensure that monitoring activities are based on fair, accurate, and appropriate risk indicators. As a necessary first step, a needs assessment was conducted during the summer of 1999. During the 1999-2000 school year, planning has taken place to broaden the scope of the risk-based monitoring system, involving extensive communication among divisions within the Agency, collection and analysis of relevant data, and development of computer programs to assign risk. School districts and education service centers have been informed of the coming changes, and extensive revisions in the annual schedule for on-site visits have been made. The Associate Commissioner for the Education of Special Populations will be responsible for consulting with the U.S. Department of Education's Office of Inspector General by June 30, 2000, to ensure the new monitoring plan meets federal requirements before the plan is implemented in September 2000.

The monitoring plan includes strategies to improve sharing of monitoring information among divisions. A needs assessment will be conducted in April 2000 to determine current methods for collecting and storing information related to risk-based monitoring, including data analysis and results of desk reviews and/or on-site visits. The monitoring plan calls for development and implementation of an agencywide database for risk-based monitoring during the 2000-2001 school year. In addition, the plan includes procedures for periodic evaluation of the plan's objectives.

Implementation Date: September 30, 2000

Person Responsible: Deputy Commissioner for Finance and Accountability

Reference No. 00-555-47

Continue Efforts to Strengthen Controls Within Accounting Systems

(Prior Audit Issue – 99-555-94, 99-555-95, 97-348-01)

- CFDA 10.553 - School Breakfast Program
- CFDA 10.555 - National School Lunch Programs
- CFDA 84.010 - Title I Grants - Local Educational Agencies
- CFDA 84.011 - Migrant Education - Basic State Formula Grant Program
- CFDA 84.027 - Special Education State Grants
- CFDA 84.186 - Safe and Drug-Free Schools - State Grants
- CFDA 84.196 - Education for Homeless Children and Youth
- CFDA 84.318 - Technology Literacy Challenge Fund Grants
- Contract/Award - N/A

The Agency continues to have a material weakness in its accounting and reporting

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Source: AICPA Statement of Position 98-3, March 17, 1998, Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards

controls. Although it has made some progress, the Agency has not completely implemented significant prior year recommendations. The Agency did not accurately report federal financial information, and it does not reconcile its accounting systems in a comprehensive or timely manner. In addition, the Agency does not restrict access to its accounting systems well enough to prevent unauthorized changes. These problems significantly increase the risk that material errors could exist in financial data and not be detected in a timely manner. Also, the risk of inaccurate information limits the usefulness of the Agency’s financial data. In fiscal year 1999, the Agency administered and reported on more than \$2 billion in federal funds.

Questioned Cost:	\$ 0.00
U.S. Department of Agriculture	
U.S. Department of Education	

Financial Reporting

The Agency’s fiscal year 1999 federal schedule (a report detailing the revenue and expenditures for each federal program administered by the Agency) is inaccurate. The detailed breakdown of expenditures for some federal programs did not agree with the Agency’s general accounting system (the Integrated Statewide Administrative System, or ISAS). For example, the reported pass-through payment for the *Special Education Grants to States* program differed by more than \$1 million from ISAS. In addition, due to our prior year recommendation the Agency reviewed fiscal year 1998 ISAS records and made several correcting adjustments. However, some of the adjustments inappropriately affected the fiscal year 1999 federal schedule. As a result, the schedule does not accurately present all of the Agency’s federal award activity as required. Without accurately reported financial information, it is difficult for the Agency to manage federal funds properly.

Reconciliations

The Agency has not developed comprehensive procedures for reconciling ISAS in a timely manner as recommended last year. Key accounting subsystems, such as the Child Nutrition Program Management Information System, which processes more than \$600 million in payments to school districts, are not reconciled to ISAS. While the Agency did begin reconciling ISAS to the Comptroller’s Uniform Statewide Accounting System (USAS), it was not done in a timely manner. For example, August 1999 ISAS and USAS cash balances reconciliations were completed in January 2000. Also, the Agency did not reconcile ISAS and USAS at the budgeted appropriation level, which would ensure that accounts other than cash balances agree. The risk that ISAS could contain inaccurate financial information increases without complete and timely reconciliations.

Access Controls

As recommended last year, the Agency is reviewing employee access to ISAS and USAS. However, the Agency has not completed the changes needed, and it has not finished development of ISAS reports or other tools that department heads can use to monitor access. Weaknesses in access to the accounting systems that should be addressed include unneeded and inappropriate access for current employees and untimely removal of access for terminated employees. As a result, the Agency cannot prevent unauthorized access and changes to its accounting systems.

Recommendation:

The Agency should:

- Ensure accurate financial reporting and comprehensive, timely reconciliations.
- Continue efforts toward implementing prior year recommendations to improve the automation and accuracy of the federal schedule and completion of timely and comprehensive reconciliations.
- Complete the review and analysis of ISAS and USAS access, while considering our prior year recommendations, to ensure employees' access corresponds to their level of responsibility and remove access capabilities that are not needed or are inappropriate.
- Develop access reports that can be generated from ISAS.
- Implement procedures for department heads to verify periodically that their employees have proper access.

Management's Response and Corrective Action Plan:

The agency agrees with the recommendations and appreciates the State Auditor's recognition of TEA's progress. We will continue to focus our efforts on ensuring the accuracy of financial reporting through automation of the federal schedule and completion of timely and comprehensive reconciliations. TEA believes it made significant improvements to the financial reporting in fiscal year 1999. For example, the State Comptroller's Office notified the agency that the 1999 Annual Financial Report's USAS data was at a level to allow the State to "extract" the information directly from USAS to compile the financial statements of the State of Texas. Also, the pass-through payment classification error on the federal schedule has now been resolved by correcting the rollup of accounts within the computer software tree.

Reconciliations between ISAS and USAS and ISAS and the federal systems (EDCAPS and ASAP) are well under way to being caught up and expect to be current by August 31, 2000. Management will analyze the key program subsystems to determine what reconciliations are needed, what resources should be responsible for performing the reconciliations, and conduct the reconciliations on an appropriate schedule.

All security profiles for access to USAS have been reviewed and updated to ensure proper segregation of duties. We are currently working on our review and update of ISAS security profiles, which includes the development of monitoring reports and procedures, and will have everything in place by August 31, 2000 to ensure the proper level of access for all users, both functional and technical.

Implementation Date: August 31, 2000

Person Responsible: Coordinator, Financial Management

Reference No. 00-555-48

Reconcile Accounting Records for Federal Programs to Federal Systems

(Prior Audit Issue - 99-555-91)

- CFDA 10.553 - School Breakfast Program
- CFDA 10.555 - National School Lunch Programs
- CFDA 84.010 - Title I Grants - Local Educational Agencies
- CFDA 84.011 - Migrant Education - Basic State Formula Grant Program
- CFDA 84.027 - Special Education State Grants
- CFDA 84.186 - Safe and Drug-Free Schools - State Grants
- CFDA 84.196 - Education for Homeless Children and Youth
- CFDA 84.318 - Technology Literacy Challenge Fund Grants
- Contract/Award - N/A

The Agency has not reconciled ISAS accounting records for certain federal programs with the accounting systems of its two major federal awarding agencies. Both systems are used as the source for requesting and drawing federal funds (\$2 billion in fiscal year 1999) from over 30 federal programs administered by the respective agencies. When reconciliations are not performed, there is limited assurance that federal funds drawn for a particular federal program are actually spent in that program.

Questioned Cost:	\$ 0.00
U.S. Department of Agriculture	
U.S. Department of Education	

The Agency has not completed its corrective action plan to address the prior year recommendation that ISAS be reconciled to the U. S. Department of Education's (DOE) Grant Administration and Payments System (GAPS). The DOE implemented GAPS in May of 1998 with the request that state agencies using GAPS quickly reconcile it to their accounting systems and make necessary adjustments. The reconciliation is important because the DOE relies on GAPS as the only means of financial reporting to track the budgets and expenditures for its federal programs. Based on the prior year audit comment, there are known differences between ISAS and GAPS that need to be resolved and adjusted.

In addition, the Agency does not reconcile ISAS to the U.S. Department of Agriculture's (USDA) Automated Standard Application for Payments (ASAP) system. Similar to the DOE's GAPS, the Agency uses the USDA's ASAP system to draw federal funds for the Child Nutrition Programs.

Reconciliation of these systems is considered an important element of internal control for the federal programs. The federal regulations governing both federal agencies generally require effective controls over and accountability for all grant or subgrant funds (Title 7, Section 3015.61 (c), Code of Federal Regulations and Title 34, section 80.20 (b)(3), Code of Federal Regulations).

Recommendation:

The Agency should complete its plan for reconciling ISAS to GAPS. In addition, the Agency should develop policies and procedures and begin reconciling ISAS to ASAP. Both reconciliations should be prepared on a periodic basis, documented, and reviewed by a knowledgeable supervisor.

In addition, if adjustments affecting the Agency's prior financial periods are needed to reconcile, they should be tracked, and their materiality should be documented. The Agency should make a determination, based on the materiality of these adjustments, of whether it is appropriate to adjust current year federal activities or to make an adjustment to the prior financial periods.

Management's Response and Corrective Action Plan:

The agency agrees with the State Auditor's recommendations. TEA, with the extra contracted assistance of Rupert and Penhall, CPA firm has been working on the reconciliation between ISAS and EDCAPS since February 2000 and has made progress in identifying and resolving differences between TEA's records and the federal records. This project has been expanded to include the ISAS to ASAP reconciliation. TEA will complete the reconciliations and develop procedures to ensure reconciliations are kept current and reviewed on a regular basis by August 31, 2000. For any prior period adjustments needed, the agency will consider all factors and will consult with the State Auditors to determine the proper treatment as a current year or prior year adjustment.

Implementation Date: August 31, 2000

Person Responsible: Coordinator, Financial Management

Reference No. 00-555-45

Ensure That Correct Federal Reimbursement Rates Are Used

CFDA 10.553 - School Breakfast Program
Contract/Award - N/A

The Agency did not use the correct reimbursement rate for the Severe Need Breakfast portion of the *School Breakfast Program*. The rate used was one-half cent lower than the rate published by the U.S. Department of Agriculture (USDA). As a result, schools participating in the program were underpaid by \$520,000 for federal program year 1999. The error occurred because the Agency did not verify the rate used in its automated system against the USDA information.

Questioned Cost:	\$ 0.00
U.S. Department of Agriculture	

The underpayment represents 2.5 percent of the Severe Need Breakfast reimbursements paid to 4,098 school campuses. Currently, the Agency is using the correct federal program year 2000 reimbursement rates.

Recommendation:

We recommend that the Agency:

- Establish procedures to ensure that the rates used agree with those published in the Federal Register or on the USDA’s web site.
- Develop a plan to obtain and distribute to participating districts the additional federal funds due them.

Management’s Response and Corrective Action Plan:

The Child Nutrition Programs Division has established procedures to ensure that the reimbursement entered into the Child Nutrition Programs Information Management System (CNPIMS) agree with the U. S. Department of Agriculture’s officially established rates. The Finance and Budget Unit Director, the Division Director and Compliance Monitoring Unit Director will review the rates entered into CNPIMS to ensure accuracy.

A plan has been developed and a special payment program written to distribute the underpayment of \$520,000 for federal program fiscal year 1999 to the 620 school districts affected. The special payments program is in the “test” stage and will be ready to proceed as soon as federal program funding is received to make the underpayment. These funds were requested from the U.S. Department of Agriculture on March 7, 2000. We are currently waiting on their response.

Implementation Date: April 30, 2000

Person Responsible: Director, Child Nutrition Programs Division

Reference No. 00-555-49

Ensure That the Agency’s Period One Calculation Is Supported

- CFDA 10.553 - School Breakfast Program
- CFDA 10.555 - National School Lunch Programs
- CFDA 84.010 - Title I Grants - Local Educational Agencies
- CFDA 84.011 - Migrant Education - Basic State Formula Grant Program
- CFDA 84.027 - Special Education State Grants
- CFDA 84.186 - Safe and Drug-Free Schools - State Grants
- Contract/Award - N/A

The Agency’s Period I, one of the components for cash management under the pre-issuance funding technique, may be incorrect because it is not based on actual activity. Period I is the time between receipt of federal funds and disbursement (warrant issuance).

Questioned Cost:	\$ 0.00
U.S. Department of Agriculture	
U.S. Department of Education	

The Agency was not aware of this requirement and therefore did not have a mechanism in place to perform the calculation. Instead, the Agency reported zero days for Period I based on its policy of having warrants issued the same day funds are received. However, it sometimes may take longer to issue warrants.

As a result, the State may have paid an incorrect amount of interest to the federal government for fiscal year 1999. According to the U. S. Treasury-State Agreement, Part VII, Section 7.1, the State is supposed to track 99 percent of federal funds for a three-month period from receipt to warrant issuance date in order to accurately calculate Period I.

Recommendation:

We recommend that the Agency:

- Develop and implement procedures to ensure that Period I is calculated for each of the federal programs using the pre-issuance funding technique, as required by the provisions of the U.S. Treasury-State Agreement.
- Submit the revised Period I calculations to the Comptroller so that all necessary adjustments can be made to the State’s fiscal year 1999 interest liability.

Management's Response and Corrective Action Plan:

TEA will develop procedures and submit revised Period I calculations to the Comptroller based on the pre-issuance funding technique required by the U.S Treasury-State Agreement.

Implementation Date: June 30, 2000

Person Responsible: Coordinator, Financial Management

Department of Health

State Auditor's Comment: The State Auditor's Office is currently conducting an audit that will provide additional information. The audit includes a review of contract administration for the Medicaid claims processor and for Medicaid managed care contractors.

Reference No. 00-555-25

Improve Monitoring of the Contract With National Heritage Insurance Company

(Prior Audit Issue - 99-555-46)

CFDA 93.778 - Medical Assistance Program
Contract/Award - N/A

The Department has made progress in improving its monitoring of the contract with the National Heritage Insurance Company (NHIC). However, further improvements are still needed as noted below. The Department contracted with NHIC during fiscal year 1999 to administer Medicaid claims. The Department's Health Care Financing Division monitors NHIC.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

- The Department does not use a planned risk assessment to monitor NHIC. The Contract Compliance Division is currently developing a Request-For-Proposal for a contractor to develop a risk assessment. The Contract Compliance Division anticipates hiring a contractor in May 2000 and having a complete risk assessment by July 2000. The risk assessment is necessary to comply with House Bill 2085, which requires an external audit of NHIC. The current timing of the risk assessment makes it very unlikely that the external audit will be completed by August 31, 2000 as required by House Bill 2896.
- The Department now has a centralized, executive management information system for logging, tracking, and reconciling all correspondence associated with NHIC contract administration. On December 1, 1999, the Case Action Request Tracking System (CARTS) was implemented. CARTS is intended to provide the Department with a centralized point through which all directives to a contractor may be communicated and monitored. Penalties are assessed if the response is not provided by the date requested. However, CARTS reports had errors in due dates, particularly with interim responses, overdue cases were not reported in a timely manner, and penalties were not assessed in a timely manner. The Bureau of Policy and Operations is studying these problems.
- The Department traces and compares agreed-upon changes in the fee schedules to the NHIC claims processing system on an annual basis. However, the Department does not have a post-payment verification process. Management has proposed using a sampling methodology to focus on the procedures with the highest costs.
- The Department has not developed a disaster recovery test plan for the data processing environment at NHIC. NHIC is required by contract to demonstrate annually the capabilities of its back-up facilities based on the Department's direction and development of a joint test plan. In the event of a disaster, there is little assurance that NHIC will be able to properly respond and recover its operation to avoid a significant stoppage in the payment of Medicaid claims.

Recommendation:

- The Department should proceed promptly with its selection of a contractor to develop the risk assessment.
- The Department should continue to address the problems occurring in CARTS, and it should maintain a strong system of checks and balances to identify other problems that may arise. Particular attention should be given to (1) determining due dates, particularly with interim responses, and (2) assessing penalties in a timely manner.
- The Department should develop a method of testing fee schedule changes as a post-payment verification process. To conduct this test, the Department should use the query tool in Compass 21 and a focused sampling that would target the procedures with the highest costs.
- The Department should develop a test plan in partnership with NHIC and ensure that the test plan is implemented on an annual basis.

Management's Response and Corrective Action Plan:

- *The Request for Proposal related to the procurement of a consultant to perform risk assessments for the administrative services provided by the Texas Medicaid Administrative System (TMAS) contractors (which includes NHIC) was issued on February 18, 2000. The Department will expedite all aspects of the procurement process that can be shortened. The Department anticipates the consultant will commence working on the risk assessments on or before May 1, 2000. The Department projects the risk assessment project will be completed on or before July 15, 2000.*

Implementation date: July 15, 2000

*Responsible person: Associate Commissioner for Health Care Financing
Information, Finance and Support
Health Care Financing Division*

- *Management acknowledges that software problems affected the automated process for reporting and assessing penalties associated with CARTS due dates. However, staff maintained manual logs to ensure that all overdue CARTS were identified and all appropriate penalties were assessed and collected timely. Bureau of Policy and Operation staff have met with systems staff to identify and modify the software problems associated with the CARTS tracking system. Due to a heavy workload, it is anticipated that the necessary modifications to the system software will be completed by July 1, 2000. The issues related to interim responses will require a contract amendment which we anticipate to be completed by June 1, 2000.*

Implementation date: June 1, 2000

*Responsible person: Bureau Chief
Bureau of Policy and Operations
Health Care Financing Division*

- *The staff from the Reimbursement Analysis Division (RAD) in the Bureau of Reimbursement Analysis & Contract Compliance have developed a method of testing fee schedule changes as a post payment verification process. In addition staff have met with staff from NHIC to develop a template query to be used in Compass 21. The projected date of implementation (contingent upon implementation of Compass 21) for this process to begin is May 1, 2000.*

Implementation date: May 1, 2000

*Responsible person: Bureau Chief
Bureau of Reimbursement Analysis & Contract Compliance
Health Care Financing Division*

- *The Department is in agreement with the above state recommendation. Per RFP section B.4.2.g, NHIC is required to demonstrate our back-up facilities on an annual basis. This plan documents the steps required to perform that demonstration and the results by which the demonstration can be judged successful. The projection for NHIC to perform the demonstration is June 2000 at a mutually agreeable date and time.*

Implementation date: June 30, 2000

*Responsible person: Bureau Chief
Bureau of Information Resources
Health Care Financing Division*

Reference No. 00-555-26

Ensure Timely Submission of Revised Cash Management Improvement Act (CMIA) Report

(Prior Audit Issue - 99-555-68)

CFDA 93.778 - Medical Assistance Program

Contract/Award - N/A

The Department revised the fiscal year 1998 CMIA Annual report Worksheet (Report) to recognize Medical Assistance Program refunds on the date they are received as suggested in the prior year's audit.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

However, the Department did not submit the revised Report to the Comptroller of Public Accounts (Comptroller) prior to the deadline of December 1, 1999, as stated in the Comptroller's Cash Management Improvement Act Reporting requirements.

Because the Report was not submitted in a timely manner, the required adjustment to the State's fiscal year 1999 interest liability was not included. As a result, the State may have paid the federal government too much or too little interest in fiscal year 1999.

Recommendation:

We recommend the Department submit the revised fiscal year 1998 Report to the Comptroller before December 1, 2000. In addition, the Department should ensure that revisions of future reports are submitted prior to deadlines.

Management's Response and Corrective Action:

The 1998 Report was revised as agreed to. We submitted the revised Report to the SAO prior to December 31, 1999 as an appropriate means to address the finding. We have since submitted the revised Report to the Comptroller. Systems are in place to ensure that future Reports are filed with the Comptroller by the appropriate due date.

Implementation date: February 17, 2000

*Responsible person: Deputy Commissioner for Administration
Chief, Bureau of Financial Services*

Health and Human Services Commission

Reference No. 00-555-34

Review Medicaid Systems for Adequacy in Detecting Overpayment and Potential Fraud

(Prior Audit Issue - 99-555-51)

CFDA 93.778 - Medical Assistance Program

Contract/Award - N/A

The Health and Human Services Commission (Commission), in conjunction with the Department of Health (Department), did not take appropriate action to resolve questioned costs reported by the State Auditor's Office in the 1998 Financial and Compliance Audit. Forty out of 65 (62%) questionable claims were improperly closed. It appears that a breakdown in communication occurred between the Commission and the Department in addressing these claims.

Questioned Cost:	\$14,698.00
U.S. Department of Health and Human Services	

Sixty-five Medicaid claims paid by the Department in November 1997 had questioned costs of \$23,599. The federal portion of questioned costs totals \$14,698. The primary reason for the questioned costs was the service providers' failure to furnish medical records upon request. State and federal regulations require providers to retain appropriate records and furnish them upon request. If a provider fails to produce records as requested, the Department may withhold payment for the services in question and impose sanctions.

Recommendation:

The Commission, in conjunction with the Department of Health, should investigate the questioned claims to determine allowability and to recover any overpayments. Resolution of the questioned costs should focus on obtaining medical records from the service providers.

Management's Response and Corrective Action Plan:

The finding in the 1998 compliance audit referred to the Texas Department of Health (TDH) and resulted from claims reviewed during the Texas Comptrollers' Measurement of Fraud Study for fiscal year 1997.

Commission staff has agreed to request medical records for a sample of these claims. Commission staff has also agreed to review a representative number of these claims.

Implementation Date: April 30, 2000

Responsible Person: Associate Commissioner, Office of Investigations and Enforcement

Department of Housing and Community Affairs

State Auditor's Comment: The State Auditor's Office is currently conducting an audit that will provide additional information. The audit includes a program review of three housing programs.

Reference No. 00-555-42

Strengthen Controls Over Subrecipient Monitoring

(Prior Audit Issue - 99-555-22)

CFDA 14.239 - HOME Investment Partnership Program
Contract/Award - N/A

The Department has a material weakness in its controls over monitoring subrecipients for the HOME Investment Partnership (HOME) Program. In fiscal year 1999, 250

Questioned Cost: \$14,600.00
U.S. Department of Housing and Urban Development

A material weakness in internal control over compliance is a reportable condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

subrecipients received \$25 million in federal HOME Program funds. Because the Department does not monitor subrecipients effectively, all of these funds were at risk of being spent on unallowable costs, which could lead to lost federal funding. (There is no evidence that subrecipients have incurred significant unallowable costs.)

According to *Office of Management and Budget (OMB) Circular A-133* Subpart D, Section 400(d)(3), the Department must monitor subrecipients to ensure that federal awards are used for authorized purposes and that performance goals are achieved. In addition, 92 CFR Section 201(b)(3)(ii) says that the Department must ensure that its subrecipients meet program requirements, particularly eligible activities, income targeting, affordability, and matching contribution requirements. To comply with these federal

requirements, the Department must address the following issues:

- The Department does not document its criteria for selecting which subrecipients to monitor, so there is no assurance that the Department visits the ones with the greatest risk of noncompliance. The Department visited three subrecipients several times in fiscal year 1999 without noting any compliance problems. Without documentation, it is not evident why the Department visited these subrecipients.
- Employees who are responsible for monitoring sometimes have conflicting responsibilities. Because some monitoring positions were vacant in fiscal year 1999, regional coordinators monitored subrecipients in addition to recommending them for contracts and helping them administer HOME activities. These conflicting duties increase the risk that the misuse of funds may occur and not be detected.

- The checklist that serves as the Department's primary monitoring tool does not address all federal financial-related requirements, such as program income, matching, or cash management. For the federal requirements that are addressed, the monitors' conclusions are not supported with documentation. There are no guidelines detailing how to use the checklist or what documentation is needed. This increases the risk that noncompliance with federal requirements will not be detected in a timely manner.
- Management indicated that questioned costs were not identified as a result of on-site monitoring reviews. Because of the lack of documentation, we were unable to determine if questioned costs should have been identified in these reviews.
- Subrecipients' requests for HOME funds lack support to ensure that requests are to pay for costs incurred. In three instances, requests were supported only by a letter requesting payment for services rendered. As a result, these requests have resulted in questioned costs of \$14,600. In a related report, the U.S. Department of Housing and Urban Development questioned \$408,491 because the Department did not have acceptable support for certain administrative charges made to the HOME Program (*HOME Investment Partnership Program Administrative Costs*, January 27, 2000).
- For 89 percent (16 of 18) of the subrecipients tested, the documents used to track HOME monitoring efforts listed the wrong type of monitoring visit. As a result, the Department does not have accurate information about its monitoring efforts.

Recommendation:

We recommend that the Department:

- Allocate limited monitoring resources according to risk. A risk-assessment tool for the HOME Program should be developed and used to identify and direct monitoring resources to subrecipients with the highest risk of noncompliance. The risk assessment should include, but not be limited to, factors such as Single Audit results, amount of award, activity type, past performance, the subrecipient's experience with the HOME Program, and the results of other monitoring. All decisions affecting subrecipient monitoring should be formally documented. Any variations from the risk assessment should also be justified and documented.

In the absence of resources to perform on-site visits, develop other monitoring techniques to provide assurance of subrecipient compliance with significant requirements.

- Segregate monitoring duties. The person who recommends subrecipients for contracts and provides technical assistance should not be the one to monitor them for compliance. Ensure there are enough staff members to segregate duties by filling any vacant monitoring positions in a timely manner. Also, take steps to address the high turnover in monitoring positions. If positions continue to go unfilled, implement procedures for independent review of monitoring results.
- Modify all monitoring tools and procedures to ensure all federal requirements are addressed. Monitoring checklists must clearly indicate the results of the review and require supporting documentation. For example, the procedures used and documents reviewed should be clearly documented. Once revised, formal policies and procedures for monitoring should be developed, implemented, and communicated to responsible staff. These should include the documentation and sampling techniques required of the monitor and instructions for handling unsupported/questioned costs.
- Accurately document the type of on-site monitoring visits performed in the HOME Program's tracking system. The information that monitors and regional coordinators enter in the GENESIS system should be reviewed for accuracy.

Management's Response and Corrective Action Plan:

The Department has developed a risk assessment model and a related Standard Operating Procedure (SOP) that is in the process of review. Assigned staff is currently performing trial runs of the model using various risk factors to identify the best mix of factors to assess risks. The trial runs are scheduled for completion by April 30, 2000. Upon approval of the model, which will serve as a basis for documenting monitoring decisions, monitoring resources will be allocated to subrecipients based on their assessed risks. Highest risk subrecipients will be scheduled for on-site monitoring visits according to the risk assessment SOP. The HOME program is also in the process of assessing monitoring techniques other than on-site monitoring

visits to provide a minimum level of assurance relating to non-high risk subrecipients and compliance with significant requirements. The anticipated completion date is August 31, 2000

Management agrees that the responsibilities of the monitoring function should be separate from those who recommend subrecipients for contracts and that provide technical assistance to subrecipients. In an effort to dedicate sufficient resources to the monitoring function, two Regional Monitors were hired and began their training in April of 1999. They began monitoring on their own in August of 1999 and have taken the lead in field testing the new monitoring SOP's discussed further in the following bullet. These SOP's include a clear distinction between the responsibilities of Regional Monitors and Regional Coordinators to facilitate the independence of the monitoring function.

In assessing appropriate assignment of responsibilities, the Human Resource Division has conducted an audit of each full-time equivalent employee (FTE) budgeted under the HOME program. The specific job positions of focus included Regional Monitors, Regional Coordinators, and Contract Coordinators. The results of this audit will be used to make decisions on what duties may need to be reassigned to ensure an adequate separation of duties and to identify factors that may be resulting in high turnover in monitoring positions.

Furthermore, the U.S. Department of Housing and Urban Development has advised us that they have contracted with a consultant to complete a needs assessment for specific participating jurisdictions. The outcome of the assessment should help define the number of FTE's typically assigned to administer HOME funds as compared to other housing agencies. This will be yet another tool by which management can make decisions with regard to reassignments or a requirement for more FTE's within the HOME program in order to achieve all functions efficiently. Management anticipates a complete separation of the monitoring duties with clear assignments of responsibilities by June 1, 2000.

HOME staff has reviewed and redesigned the program's monitoring SOPs to ensure that the federally defined criteria are more specifically outlined and to provide additional assurance that subrecipients administer Federal awards in compliance with Federal requirements. The redesigned SOPs include a 7-section manual comprised of the following sections:

- | | |
|--|--|
| Section 1 – General Policy; | Section 5 – Selection of Contracts to be Monitored; |
| Section 2 – Roles of TDHCA and Administrators; | Section 6 – Monitoring Methods; and |
| Section 3 – Primary Functions of the Regional Monitor; | Section 7 – Concerns and Findings of Non-Compliance. |
| Section 4 – Program Monitoring Objectives; | |

The Monitoring Checklists have been completely re-written and now include a section entitled "Test Source" which provide specific direction for monitors and reviewers to understand what documents were reviewed, which were tested and what the results were. In addition, a new "Financial Checklist" has been prepared for implementation.

Although the final draft of the new HOME Monitoring Manual 2000 and the new Monitoring Checklists have been put in place effective October 1999, the Manual is currently in review to ensure that all necessary federal requirements are addressed. The review will also assess whether the recommendations by the State Auditor's Office have been incorporated and, if not, the Manual will be updated to include such detail by June 30, 2000.

Working with the Department's Information Services Division. HOME staff is in the final process of testing a "Monitoring Status" report generated from the existing Genesis Database. The "Monitoring Status" report includes a detailed description of the date of each on-site monitoring visit, results of the visit, compliance issues addressed and if a desk review was performed in addition to preparation of the on-site monitoring checklists. The database will also include information as to the date of needed follow-up and the results of that follow-up. With implementation of the enhanced Genesis Database and the newly created "Monitoring Status" report, procedures will be implemented by July 31, 2000 to ensure that information entered into the Genesis system by the monitors and regional coordinators will be reviewed for accuracy.

Implementation date: August 31, 2000

Responsible Person: HOME Program Manager

Reference No. 00-555-41

Strengthen Controls Over Cash Management Requirements

CFDA 14.228 - Community Development Block Grant/State's Program

CFDA 14.239 - HOME Investment Partnership Program

Contract/Award - N/A

The Department is not in compliance with federal cash management requirements for the *HOME Investment Partnership Program* (HOME) or the *Community Development Block Grant Program* (CDBG):

Questioned Cost:	\$ 0.00
U.S. Department of Housing and Urban Development	

The Department did not properly calculate Period I for either program. (Period I, a component of the pre-issuance funding technique, is the number of days from the date the Department deposits federal funds to the date it issues those funds.) For the HOME program, only 6.8 percent of funds deposited during a three-month period were included in the calculation instead of 99 percent as required (Treasury-State Agreement, Part VI, section 6.2). The resulting Period I was one day. However, the correct calculation of Period I results in a negative one day. The Department used the same methodology to calculate Period I for the CDBG program. As a result, the State may have paid the federal government too much interest for these programs in fiscal year 1999.

Additionally, for the HOME program, the Department did not always ensure that funds were requested no more than three business days before disbursement as required by Code of Federal Regulations Title 31 Section 205.7 (c)(4). For example, the Department requested \$700,000 for administrative costs in August 1999. However, August 1999 expenditures totaled only \$122,003. The remaining funds, totaling \$577,997, were then used to pay expenditures between September 1999 and January 2000, which indicates noncompliance with the three-day requirement.

Recommendation:

We recommend that the Department:

- Calculate Period I using the required Period I methodology. The Period I calculation for all programs subject to the pre-issuance funding technique should be recalculated to determine the correct interest calculation for fiscal year 1999. CMIA reports that contained erroneous Period I calculations should be revised and re-submitted to ensure that the correct interest amount has been reported to the Comptroller.
- Develop and implement formal policies and procedures that include the correct calculation methodology. Procedures should also establish periodic review of calculations to ensure compliance with CMIA requirements. In addition, procedures for tracking direct costs associated with Period I calculations should be established, so that these can be identified and submitted for reimbursement.
- Revise the procedures for requesting federal funds to ensure that all funds requested are disbursed within three days of receipt.

Management's Response and Corrective Action Plan:

The Department will recalculate the Period I calculation using 99% of funds deposited in a three-month period for FY 99 as recommended by the SAO and resubmit that calculation to the Comptroller.

The Department will review and enhance current policies and procedures to include the correct calculation methodology and establish a periodic review to ensure compliance with the Cash Management Improvement Act. Cash management procedures will be improved to ensure that federal funds requested are disbursed in a timely manner so that, on average, disbursements are made within three days of receipt.

The Department has generally made disbursement of the majority of program funds with a one day or less timeframe. However, the Department recognizes the need to request smaller amounts more frequently with regard to administrative draws.

Implementation Date: June 1, 2000

Responsible Person: Federal Grants Manager

Reference No. 00-555-38

Strengthen Controls Over Matching RequirementsCFDA 14.239 - HOME Investment Partnership Program
Contract/Award - N/A

The Department has not established adequate controls over the matching requirements for the *HOME Investment Partnership (HOME) Program*. As a result, the Department has not accurately reported matching information to the U.S. Department of Housing and Urban Development (HUD) since federal fiscal year 1995. This lack of controls was indicated by the following deficiencies:

Questioned Cost:	\$ 0.00
U.S. Department of Housing and Urban Development	

- The Department reported matching information on a program fiscal year rather than on the federal fiscal year as required. Although the matching information was not accurately reported, Department records support that the matching requirement for the program has still been met.
- A HOME Match Report (HUD Form 40107A) has not been submitted to HUD for federal fiscal year 1998.
- No supervisory review of the HOME Match Report is conducted prior to its submission to ensure accuracy and completeness.
- No formalized policies and procedures exist for calculating and reporting the matching liability for the program.

If a state does not accurately report matching information each federal fiscal year, the federal government has no assurance that the matching requirement has been met. This increases the risk that the state may have to return or refund a portion of federal funds received. Formalized policies and procedures, along with appropriate training and staff, are important controls in ensuring that matching information is properly calculated, monitored (including supervisory review), and reported.

Recommendation:

We recommend that the Department take the following steps to strengthen controls over matching requirements:

- Correct and resubmit the HOME Match Reports filed inaccurately since federal fiscal years 1995 through 1997.
- Submit the HOME Match Report for federal fiscal year 1998.
- Establish formalized policies and procedures for calculating, monitoring, and reporting matching information. These procedures should include a supervisory review of the report prior to its submission. The Department should ensure that responsible personnel are properly trained in using the policies and procedures.
- Train responsible staff on policies and procedures, as well as federal matching requirements for the program.

Management's Response and Corrective Action Plan:

The Department has reported its match contribution on its HOME program year specified in its Consolidated Plan with HUD pursuant to its Community Planning and Development Notice 97-03, issued on March 27, 1997, that reads in part "...reporting on match contributions will be based on a PJ's HOME program year."

HUD has recently clarified that match contribution should be reported on a federal fiscal year basis and submitted to HUD at the end of each program year as part of the Consolidated Plan Annual Performance Report. Accordingly, the match reports have been revised through federal fiscal year 1998 and will be submitted to HUD by May 30, 2000.

The Department has developed written procedures for determining and reporting of matching contributions that are incorporated in the HOME Program's Standard Operating Procedures. The procedures require a management review of the match report prior to submission to HUD.

Implementation date: May 30, 2000

Responsible person: HOME Program Manager

State Auditor's Follow-Up Comment:

The Department did not follow the Community Planning and Development Notice (CPD) 97-03 in calculating the match contributions for the HOME program. The Department calculated and reported the match contributions based on its program year rather than the federal fiscal year.

CPD 97-03 states that the match should be calculated on the federal fiscal year. However, the match report should be submitted at the end of the program year. Additionally, the HOME Match Reports filled out by the Department clearly require match contributions for the federal fiscal year.

Department of Human Services

***State Auditor's Comment:** The State Auditor's Office is currently conducting an audit that will provide additional information. The audit includes a review of client eligibility data.*

Reference No. 00-555-2

Strengthen Controls Over Direct Cost Claimed for the Development and Maintenance of Clearance Patterns

CFDA 10.561 - State Admin. Matching Grants for Food Stamp Program
 CFDA 93.558 - Temporary Assistance for Needy Families
 CFDA 93.777 - State Survey and Certification of Health Care Providers and Suppliers
 CFDA 93.778 - Medical Assistance Program
 Contract/Award - N/A

The Department claimed \$19,500.54 in direct costs in fiscal year 1999, which is 93 percent more than its fiscal year 1998 claim of \$10,080.15. Based on our review of provided documentation and on the fact that the Department managed one less program in fiscal year 1999, the claim appears excessive.

Questioned Cost:	\$ 0.00
U.S. Department of Agriculture	
U.S. Department of Health and Human Services	

According to Title 31 of the Code of Federal Regulations (CFR), Part 205, Section 14(a), the State is allowed reimbursement up to \$50,000 for the development and maintenance of clearance patterns and interest calculation. During fiscal year 1999, the Department alone is claiming 43.52 percent of the State's direct cost allowance. The Department spent a considerable amount of time recalculating average clearance patterns every month. In addition, it spent resources calculating Period 1 throughout fiscal year 1999, even though this calculation is not required under the average clearance technique.

Title 31 of the CFR, Part 205, Section 14(b)(3) states that documentation must be maintained to substantiate direct cost claims. The Department does not have adequate procedures in place to track actual time spent on the development and maintenance of clearance patterns. Instead, direct costs are determined based on employees' estimates at the end of the year.

Recommendation:

We recommend that the Department:

- Adhere to cash management regulations and only recalculate clearance patterns every five years unless a program undergoes operational changes that would cause the clearance pattern to change. This practice would save time and resources and reflect a more accurate direct cost.
- Develop and implement adequate procedures to track actual time spent on the development and maintenance of clearance patterns.
- Adjust the fiscal year 1999 direct cost claim to reflect a reasonable amount as in previous years.

Management's Response and Corrective Action Plan:

- We will continue to adhere to cash management regulations. The Director of Fiscal Management is responsible for ensuring compliance.
- We concur with the need to strengthen control over the direct costs claimed for the development and maintenance of clearance patterns. Effective January 13, 2000, employees were instructed to begin keeping a daily log of their time spent on CIMA work papers and a brief discussion of the work accomplished. They will assist in determining an accurate amount of time that is eligible to be claimed. The Director of Fiscal management is responsible for ensuring compliance.
- The Comptroller's Office was consulted concerning an adjustment to the fiscal year 1999 direct cost claim. We were informed that the adjustment would need to be made in the next reporting period and will do so when the fiscal year 2000 reports are submitted in November 2000. The Director of Fiscal management is responsible for ensuring compliance.

Implementation Date: November 20, 2000

Responsible Person: Director of Fiscal Management

Reference No. 00-555-17

Comply With Cash Management Requirements

- CFDA 10.561 - State Admin. Matching Grants for Food Stamp Program
- CFDA 93.558 - Temporary Assistance for Needy Families
- CFDA 93.777 - State Survey and Certification of Health Care Providers and Suppliers
- CFDA 93.778 - Medical Assistance Program
- Contract/Award - N/A

The Department did not draw federal funds in accordance with the programs' average clearance funding technique. On average, the Department draws funds once a week even though the programs' average clearance patterns range from two to three days.

Questioned Cost:	\$ 0.00
U.S. Department of Agriculture	
U.S. Department of Health and Human Services	

The average clearance pattern is the dollar-weighted average number of days a state needs to pay out funds after receiving them from the federal government. Title 31 of the Code of Federal Regulations, Part 205, Section 7(c)(2), requires states to draw funds for program expenses one day before the number of days in the average clearance pattern.

Because the Department does not draw federal funds often enough, it has to use state funds to cover federal program expenses, which results in lost interest income for the State and can negatively affect cash flow. In fiscal year 1999, the use of state funds to cover federal program expenditures cost the State at least \$239,859.00 in lost interest. (By its own initiative, the Department has reverted to the pre-issuance funding technique for fiscal year 2000.)

Recommendation:

We recommend that the Department:

- Implement the funding technique mandated in the Treasury-State Agreement.
- Request federal funds more frequently to comply with programs' clearance patterns, while limiting the use of state monies and ensuring adequate cash flow.

Management's Response and Corrective Action Plan:

- TDHS has returned to the pre-issuance funding technique for fiscal year 2000, effective September 1, 1999. The Director of Fiscal management is responsible for ensuring compliance.
- All programs will be monitored throughout fiscal year 2000 to determine current Period 2 clearance patterns, and the draw patterns for each program will be adjusted accordingly. Federal funds are currently being requested twice a week for each program.

Implementation Date: March 9, 2000

Responsible Person: Director of Fiscal Management

Reference No. 00-555-18

Strengthen Controls Over Quality Assurance of Client Eligibility FilesCFDA 93.778 - Medical Assistance Program
Contract/Award - N/A

The Department has both a federally approved Program Integrity Assessment (PIA) process and an internally developed Quality Assurance Management System (QAMS) to ensure accuracy of data in the Department's client eligibility files. We identified opportunities to improve management oversight and documentation of work performed by reviewers and caseworkers:

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

- The Department does not formally document its follow-up work on deficiencies in the PIA process or the QAMS to ensure that timely corrective actions have been taken. The Department relies on the regions to make corrections. Corrective action plans for the PIA process are reported to the federal government on an annual basis.
- The Department has not provided formal training on the QAMS review process since 1992. Testing revealed that 3 out of 61 (4.9 percent) cases tested lacked adequate documentation to support eligibility decisions in the case folder and that the QAMS reviewer did not note these absences.

Federal regulations require the State to have a Medicaid eligibility quality control system. The regulations further require that the state agency take corrective action when errors are found. Appropriate documentation of eligibility determination and the quality control process ensures adherence to required policies and procedures.

Recommendation:

We recommend the Department strengthen controls over the quality assurance of client eligibility files. The Department should:

- Require the regions to formally document error correction for individual deficiencies and implement a mechanism for monitoring error correction on a periodic basis.
- Train quality assurance personnel to document case files appropriately and review the files for required documentation, or consider alternatives to training; for example, use standardized case review procedures and technology (such as bulletin boards, discussion groups, and computer-based training) to increase coordination.

Management's Response and Corrective Action Plan:

The QAMS/ MAPPER automated system and Validation requirements are currently being reviewed by Office of Program staff. A recommendation that will be considered is to add fields to indicate a correction/clearance is needed by a particular date and a field to indicate when the correction/clearance was indicated in the case record.

A memorandum from Regional Operations will be sent to the Long Term Care Services, Regional Directors, making it a requirement that all Program Integrity Assessment findings must be corrected/cleared within 30 days of receipt of the F-1025 "Report of Program Integrity Findings". Correction will be documented in the case record. The memorandum will include the same requirement for QAMS reported errors. Correction will be documented in the case record. The memorandum will be released by March 31, 2000.

A decision will be made by May 1, 2000 to determine the direction the QAMS and QAMS Validation will take. This decision will be made jointly by Regional Operations and the Office of Programs Long Term Care staff. Once the decision is made, a training plan will be developed and implemented by August 1, 2000.

Implementation Date: August 31, 2000

Responsible Person: Regional Operations and Office of Programs Long Term Care staff

Reference No. 00-555-19

Ensure Adequate Procedures for the Referral of Suspected Fraud Cases

(Prior Audit Issue - 99-555-49, 98-320-01)

CFDA 93.778 - Medical Assistance Program

Contract/Award - N/A

The Department has not implemented a recommendation from the 1998 Financial and Compliance Audit to ensure the receipt of suspected fraud referrals by the Health and Human Services Commission (Commission). The Department has controls in place to identify suspected Medicaid fraud. However, the Department has not established a formal process to reconcile referrals to the Commission and to track their disposition. As a result, not all suspected fraud cases are being investigated. The Department initiated meetings with the Commission (and the Office of the Attorney General) to address this issue.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

Federal regulations require the State to have procedures for identifying suspected fraud, investigating these cases, and referring suspected fraud cases to appropriate officials.

Recommendation:

The Department should ensure the receipt of suspected fraud referrals by the Commission. This can be done by periodically reconciling its referrals to the Commission's records. The Department should also obtain regular feedback from the Commission to monitor the disposition of all referrals.

Management's Response and Corrective Action Plan:

The Department agrees with the recommendation. We are developing procedures with the Commission to ensure receipt of referrals sent by reconciling on a quarterly basis. We are also developing a procedure to monitor status/disposition on all referrals.

Implementation Date: March 31, 2000

Responsible Person: Director of Special Operations, Office of Inspector General

Reference No. 00-555-20

Establish a Program for Conducting Periodic Risk Analysis and Security Review

(Prior Audit Issue - 99-555-48)

CFDA 93.778 - Medical Assistance Program

Contract/Award - N/A

The Department has not established and maintained a program for conducting periodic risk analyses and security reviews of the automated data processing systems it uses in the administration of Medicaid. We reported in the 1998 Financial and Compliance Audit that the Department had not conducted a security review since June 1995. Federal regulations require that state agencies establish and maintain a program for conducting periodic, automated data processing risk analyses to ensure that appropriate, cost-effective safeguards are incorporated into new and existing systems. State agencies must also perform risk analyses whenever significant system changes occur.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

Recommendation:

The Department needs to establish and maintain a program for conducting periodic risk analyses and security reviews of the automated data processing systems it uses in the administration of Medicaid. The Department should review the automated data processing system security installations involved in the administration of health and human services programs on a biennial basis. At a minimum, the reviews should include an evaluation of physical and data security operating procedures and personnel practices. The Department should maintain reports on its biennial system security reviews and supporting documentation.

Management's Response and Corrective Action Plan:

MIS and Internal Audit will work together to establish a plan for periodic risk analysis and security review of automated data processing systems used for administering Medicaid by July 31, 2000. The Deputy Commissioner of MIS and the Internal Audit Director will be responsible for ensuring the development and implementation of the plan.

Implementation Date: July 31, 2000

Responsible Person: Deputy Commissioner of MIS and the Internal Audit Director

Lamar University – Beaumont

Reference No. 00-555-10

Report Enrollment Changes as Required

CFDA 84.032 - Federal Family Education Loans
Contract/Award - N/A

The University is not properly reporting enrollment changes for the *Federal Family Education Loans* program. In 5 of 12 student records tested (41.67 percent), we noted the following issues:

Questioned Cost:	\$ 0.00
U.S. Department of Education	

- Three of the enrollment changes were submitted to the U.S. Department of Education (Department) after the required time frame. The changes were reported anywhere from 72 days to 122 days after the effective change date.
- Two of the enrollment changes were not reported to the Department.

Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled. The University's noncompliance with this requirement may result in delayed repayment of federal loans.

Title 34 of the Code of Federal Regulations, Section 682.610 (c), requires the institution to report enrollment changes to the guaranty agency or the Department within 60 days. If an institution does not expect to report enrollment changes on the Student Status Confirmation Report (SSCR) within the next 60 days, that institution is required to notify the guarantor or lender by letter within 30 days.

Recommendation:

We recommend that the University ensure that all enrollment changes are accurately reported in a timely manner to the guarantor, the lender, or the Department. If the University does not expect to report the changes on the SSCR within the next 60 days, it should provide notification to the guarantor or the lender within 30 days. If the status change occurs after the University sends the database of students to its third-party servicer but before the completed SSCR is due, the University can perform a variety of steps. The University can create ad-hoc reports to submit to the Department, which will report those students who had enrollment changes during this time frame. Alternatively, the University can submit the data on line to the National Student Loan Data System. The University should also review its procedures to determine why all students with enrollment changes are not being reported.

Management Response and Corrective Action Plan:

Management concurs with the recommendation that all enrollment should be accurately reported in a timely manner to the guarantor, the lender, or the Department. The Office of Student Financial Aid will report students that have dropped below full time, three quarter time, half time, or withdrawn, on line to the National Student Loan Data System. The Registrar's office will continue reporting enrollment status for all students at the appropriate times.

Implementation Date: August 1, 2000

Responsible Person: Director of Student Financial Aid

Reference No. 00-555-6

Maintain Documentation of Pell Payment Data Submitted to U.S. Department of Education

CFDA 84.063 - Federal Pell Grant Program
 Contract/Award - N/A

The University is not maintaining necessary documentation to support the reporting of all Pell payment data to the U.S. Department of Education for the *Federal Pell Grant Program*. As a result, we were unable to ensure that the University reported the student payment data as required.

Questioned Cost:	\$ 0.00
U.S. Department of Education	

Title 63 of the Federal Register, Section 34856, states that an institution must report student payment data within 30 calendar days after the school makes a payment or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Schools may do this by reporting once every 30 calendar days or bi-weekly, or a school may set up its own system to ensure that changes are reported in a timely manner.

In addition, Title 34 of the Code of Federal Regulations, Section 668.24 (e) (1), requires the institution to retain records for a minimum of three years after the end of the award year in which the records are maintained.

Recommendation:

We recommend the University maintain documentation to support reporting of all Pell payment data to the U.S. Department of Education. Since the University electronically reports Pell payment data to the U.S. Department of Education, it should keep back-up tapes that document the Pell payment data submitted to the U.S. Department of Education.

Management's Response and Corrective Action Plan:

Financial aid staff currently updates the Pell Recipient Financial Management System (RFMS) on a weekly basis. We maintain copies of the reports received from RFMS indicating the changes were accepted. Copies of these transmissions to RFMS and the responses from RFMS are also archived on floppy diskettes.

Implementation Date: December 27, 1999

Responsible Person: Director of Student Financial Aid

Department of Mental Health and Mental Retardation – Central Office

Reference No. 00-555-21

Comply With Independent Peer Review Requirements

(Prior Audit Issue - 99-555-11)

CFDA 93.958 - Block Grant for Community Mental Health Services
 Contract/Award - N/A

The Department does not have a process to ensure that independent peer reviews of funded treatment programs are performed as required by the *Block Grant for Community Mental Health Services* program.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

According to Title 42 of the United States Code, Section 300X-53, the State is required to ensure that independent peer reviews are performed for at least 5 percent of the entities that it funds to provide treatment services. The entities reviewed must be representative of all the entities that the Department uses to provide treatment services. The State must make sure that the peer reviewers are independent by ensuring that reviewers do not review their own programs and that the peer review is not part of the licensing or certification processes. Noncompliance with these requirements may result in the loss of federal funds.

The Department has a process to monitor the quality and appropriateness of clinical care. However, the Department’s Austin-based mental health quality management teams that monitor the Community Centers for Mental Health and Mental Retardation are not independent of the entities that should have a peer review.

Recommendation:

We recommend that the Department develop and implement an independent peer review process for entities that provide treatment services during the grant award period. This process should enable the Department to assess the efficacy, quality, and appropriateness of treatment services provided to Texans. The Department must make sure that the peer reviewers are independent by ensuring that reviewers do not review their own programs and that the peer review is not part of the licensing or certification processes.

Management’s Response:

The Center for Mental Health Services has not specified criteria for peer review, and there are no other federal criteria by which to judge compliance. The Center for Mental Health Services has never cited our peer review program as inadequate, and we think our program is in compliance with the spirit and intent of the requirements. The process that has been in place for TDMHMR over a number of years has been to use the Austin -based MH quality management teams to monitor quality and appropriateness of clinical care. This process entails the use of standardized record review tools that are applied to a randomly drawn sample of client records at each entity reviewed. The quality management team reviews more than the 5% required each year. Given that our recipients are all similar in terms of having to provide defined treatment programs, we believe our selection process, based on various risk indicators is also representative. It is also true that subrecipients, i.e. CMHMRCs conduct assorted peer review activities locally.

Implementation Date: The Department does not plan to take any corrective action.

Responsible Person: N/A

State Auditor’s Follow-Up Comment:

It is true that the Center for Mental Health Services (Center) has never cited the Department’s peer review program as inadequate. However, the Center does not monitor independent peer reviews; therefore, the Center would not have cited the reviews as inadequate. Because there have been so many questions regarding criteria for independent peer review, the August 1999 draft of the OMB A-133 Compliance Supplement includes clarification regarding independent peer review. The draft indicates that to be independent, the peer reviewers should not be involved in reviewing their own program and the review should not be part of the licensing or certification process. Our concern is that the Austin-based Mental Health quality management teams are part of the Department’s Community Services Division. This Division has oversight responsibilities over the programs that have peer review requirements.

Reference No. 00-555-22

Fully Comply With Subrecipient Monitoring Requirements

CFDA 93.958 - Block Grant for Community Mental Health Services
 Contract/Award - N/A

The Department is not in full compliance with subrecipient monitoring requirements. Three contracts were inconsistently contracted for and monitored:

- The contracts with Texas Mental Health Consumers; Texas Alliance for the Mentally Ill, Inc.; and The Parent Connection were written to be paid with *Block Grants for Community Mental Health Services* (Block Grant) funds. However, the Department used general revenue for all payments except one payment of \$35,781 paid to Texas Mental Health Consumers and one payment of \$5,000 paid to The Parent Connection. The Department used \$227,130 of general revenue for payments that should have been paid from Block Grant funds. The organizations were told that they would receive Block Grant funding. As a result, the organizations may have reported their source of funding incorrectly in their financial statements.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

- The single audit reports from the organizations listed above are not reviewed in a manner consistent with other single audit reports received by the Department. The Department’s Management Audit division reviews the other single audit reports for compliance with *Office of Management and Budget (OMB) Circular A-133*.
- The Department had not determined whether the contracts with the organizations listed above should be considered subrecipient contracts or contracts for service. This determination is important because it affects which rules and regulations apply to the contracts. These organizations are statewide advocacy organizations. They support the mental health consumers, relatives of mental health consumers, and other caregivers. The organizations establish statewide chapters to provide education and training. They also advise the Department on policy and procedure development.

OMB Circular A-133, Section 400(d), requires pass-through entities to ensure that subrecipients meet audit requirements and to issue a management decision on audit findings within six months of receiving the audit reports. As part of the contracting process, the Department should determine the type of contract as either a subrecipient, a vendor with compliance requirements, or a contract for services. This determination affects the requirements for each contract.

Recommendation:

We recommend that all contracts be treated consistently throughout the process for contracting and monitoring. As part of the contracting process, the Department should determine whether the contractor is a subrecipient, a vendor with compliance requirements, or a contract for services. The Block Grant funds should be used for all contracts that qualify for this type of funding. In addition, we recommend that all single audit reports be reviewed within required time frames. This would increase the Department’s monitoring effectiveness.

Management Response:

At the time the FY ‘99 operating budget was being established, it was difficult to determine whether there was sufficient MHBG available to fully fund all demands against that funding stream. The funds available on a year to year basis consist of the current year NOGA as well as funds from a prior year that have not been drawn. To insure that these contracts would be fully funded, general revenue was earmarked as the fund source. Mechanisms have been put in place that provide for a more accurate means of estimating the amount of MHBG funds available. As a result, FY 2000 contracts have been funded with MHBG.

The three contracts in question were reviewed by a multi-disciplinary team, which included Management Audit staff. All three were determined to be subrecipient contracts. These, and like funded future contracts, will be reviewed by the Management Audit staff, consistent with Single Audit requirements.

Implementation Date: March 1, 2000

Responsible Person: Director of Management Audit/HSC

Reference No. 00-555-23

Comply With Allowable Activity Requirements

**CFDA 93.958 - Block Grant for Community Mental Health Services
Contract/Award - N/A**

The direct care services provided by the Children’s Heart Institute do not appear to meet the allowable activity requirements of the *Block Grant for Community Mental Health Services*. The contract states that the Children’s Heart Institute will provide medical services to children with mental disabilities who also have congenital heart defects. The objective of the *Block Grant for Community Mental Health Services* program is to provide comprehensive community-based mental health services for adults with serious mental illness and children with serious emotional disturbances. Children with a serious emotional disturbance are defined as “persons from birth up to 18, who currently or at any time during the past year, have had a diagnosable mental behavioral or emotional disorder of sufficient duration to meet diagnostic criteria specified within ‘DSM-III-R’” (Federal register, Vol. 58, No. 96, May 20, 1993).

Questioned Cost:	\$150,000.00
U.S. Department of Health and Human Services	

The services to be provided according to the contract with the Children’s Heart Institute and performance information provided in an annual report to the Department do not support the use of *Block Grant for Community Mental Health Services* program funding.

The Children’s Heart Institute received \$150,000 in fiscal year 1999 as specified in Rider 15, Article II of the Appropriations Act, 75th Legislature, Regular Session. The rider also states that “A contract shall be developed between TXMHMR and the Children’s Heart Institute to ensure that appropriate medical services will be provided and that relevant documentation on performance will be submitted to TXMHMR.”

Recommendation:

We recommend that the contract with the Children’s Heart Institute be funded with general revenue. We also recommend that the contract requirements be monitored and enforced consistent with Department contract administration policy for all contracts.

Management Response:

As of September 1, 2000, the Children’s Heart Institute contract will be funded with general revenue. The contract monitor is currently using the monitoring instruments called for in the contract procedures. Additional procedures are being considered which would include staff from a local facility assisting with on-site monitoring and reporting to the contract manager.

Implementation Date: September 1, 2000

Responsible Person(s): Contract Manager and Director of Community Financial Services

Department of Protective and Regulatory Services

State Auditor’s Comment: *The State Auditor’s Office is currently conducting an audit that will provide additional information. The audit includes a review of contract administration, which will include site visits to service providers.*

Reference No. 00-555-51

Strengthen Controls Over Monitoring of Subrecipients and Vendors With Compliance Requirements

(Prior Audit Issue - 99-555-82, 99-318-3)

**CFDA 93.658 - Foster Care - Title IV-E
Contract/Award - N/A**

A material weakness continues to exist in the Department’s controls over monitoring of subrecipients and vendors with compliance responsibilities for the *Foster Care - Title IV-E* program. Because the Department does not monitor subrecipients or vendors

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

A material weakness in internal control over compliance is a reportable condition in which the design or operation of one or more of the internal components does not reduce, to a relatively low level, the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

effectively, all funds paid to these entities were at risk of being spent on unallowable costs, which could lead to lost federal funding. In fiscal year 1999, subrecipients received \$17 million; vendors with compliance requirements received over \$58 million. (There is no evidence that subrecipients or vendors have incurred significant unallowable costs.)

Oversight of contract monitoring activities by Contract Administration Division (CAD) is not sufficient to ensure compliance with required federal guidelines. Under *OMB Circular A-133*, Section 400(d)(3), the Department must monitor subrecipients to ensure that federal awards are used for authorized purposes and that performance goals are achieved. Additionally,

Source: AICPA Statement of Position 98-3, March 17, 1998, Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards

Section 210 (f) holds the Department responsible for ensuring that vendors comply with program requirements. To comply with these federal requirements, the Department must improve its risk assessment, monitoring coverage, and information management.

Risk Assessment

The Department does not consider all relevant information when assessing risk associated with its IV-E subrecipients and vendors. Consideration of appropriate risk factors is essential to prioritize monitoring activities.

- More than half of the ten criteria on the risk assessment tool for vendors come from the vendors' cost reports, which are not audited. One of the criteria is the number of licensing violations, but the risk assessment does not consider the seriousness of the violation. The risk assessment tool for vendors does not address compliance with contract provisions or quality of care standards. Vendors and subrecipients with contracts of a comparatively low dollar amount are often classified as low risk and never receive on-site monitoring visits.
- In some regions, subrecipients were not considered in the annual risk assessment because the regional contract manager was either not aware of the subrecipients or did not know to include them. As a result, it was not possible to provide the appropriate monitoring coverage for some subrecipients.

Monitoring Coverage

Monitoring coverage of IV-E subrecipients and vendors does not identify and address potentially serious problems in a timely manner. The lack of adequate monitoring is indicated by:

- Only 3 of the 19 (16 percent) vendors assessed as high risk (279 total vendors) received the on-site programmatic and fiscal monitoring visit required by the Department's annual contract monitoring plan. Of the remaining 16 high risk vendors:
 - Nine received only a billing review.
 - Four did not receive any monitoring.
 - Three contracts were terminated after the first six months of fiscal year 1999.
- The plan to sample foster families to verify receipt of the required payments from child placing agencies was not fully implemented. Residential contract managers were to perform this monitoring while conducting site visits and CAD was to review monitoring reports to ensure completion of the task. Neither process occurred. (Prior Audit Issue 98-318-3)
- Internal Control Structure Questionnaires, one of CAD's monitoring tools, are not being used in some regions. The questionnaires are required, self-reported assessments completed by the vendors. However, because no formal guidelines exist, contract managers may not know how to review these questionnaires.

Information Management

The CAD database that tracks IV-E subrecipient and vendor monitoring activities does not contain complete and accurate information; therefore, it cannot be relied upon as a comprehensive tracking document. For example, we were unable to obtain a reliable list of all IV-E subrecipients during the audit. CAD, the division responsible for developing the Department's annual contract monitoring plan, provided a list that was inconsistent with the Accounting Division's list. The Accounting Division is responsible for correctly reporting amounts passed through to subrecipients in the Department's Annual Financial Report. Also, the CAD database contains a number of data entry errors, such as duplication of providers and misidentified regions.

Recommendation:

We recommend that the Department take the necessary steps to improve its monitoring functions for IV-E subrecipients and vendors with compliance responsibilities. These should include, but are not limited to, the following:

- Improve the risk assessment tools for the subrecipients and vendors with compliance requirements by including such factors as results of monitoring activities, past performance, and compliance with contract provisions.
- Implement oversight procedures for regional contract managers to ensure that on-site monitoring of high-risk vendors and subrecipients is conducted according to the annual risk assessment and CAD guidelines.

- Improve monitoring procedures to ensure compliance with all significant contract provisions, program requirements, and financial-related compliance requirements. For example:
 - Develop guidelines for a desk review of Internal Control Structure Questionnaires; train the contract managers to identify relevant financial information which can be used in the monitoring process.
 - Sample foster parents to verify receipt of the required payments from child placing agencies.
 - Add compliance with program requirements and contract provisions to the monitoring tools.
- Develop controls to ensure that CAD's tracking database for subrecipients and vendors contains accurate, complete, and sufficient information for decision-making and management purposes.

Management's Response and Corrective Action Plan:

The Department concurs with the recommendations and over the last year has made a commitment to resolving issues noted regarding controls over contract monitoring. These efforts began in June 1999 and evolved into the development of an agency-wide strategic initiative -- Improve Procurement and Monitoring of Purchased Client Goods and Services. The goal of the initiative is to develop and implement procedures for procuring goods and client services and for monitoring contracts to maximize timeliness, flexibility, efficiency and accountability by September 1, 2000. Due to issues raised during the course of this audit, a separate Contract Task Force was formed and began work on April 1, 2000 to accelerate progress toward better outcomes. The task force is focusing on resolving specific audit issues, facilitating between efforts already underway and implementing immediate and short-term solutions with a focus toward contract monitoring. The task force will complete work by June 30, 2000. In addition, workgroups have been formed to update the contract administration handbook, review boiler plate contracts and request for proposals and refine recoupment policies. The Department believes these efforts will lead to a more effective and efficient contracting system.

In order to address the specific recommendations in this audit, the Department will take the following actions.

- *The Contracts Task Force will develop a new risk assessment tool that will include appropriate factors to determine contractor risk and subsequent monitoring activities. In an effort to balance an improved risk assessment with a need to monitor high-risk contractors this year, the new instrument will be tested in fiscal year 2000. The Contract Administration Division (CAD) will implement the new risk assessment tool on September 1, 2000 to establish risk and develop the monitoring plan for fiscal year 2001 contracts.*

- *The Department will ensure that on-site monitoring of high risk contractors is conducted according to the annual risk assessment and CAD guidelines.*

For fiscal year 2000, the Contracts Task Force is working to identify the high risk contractors that are currently scheduled to be monitored. One solution identified is to pool resources between regions as needed to conduct the monitoring and manage the increased summer workload regarding contract renewals. In addition, effective June 1, 2000 the revised Contract Handbook will instruct contract managers to submit monthly updates to the monitoring plan. CAD staff will review the monitoring plans and reports submitted and will escalate notification of non-compliance to appropriate management.

For fiscal year 2001, the new risk assessment results and updates to CAD guidelines will be disseminated to the regions and will be adhered to regarding the implementation of the monitoring plan including high risk contractors.

- *As a result of issues noted in the prior year audit, the Department completed a new contract monitoring instrument for vendors with compliance requirements (residential contractors). All residential contract managers were trained on the new instrument in February 2000 and began using the instrument to conduct the remainder of their fiscal year 2000 monitoring. The Department will continue to work on refining this instrument as the year progresses and will make any necessary updates for fiscal year 2001 monitoring. Sampling of foster parents for the minimum pass through payments from child placing agencies was contained in the monitoring tools used in fiscal year 1999 and fiscal year 2000. It will also remain as a requirement in any future monitoring tool for these type of contractors.*

The Department will also review the guidelines for the desk review of Internal Control Structure Questionnaires. These guidelines will be updated by May 30, 2000 for contract managers to use for the remainder of fiscal year 2000 monitoring. Job aides will be provided to contract managers in the use of this revised tool in fiscal year 2000 and training will be updated to incorporate the new guidelines.

- *CAD has redesigned the format used for the fiscal year 2000 monitoring plan. CAD will release a Contract Administration Division Action (CADA) memo by May 3, 2000 which will include the new reporting format, written*

procedures, scheduled due dates and a new notification process. Regional staff will confirm dates on the monitoring plan. CAD will be accountable for ensuring that the plan is accurate, complete and contains sufficient information for decision making.

Prior to the development of fiscal year 2001 monitoring plan, CAD will make any necessary changes as a result of this new format and procedures.

Implementation Date: September 1, 2000

Responsible Person: Deputy Director for Administration

Reference No. 00-555-31

Adjust Overclaims of Federal Funds in a Timely Manner

CFDA 93.658 - Foster Care - Title IV-E

Contract/Award - N/A

The Department does not adjust overclaims of federal funds in a timely manner. These adjustments are necessary to correct overclaims made by child placing agencies for foster care maintenance payments. The Department did not adjust the fiscal year 1997 overclaim of \$3.7 million until January 2000 (fiscal year 2000), and it did not adjust fiscal year 1998 overclaim of \$4.3 million until October 1999 (fiscal year 2000). Under the Department's current schedule, it corrects these overclaims once a year: the adjustments are made in the last quarter of the federal fiscal year following the year the overclaim was made.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

These overclaims represent federally unallowable costs, and therefore should be promptly adjusted to reduce the amount of time that the federal overclaim is outstanding. Timely adjustments for such overclaims will also help ensure that information in the federal reports and the financial statements is accurate and complete. Additionally, timely adjustments will help ensure accurate requests of federal funds and reduce the risk of the Department incurring an interest liability to the Federal Government.

Recommendation:

We recommend that the Department:

- Make regular adjustments to correct the overclaims of foster care maintenance payments by child placing agencies. Consider correcting overclaims in the quarter following the year in which the funds were overclaimed.
- Consider the feasibility of programming the appropriate automated systems to correct the overclaims of foster care maintenance payments by child placing agencies. Such action should prevent future overclaims from occurring and eliminate the need for further adjustments.

Management's Response and Corrective Action Plan:

- *The Department will make an annual adjustment to Title IV-E Foster Care Assistance for the overclaims of foster care maintenance payments by child placing agencies in the quarter following the fiscal year in which the funds were overclaimed. The fiscal year 1999 overclaim will be adjusted in the next federal quarterly report that is submitted on April 28, 2000.*
- *In addition by September 1, 2001, we will re-evaluate the method for calculating the amount of administrative and maintenance expense incurred by the child placing agencies and will incorporate necessary automated adjustments to the Child and Adult Protective System (CAPS) if feasible. If automated adjustments are not feasible, the Department will continue to make an annual adjustment to the federal report in the quarter following the fiscal year in which the funds were overclaimed.*

Implementation Date: September 1, 2001

Responsible Person: Deputy Director for Finance

Reference No. 00-555-33

Establish Appropriate Controls Over Foster Care Income

(Prior Audit Issue - 98-318-02)

CFDA 93.658 - Foster Care - Title IV-E

Contract/Award - N/A

The Department has not yet established adequate controls to ensure that income received on behalf of foster care children is appropriately applied against the cost of the child's care. Current policies and procedures do not include a reconciliation between the income funds distribute to foster care providers and the income recorded in the billing system to offset the cost of the child's foster care.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

As a result, there is a risk that foster care providers could receive inaccurate payments for the cost of the child's foster care and that the inaccurate payments would remain undetected and uncorrected. In addition, federal and state funds could be inaccurately claimed. This weakness affects the *Foster Care - Title IV-E* program as well as State-Paid Foster Care. The total income used to offset the cost of *Foster Care - Title IV-E* in fiscal year 1999 was over \$580,000 while the income used to offset the cost of State-Paid Foster Care was over \$5.6 million.

Office of Management and Budget (OMB) Circular A-87, Attachment A, requires that the costs charged to federal programs be net of all applicable credits, which would include income received on behalf of foster care children.

Recommendation:

The Department should establish appropriate controls to ensure that income received on behalf of foster care children is properly applied against the cost of the child's care. This should include a periodic reconciliation process between the income distributed to foster care providers and the income recorded in the billing system to offset the cost of the child's foster care. Any errors identified in payments or claims should then be corrected within a reasonable timeframe.

Management's Response and Corrective Action:

The Department agrees with the recommendation and has been working to resolve outstanding audit issues related to foster care income. A draft CPS Protective Services Action developed by a workgroup consisting of Accounting, CPS Program, Internal Audit and Operational Support is currently being circulated among involved staff that details accounting practices to be employed by the regions that will ensure that children's income (mostly from SSI) will be applied toward cost of care. The procedures include a monthly reconciliation process for the regions to use to ensure that children who are due income actually receive that income, that it is reported in CAPS and that the income is distributed to cost of care for that child when appropriate. This reconciliation process will be in place by August 1, 2000.

All regions have been notified that bookkeeping functions are to be centralized and staffing guidelines are currently being developed. The plan is to automate the banking functions related to children's income by establishing 11 regional accounts in one bank that can be accessed by the individual regions electronically. The children's income will be direct deposited and the bank will provide detailed banking records. This unified system will promote consistency in accounting methods for children's income and allow a more consistent and accurate oversight by both the regions and state office. Operational Support issued a Request for Proposal (RFP) to select a provider for these services however no bids were received. A request for non-competitive procurement has been approved and plans are in process to solicit a vendor. The target date for centralization of bookkeeping is May 1, 2000 with the transfer to electronic centralized banking to occur as quickly as the different systems allow.

Implementation date: August 1, 2000

Responsible Person: Deputy Director for Programs

Reference No. 00-555-39

Strengthen Controls Over Cash Management RequirementsCFDA 93.658 - Foster Care - Title IV-E
Contract/Award - N/A

The Department needs to strengthen controls in place to ensure compliance with cash management requirements. The *Foster Care Title IV-E* program is required to follow the pre-issuance funding technique according to the U.S. Treasury-State Agreement. To properly follow this technique, the Department must ensure Period I is accurately calculated. Period I is one of the components used to determine the State's interest obligation to the federal government. The Department's Period I calculation included several errors, such as incorrect amounts, an inaccurate disbursement date, and the inclusion of the state's portion of depreciation.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

As a result, the State may under- or overestimate its interest obligation to the federal government. While we recognize fiscal year 1999 is the first year the Department performed its own calculations for cash management, these errors indicate the need to implement stronger controls over this process. In addition, since the pre-issuance funding technique is used for other federal programs at the Department, similar errors may occur in Period I calculations for those programs as well.

Recommendation:

We recommend that the Department strengthen its internal controls to ensure compliance with the Cash Management Improvement Act (CMIA) requirements. The Department should:

- Recalculate the interest time period for all programs subject to the pre-issuance funding technique to determine the correct interest obligation.
- Review the current process to ensure prompt detection and correction of errors in the information used to calculate the interest time period. Ensure that amounts and dates used are correct, and that only the federal portion of depreciation is claimed for reimbursement.
- Develop and implement formal policies and procedures to ensure compliance with CMIA, including review and approval of calculations performed.

Management's Response and Corrective Action Plan:

We appreciate the feedback on the calculation of CMIA Period I. The Department previously contracted with another agency for the preparation of this information along with most other accounting services, so this was the first time for the Department to prepare this information. The procedures were to be finalized after we had prototyped a methodology for gathering the information and preparing the report. Prior to submitting the next report in November 2000 we will review the process and finalize the procedures.

Specifically we will:

- *Use only the federal share of depreciation expense when it is paid and should be included in the calculations.*
- *Strengthen controls to eliminate the three keying errors made in the original calculation.*
- *All CMIA programs were recalculated and submitted to the Comptroller with Foster Care Title IV-E on February 24, 2000.*

Implementation Date: November 30, 2000

Responsible Person: Deputy Director for Finance

Reference No. 00-555-32

Ensure Eligibility Redeterminations Are Performed in a Timely MannerCFDA 93.658 - Foster Care - Title IV-E
Contract/Award - N/A

The Department is not ensuring that *Foster Care - Title IV-E* and State-Paid Foster Care eligibility redeterminations are performed in a timely manner. Three of the 45 files (6.7 percent) tested under the *Foster Care - Title IV-E* program and the State-Paid Foster Care program did not have eligibility redeterminations performed every 12 months. One exception was in the *Foster Care - Title IV-E* program; two exceptions were in the State-Paid Foster Care program. Redeterminations are required every 12 months to ensure that the appropriate funds are used to pay for each child's foster care.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

All three exceptions were from the same region, constituting 3 of 10 (30 percent) of the files tested from that region. The timing of the late redeterminations was from five to thirty-three months past the required redetermination date. The Department has a common control system (for both *Foster Care - Title IV-E* and State-Paid Foster Care) set up to ensure that redeterminations are performed every 12 months, as required by federal regulation and Department policy. This system monitors when a foster child's eligibility redetermination is coming due and tracks late redeterminations. However, this system is not being used effectively to manage the redetermination process. The Department has indicated that factors such as heavy caseloads and high employee turnover could have contributed to the recurring late redeterminations.

Although no questioned costs resulted from the noted errors, there is a risk that the Department could overclaim or underclaim funds under *Foster Care - Title IV-E* if a child's eligibility has not been properly established within required timeframes. Section 470 of the Social Security Act, 42 United States Code, Section 670, indicates that *Foster Care - Title IV-E* funds are available only for children who continue to meet certain eligibility requirements under the federal program. Additionally, a program instruction (ACYF PI-89-05) issued by the U.S. Department of Health and Human Services indicates that eligibility redeterminations should be performed at least every 12 months to ensure each child's continued eligibility. In addition to the federal requirements, the Department's policies and procedures regarding foster care assistance state that "The eligibility specialist must redetermine and report the child's eligibility every 12 months."

Recommendation:

We recommend that the Department enforce the policy to ensure that *Foster Care - Title IV-E* and State-Paid Foster Care eligibility redeterminations be performed at least every 12 months as required by federal regulations and the Department's own policies.

Management's Response and Corrective Action:

As indicated, factors such as heavy caseload and high employee turnover contribute to delays in eligibility redeterminations. The Department only considers redeterminations more than 30 days overdue to be untimely or late. The Department has made progress in reducing the number of late redeterminations in the last year. A Foster Care Eligibility Work Planning and Delinquency Report (detail and summary level) has been prepared on a monthly basis since November 1998. This report has assisted the regional eligibility units in making tremendous progress in performing eligibility redeterminations within the required timeframe.

Since February 1999 redeterminations overdue has been decreased from 500 to 284 as of February 2000. These redeterminations (284) account for only two percent of total redeterminations (14,808). In addition, the region noted in the audit has reduced late redeterminations from 135 to 6.

To continue monitoring the Department's progress with redeterminations, the Operational Support Division will immediately begin monitoring the summary report to ensure compliance by all regions.

Implementation Date: May 1, 2000

Responsible Person: Deputy Director for Programs

Texas A&M International University

Reference No. 00-555-16

Report Enrollment Changes in a Timely Manner

(Prior Audit Issue - 99-555-14, 98-331-02)

CFDA 84.032 - Federal Family Education Loans

Contract/Award - N/A

The University is not reporting enrollment changes in a timely manner for the *Federal Family Education Loans* program. For 2 of 15 student records tested (13.33 percent), the University did not report the changes within the required time frame. The changes were reported anywhere from 63 days to 91 days after the effective change date. Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled. The University's continued noncompliance with this requirement may result in delayed repayment of federal loans.

Questioned Cost:	\$ 0.00
U.S. Department of Education	

Title 34 of the Code of Federal Regulations, Section 682.610 (c), requires the institution to report enrollment changes to the guaranty agency or the U.S. Department of Education within 60 days. If an institution does not expect to report enrollment changes on the Student Status Confirmation Report (SSCR) within the next 60 days, that institution is required to notify the guarantor or lender by letter within 30 days.

Recommendation:

We recommend that the University ensure that all enrollment changes are reported in a timely manner to the guarantor, the lender, or the U.S. Department of Education. If the University does not expect to report the changes on the SSCR within the next 60 days, it should provide notification to the guarantor or the lender within 30 days. If the status change occurs after the University sends the database of students to its third-party servicer but before the completed SSCR is due, the University can perform a variety of steps. The University can create ad-hoc reports to submit to the U.S. Department of Education, which will report those students who had enrollment changes during this time frame. Alternatively, the University can submit the data on line to the National Student Loan Data System.

Management's Response and Corrective Action Plan:

On November 23, 1998, the Office of Financial Aid implemented reporting to the National Loan Clearing House. The Clearing House reports to the U.S. Department of Education's National Student Loan Database System (NSLDS). Reports are submitted 5 times during the semester instead of the recommended 3. It was expected that submitting 5 reports would meet reporting requirements. Instead, during the audit, it was learned that the turn around time for the Clearing House to post the University's transmission to NSLDS was one week. The delay in posting the University's transmission, therefore, created the finding by the auditors. As of March 6, 2000, lenders and servicers are being notified by letter whenever a student changes enrollment status. As of March 28, 2000, enrollment changes are being reported directly to NSLDS on the web.

Implementation Date: March 6, 2000

Responsible Person: Director, Office of Financial Aid

Texas A&M University – Kingsville

Reference No. 00-555-12

Report Enrollment Changes as Required

(Prior Audit Issue - 99-555-26)

CFDA 84.032 - Federal Family Education Loans

Contract/Award - N/A

The University is not properly reporting all enrollment changes for the *Federal Family Education Loans* program. In 8 of 13 student records tested (61.54 percent), we noted the following issues:

Questioned Cost:	\$ 0.00
U.S. Department of Education	

- Six of the enrollment changes were submitted to the U.S. Department of Education (Department) after the required time frame. The changes were reported anywhere from 78 days to 83 days after the effective change date.
- Two of the enrollment changes were not reported to the Department.

Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled. The University's continued noncompliance with this requirement may result in delayed repayment of federal loans.

Title 34 of the Code of Federal Regulations, Section 682.610 (c), requires the institution to report enrollment changes to the guaranty agency or the Department within 60 days. If an institution does not expect to report enrollment changes on the Student Status Confirmation Report (SSCR) within the next 60 days, that institution is required to notify the guarantor or the lender by letter within 30 days.

Recommendation:

We recommend that the University ensure that all enrollment changes are accurately reported in a timely manner to the guarantor, the lender, or the Department. If the University does not expect to report the changes on the SSCR within the next 60 days, it should provide notification to the guarantor or the lender within 30 days. If the status change occurs after the University sends the database of students to its third-party servicer but before the completed SSCR is due, the University can perform a variety of steps. The University can create ad-hoc reports to submit to the Department, which will report those students who had enrollment changes during this time frame. Alternatively, the University can submit the data on line to the National Student Loan Data System. The University should also review its procedures to determine why all students with enrollment changes are not being reported.

Management's Response and Corrective Action Plan:

The University concurs with the recommendation. Texas A&M University - Kingsville will ensure that all enrollment changes are accurately reported in a timely manner to the guarantor, lender or the Department of Education. The University reports to its third party servicer enrollment information 3 times per semester and will continue with that process. In addition, an ad-hoc report to identify enrollment changes (graduation, withdrawal, drops) is being developed and will be run at the beginning of each semester. This process will assure that all enrollment changes are provided to the Department of Education and other appropriate agencies in a timely fashion.

Implementation Date: May 15, 2000

Responsible Person: Student Financial Aid Officer

Reference No. 00-555-13

Maintain Documentation of Pell Payment Data Submitted to U.S. Department of Education

CFDA 84.063 - Federal Pell Grant Program
 Contract/Award - N/A

In following up on prior audit issue 99-555-32, it was determined that the University is not maintaining necessary documentation to support the reporting of all Pell payment data to the U.S. Department of Education for the *Federal Pell Grant Program*. As a result, we were unable to ensure that the University reported the student payment data as required and thus determine if corrective action had been taken.

Questioned Cost:	\$ 0.00
U.S. Department of Education	

Title 63 of the Federal Register, Section 34856, states that an institution must report student payment data within 30 calendar days after the school makes a payment or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Schools may do this by reporting once every 30 calendar days or bi-weekly, or a school may set up its own system to ensure that changes are reported in a timely manner.

In addition, Title 34 of the Code of Federal Regulations, Section 668.24 (e) (1), requires the institution to retain records for a minimum of three years after the end of the award year in which the records are submitted.

Recommendation:

We recommend the University maintain documentation to support reporting of all Pell payment data to the U.S. Department of Education. Since the University electronically reports Pell payment data to the U.S. Department of Education, it should keep back-up tapes that document the Pell payment data submitted to the U.S. Department of Education.

Management Response and Corrective Action:

The University concurs with the recommendation. The University will maintain documentation to support reporting of all Pell payment data to the Department of Education. Pell payment processing is performed on a weekly basis for award year 1999/2000. The SCT product program SBA 420 is run on a weekly basis. This is an edit report to identify discrepancies. Back-up is done weekly in CD format. The new Pell Recipient Financial Management System (RFMS) tracks the exact date of each disbursement request. Paper reports will also be maintained for auditing purposes. The RFMS system also provides a report in hard copy format with those disbursement reporting dates.

Implementation Date: August 31, 1999

Responsible Person: Application Analyst

Reference No. 00-555-14

Obtain Financial Aid Transcripts

(Prior Audit Issue - 99-555-29)

CFDA 84.032 - Federal Family Education Loans
 CFDA 84.063 - Federal Pell Grant Program
 Contract/Award - N/A

The University is not obtaining financial aid transcripts for all transfer students who receive federal financial assistance as required, as indicated by the following issues:

- For 1 of the 30 *Federal Family Education Loans* (FFEL) program and *Federal Pell Grant Program* (Pell) student files tested (3.33 percent), the transcript was obtained seven days after the disbursement of federal funds.
- For 2 of the 30 FFEL and Pell student files tested (6.67 percent), the transcripts were not in the students' files to support that the transcripts were received and reviewed. However, the transcript tracking screen in the financial aid information system indicated that the transcripts were requested and received.

Questioned Cost:	\$ 0.00
U.S. Department of Education	

Continued noncompliance with this requirement could result in a financial liability to the University in the event students are found to be overawarded or in default.

Title 34 of the Code of Federal Regulations, Section 668.19, requires that a financial aid transcript be obtained before disbursing aid to any student who previously attended another institution. In addition, Title 34 of the Code of Federal Regulations, Section 668.16 (d), requires institutions administering federal financial aid programs to establish and maintain adequate student records.

Recommendation:

We recommend that the University obtain copies of transcripts for all transfer students. Transcripts should be obtained before disbursing federal financial assistance to transfer students. The University should request the transcript from the previous institution attended. Once obtained, transcripts should be maintained in the students' files.

Management's Response and Corrective Action Plan:

The University concurs with the recommendation. Financial Aid Transcripts will be obtained and maintained in the student's file, as recommended. No financial aid will be disbursed until all official Financial Aid Transcript's have been received and evaluated to ensure that the student is not overawarded or in default. Admissions and Financial Aid automatically exchange information about a student's previous education. This information is routed through the Data Entry Clerk in the Financial Aid Office who posts the information to the system. If the attendance at the other institution was more than 90 days from the current semester, the Financial Aid Transcript is downloaded from the National Student Loan Database System. If the attendance is less than 90 days from the current semester, a request is sent to the other institution for a Financial Aid Transcript. The University will also maintain a copy of all Financial Aid Transcripts in a separate Master File in the Records Department at the Financial Aid Office.

Implementation Date: March 1, 2000

Responsible Person: Student Financial Aid Officer

Texas Agricultural Experiment Station

Reference No. 00-555-43

Strengthen Controls Over Cash Management

(Prior Audit Issue - 99-555-74)

CFDA 10.001 - Agricultural Research-Basic and Applied Research

CFDA 10.203 - Payments to Agricultural Experiment Stations under Hatch Act

Contract/Award - N/A

The Experiment Station's controls over cash management continue to be inadequate to ensure compliance with federal requirements. As a result, issues from the prior audit remain while additional compliance issues were noted. Consequently, funds for the program may not be used as intended or the Experiment Station may incur interest liabilities. The Experiment Station received and expended \$30,253,468 for the Research and Development Cluster for fiscal year 1999.

Questioned Cost:	\$ 0.00
U.S. Department of Agriculture	

The Experiment Station continues to request federal funds for reimbursement of Hatch Act program expenditures in excess of immediate cash needs and does not base requests upon actual expenditures. Consequently, it may incur an interest liability.

During our review, we noted these additional issues:

- Formalized policies and procedures have not been developed and implemented concerning requesting, approving, and receiving federal funds.
- Staff does not appear to recognize the importance of compliance with federal regulations. For example, cash management records were corrected upon auditor inquiries about certain transactions.
- Staff responsible for cash management have not had adequate training, and do not have an established program for training new staff members.
- Hatch Act Formula program funds were used to cover expenditures for Hatch Regional and McIntire-Stennis programs. For example, no requests for Hatch Regional or McIntire-Stennis program funds were made during

September 1999 and November 1999; however, payroll and non-payroll expenditures were charged to these programs during the same period. Requests for Hatch Formula program funds were made in excess of cash needs for the same period.

- Spreadsheet ledgers used to request reimbursements contained errors and missing information. Spreadsheets used for requesting reimbursements in December 1999 had dates omitted from the calculations and reformatted spreadsheets contained new expenditure data in October 1999.

Formal policies enable management to guide employees on how to carry out their responsibilities as required by federal regulations. Related procedures implement these policies. When policies and procedures have not been documented and communicated to employees, management cannot ensure compliance with federal regulations. Training provides staff with additional information on these policies and procedures.

Office of Management and Budget (OMB) Circular A-110, Subpart C, Section 21 (2) states that records shall adequately identify the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income, and interest. Section 22 (a) indicates that payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients.

Recommendation:

To strengthen the controls related to cash management, we recommend that the Experiment Station:

- Develop, document, implement, and enforce policies and procedures regarding federal cash management requirements. Policies and procedures should clearly designate the responsibilities of each department, and respective staff members, to comply with federal compliance requirements.
- Ensure that staff members responsible for cash management functions are adequately trained in federal cash management regulations.
- Ensure that program expenditures reflect actual cash expenditures and are not used to meet the funding needs of other programs. Requests in excess of cash needs should be tied to program expenditures expended with 3 days of receipt to avoid interest liability.
- Improve the accuracy and reliability of the data contained in the spreadsheet ledgers used to request reimbursements.

Management's Response and Corrective Action Plan:

- *Based on the auditors recommendation, written policies and procedures for requesting, approving, and receiving of federal funds have been completed and copies were provided to the audit team at the Exit Conference held April 14, 2000. These policies and procedures have been implemented and we believe they provide adequate guidance and control in this area in order to comply with federal requirements. We would welcome any comments or suggestions the auditors might have for improvement after reviewing this documentation.*
- *Duties in this area have been reassigned and the responsible employee has received extensive training and has access to all applicable regulations. Documentation of the training process is being developed and should be completed by June 1, 2000.*
- *Procedures have now been put in place to ensure that requests for federal funds reflect only actual expenditures for the related program. This should eliminate the possibility that expenditures from one program are funded by another. Additionally, requests are now being made every three days in the exact amount of the expenditures. In this way we believe any possible interest penalties will be avoided.*
- *The spreadsheet ledgers used to request reimbursements have been redesigned since the audit and now contain only relevant information which we believe will be much easier to read. In addition, each request for reimbursement as well as the supporting spreadsheet and documentation is reviewed and approved by the Assistant Director for Fiscal Services.*

Implementation Date: June 1, 2000

Responsible Person: Assistant Director for Fiscal Services

Reference No. 00-555-44

Improve Subrecipient Monitoring Procedures

(Prior Audit Issue - 99-555-76)

CFDA 10.200 - Grants for Agricultural Research, Special Research Grants
 CFDA 10.206 - Grants for Agricultural Research-Competitive Research Grants
 CFDA 10.901 - Resource Conservation and Development
 CFDA 12.114 - Collaborative Research and Development
 CFDA 12.300 - Basic and Applied Scientific Research
 CFDA 66.500 - Environmental Protection-Consolidated Research
 CFDA 81.049 - Basic Energy Sciences - University and Science Education
 CFDA 93.846 - Arthritis, Musculoskeletal and Skin Disease Research
 CFDA 93.862 - Genetics and Developmental Biology Research
 CFDA 93.864 - Population Research
 Contract/Award - N/A

The Experiment Station has made improvements to comply with subrecipient monitoring requirements as they relate to the Single Audit; however, it has not implemented procedures to ensure adequate monitoring of all subrecipients. The Experiment Station passed through approximately \$850,396 (3 percent) of its total federal awards expended in fiscal year 1999 to its subrecipients. Although these expenditures are not a significant portion of the research and development program cluster, monitoring to ensure compliance with federal requirements is still required.

Questioned Cost:	\$ 0.00
U.S. Department of Agriculture	
U.S. Department of Defense	
U.S. Environmental Protection Agency	
U.S. Department of Energy	
U.S. Department of Health and Human Services	

Since the prior audit, the Contracts and Grants Department implemented a tracking system to identify subrecipient responsibilities. However, interviews with the Contracts and Grants Department indicated that fiscal monitoring procedures have not been implemented. Without adequate monitoring, management has no assurance that funds are spent in accordance with federal regulations.

According to *OMB Circular A-133*, Subpart D, Section 400 (d)(3), a pass-through entity is responsible for monitoring subrecipient activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements.

Recommendation:

The Experiment Station should improve subrecipient monitoring procedures to ensure compliance with federal requirements. Monitoring functions should be outlined in formal policies and procedures and should include steps to obtain reasonable assurance that the recipient is complying with applicable federal regulations.

Management's Response and Corrective Action Plan:

- *During the past year, TAES has reviewed sub-recipient monitoring procedures and has implemented numerous changes. All sub-recipient contracts include the certifications required on federal contracts and grants; all sub-recipients provide a copy of their A-133 audit or a report of an audit by an independent auditor; all sub-recipients information is reviewed and classified as high or low risk.*
- *TAES will use guidelines from professional organizations and will, with its cognizant agency, the Department of Health and Human Resources, better define the requirements of sub-recipient monitoring. TAES welcomes any specific recommendations the State Auditors could offer.*

Implementation Date: September 1, 2000

Responsible Person: Assistant Director for Research Administration

The University of Texas at San Antonio

Reference No. 00-555-15

Perform Reconciliations for Pell Grants

CFDA 84.063 - Federal Pell Grant Program
Contract/Award - N/A

The University has not performed reconciliations for its *Federal Pell Grant Program* (Pell) awards. As a result, the University's fiscal year 1998-1999 accounting records do not agree with the U.S. Department of Education's (Department) records as indicated by the following:

Questioned Cost:	\$ 0.00
U.S. Department of Education	

- The University's accounting records indicated Pell disbursements of \$9,837,665.45.
- The Financial Aid Office's student records system (NATISIS) indicated Pell disbursements of \$9,756,180.79.
- The Student Payment Summary from the U.S. Department of Education, dated December 8, 1999, indicated total Pell payments of \$9,526,056.00.

In addition, our review indicated that reconciliations were not performed for fiscal year 1997-1998. Based on our understanding of the U.S. Department of Education's *Dear Colleague Letter P-99-5*, the deadline for submitting adjustments for fiscal year 1997-1998 has passed.

Without reconciliations, the University cannot ensure that it has been adequately reimbursed by the Department. As a result, institutional funds that were used for Pell grants and not reimbursed could not be used for other strategies.

The University should use each Student Payment Summary to confirm that the Department received, accepted, and reimbursed all of the University's Pell payments. The Student Payment Summary indicates the amount the Department reimbursed the University for each student. If the Department does not reimburse a payment, the University should determine the reasons. Once the differences are resolved, the University should adjust its accounting records and NATISIS to reflect Pell awards that the Department would not reimburse.

Recommendation:

For award year 1998-1999, the University should perform a detailed reconciliation of its Pell account to the Student Payment Summary. If there are any increases or decreases of awards, the University needs to submit the disbursement records to the Department.

For future award periods, the University should develop and implement formal reconciliation procedures. These procedures should specify that the Pell general ledger account and NATISIS Pell information are to be reconciled with the Department's Recipient Financial Management System (contains information previously included on the Student Payment Summary, which is no longer used) for each submission during the school year. In addition, appropriate supervisory personnel should review these reconciliations. This ongoing reconciliation process will help the University avoid, or greatly minimize, post-deadline adjustments.

Management Response and Corrective Action:

We will perform a detailed reconciliation of the Pell Grant account for the 1998-99 Award Year to the Student Payment Summary, which will require the following:

- *Create a reconciliation database for all student records that have been identified as currently not reconciled;*
- *Prepare a schedule of differences between the University's disbursement records and Student Payment Summary;*
and

- *Confirm and submit the necessary Pell grant increase/decrease adjustments to the Department of Education for reimbursement per DearColleague Letter P-99-5 requirements.*

Implementation Date: July 31, 2000

*Responsible Persons: Director of Student Financial Aid
Director of Accounting*

Also, we will establish formal procedures for the Pell Grant account and the NATISIS Pell information to be reconciled with the Recipient Financial Management System. Appropriate supervisory personnel will then review and approve these reconciliations.

Implementation Date: July 31, 2000

Responsible Person: Director of Student Financial Aid

The University of Texas at El Paso

Reference No. 00-555-28

Develop Policies and Procedures for Federal Programs

CFDA – All Research and Development CFDA's
CFDA 84.063 - Federal Pell Grant Program
Contract/Award - N/A

The University does not have adequate written policies and procedures for all federal compliance areas. During our audit we noted inadequate or nonexistent policies and procedures for the following areas:

Questioned Cost:	\$ 0.00
U.S. Department of Education	

Inadequate:

- Activities allowed or unallowed (Non-payroll)
- Allowable costs/cost principles (Non-payroll)
- Procurement
- Subrecipient monitoring
- Suspension and debarment

Nonexistent:

- Cash management
- Federal financial reporting
- Matching
- Pell payment data
- Program income

Without policies and procedures, it is difficult to properly administer the federal programs for which the University is responsible. Formal policies enable management to guide employees in executing their responsibilities. Related procedures implement these policies. When policies and procedures are not documented and communicated to employees, management cannot ensure compliance with federal regulations.

Recommendation:

Management should formally develop, document, communicate, and enforce policies and procedures regarding federal compliance requirements over the areas noted for Student Financial Aid and Research and Development.

Management's Response and Corrective Action Plan:

We agree that policies and procedures for all federal programs can be improved. However, the University does have adequate written policies that govern business practices. Examples of these policies include:

- Rules and Regulations of the Board of Regents of the U.T. System
- Business Procedures Memorandums of the U.T. System
- University's Handbook of Operating Procedures
- Office of Research and Sponsored Projects (ORSP) Pre-award Handbook
- ORSP Post Award Administration Handbook
- Student Federal Assistance Handbook
- On-line Pell Payment Users Guide

Nevertheless, documentation for federal compliance areas, noted in the findings, can be improved. We are currently in the process of developing comprehensive written procedures (i.e. desk manuals) to complement the policies already in existence. This project is targeted for completion by December 31, 2000.

Implementation Date: December 31, 2000

Responsible Person: Associate Vice President for Finance and Administration,
Associate Director, Office of Research and Sponsored Projects
Director, Office of Student Financial Aid

Reference No. 00-555-7

Report Enrollment Changes in a Timely Manner

CFDA 84.032 - Federal Family Education Loans
Contract/Award - N/A

As previously reported in fiscal years 1989 and 1992, the University is not reporting all enrollment changes in a timely manner for the *Federal Family Education Loans* program. For 14 of 19 student records tested (73.68 percent), the University did not report the changes within the required time frame. The changes were reported as follows:

Questioned Cost:	\$ 0.00
U.S. Department of Education	

- 12 enrollment changes were reported 70-90 days after the effective change date.
- 1 enrollment change was reported 96 days after the effective change date.
- 1 enrollment change was reported 139 days after the effective change date.

Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled. The University's continued noncompliance with this requirement may result in delayed repayment of federal loans.

Title 34 of the Code of Federal Regulations, Section 682.610 (c), requires the institution to report enrollment changes to the guaranty agency or the U.S. Department of Education within 60 days. If an institution does not expect to report enrollment changes on the Student Status Confirmation Report (SSCR) within the next 60 days, that institution is required to notify the guarantor or the lender by letter within 30 days.

Recommendation:

We recommend that the University ensure that all enrollment changes are reported in a timely manner to the guarantor, the lender, or the U.S. Department of Education. If the University does not expect to report the changes on the SSCR within the next 60 days, it should provide notification to the guarantor or the lender within 30 days. If the status change occurs after the University sends the database of students to its third-party servicer but before the completed SSCR is due, the University can perform a variety of steps. The University can create ad-hoc reports to submit to the U.S. Department of Education, which

will report those students who had enrollment changes during this time frame. Alternatively, the University can submit the data on line to the National Student Loan Data System.

Management's Response and Corrective Action Plan:

We concur with the necessity of timely reporting of enrollment changes and it was to that end that the University contracted with the National Student Loan Clearing House to produce Student Status Confirmation Reports, on our behalf, to the National Student Loan Data System. By following the Department of Education reporting guidelines, the University has been able to reduce its loan default rate from 14% to the current 7.6% rate. Given the recommendation of the state auditors, we will ask the National Student Loan Clearing House to report enrollment changes on a monthly basis.

Implementation Date: July 1, 2000

Responsible Person: Director, Office of Student Financial Aid

Reference No. 00-555-24

Strengthen Controls Over Equipment

CFDA 12.630 – Basic, Applied, and Advanced Research in Science and Engineering
 CFDA 17.246 - Employment and Training Assistance - Dislocated Workers
 CFDA 47.049 - Mathematical and Physical Sciences
 CFDA 47.070 - Computer and Information Science and Engineering
 CFDA 47.076 - Education and Human Resources
 Contract/Award - N/A

The University should strengthen controls over equipment to ensure compliance with federal requirements. Our testing indicated that:

- Two of 25 (8 percent) items inventoried could not be located. One item was noted to be at the home of the principal investigator of the related award, but we found no evidence that supported approval of this action. The other item may have been disposed, but no evidence was provided to support this action. As a result, the University cannot ensure that the items are being used for the federal programs as intended, or that they were disposed of as required. The inability to locate equipment could result in questioned costs.
- Three of 25 (12 percent) items, which were software/interior components, were not properly recorded in departmental records as required by University policy. If not properly recorded, the University cannot ensure that items are used for intended purposes.

Questioned Cost:	\$ 0.00
U.S. Department of Labor	
National Science Foundation	
U.S. Department of Defense	

Office of Management and Budget (OMB) Circular A-110, Section 34 Part (f) requires that equipment records be maintained accurately. These records should include information such as the location of the equipment and the date that this information was reported.

Recommendation:

The University should strengthen controls over equipment to ensure compliance with all applicable federal requirements. Specifically, it should ensure that documentation for the transfer and disposal of equipment is maintained so that equipment can be located. In addition, documentation of inventory tags should be properly recorded in departmental records as required by University policy.

Management's Responses and Corrective Action Plan:

We concur with the recommendation. The Internal Audit Department did find one of the items previously reported missing by the state auditors. The item was at the home of the principal investigator of the related award, and evidence that supported approval of this action was provided to the state auditors after testing was completed.

Although proper documentation of inventory tags was maintained in the University's Inventory Department, individual departmental records were not complete. The Inventory Department, in its training workshops, will emphasize departmental responsibility for maintaining proper inventory documentation. In addition, the University is converting to a bar-coding system for inventory. Procedural changes will be made so that the Inventory Department will be responsible for conducting independent, annual, physical inventory counts for every department. This will strengthen controls by ensuring an independent inventory count rather than a count relying solely on the custodian of the property.

Implementation Date: December 31, 2000

Responsible Person: Comptroller

Reference No. 00-555-30

Strengthen Controls to Ensure Compliance With Procurement Requirements

CFDA 47.076 - Education and Human Resources
 CFDA 84.303 - Local Innovation - Challenge Grants for Technology in Education
 Contract/Award - N/A

The University does not have adequate controls to ensure compliance with federal procurement requirements. In 2 of 19 transactions tested (10.5 percent), the University did not justify sole source purchases or purchases from other than the lowest bidder. When such purchases are not properly justified, the University cannot ensure that it is maximizing its use of federal funds, and questioned costs may occur.

Questioned Cost:	\$ 0.00
National Science Foundation	
U.S. Department of Education	

Office of Management and Budget (OMB) Circular A-110, Sections 40 through 48 requires that contract records document the significant history of the procurement, including contractor selection or rejection, basis of contract price, and evidence of free and open competition (competitive bidding documented) to the maximum extent practical.

Recommendation:

The University should strengthen its controls over federal procurement transactions. Specifically, the University should implement additional review procedures to ensure that documentation in the vendor file(s) includes justification for sole source purchases as well as rationale for vendor selection/rejection when competitive bidding is used.

Management's Response and Corrective Action Plan:

We agree with the recommendation. The University continuously reviews policies, procedures, and practices to ensure that strong internal controls are being observed. While we believe that adequate controls do exist, we can certainly improve them. However, it is important to note that for the two exceptions noted:

- *The sole source procurement was for a purchase of Apple computers from Apple Corporation. Since Apple Corporation is the sole manufacturer for this commodity, sole source was inherent in the transaction.*
- *The purchase from other than the lowest bidder occurred because the low bid did not meet the minimum specifications for that procurement. As a result, the vendor selected was the lowest qualified bidder.*

Rationale for such purchases is documented in the file. Nevertheless, all buyers have been alerted of the need to ensure complete support documentation exists on all authorized procurement actions.

Implementation Date: April 1, 2000

Responsible Person: Director, Purchasing Department

Reference No. 00-555-8

Recalculate Pell Grant Awards if Expected Family Contribution ChangesCFDA 84.063 - Federal Pell Grant Program
Contract/Award - N/A

The University is not always recalculating all Federal Pell Grant (Pell) awards when a change in expected family contribution (EFC) occurs. One of 19 student files tested (5.26 percent) showed that the student was over-awarded with institutional funds for Pell reimbursement. However, the over-award did not result in any questioned costs to the federal government.

Questioned Cost:	\$ 0.00
U.S. Department of Education	

The Student Aid Report was revised on October 9, 1998, to include an increased EFC. This should have been reflected as an update to the Student Financial Aid System. The student received Pell payments for the fall and spring semesters based on incorrect EFC information. The error was detected and corrected during the reconciliation process at the end of the fiscal year on August 30, 1999.

Title 34 of the Code of Federal Regulations, Section 690.80, states that institutions shall recalculate a Federal Pell Grant award for the entire award year if the student's EFC changes at any time during the award year.

Recommendation:

We recommend that the Student Financial Aid Office institute more thorough review procedures throughout the award year. These procedures should include reviews of updated Student Aid Reports to ensure that Federal Pell Grant awards are recalculated when a change in expected family contribution occurs.

Management's Response and Corrective Action Plan:

The University has instituted more thorough review procedures throughout the award year. The one exception noted (for \$100) did not result in an over-award to the student. The current Student Financial Aid System (GOLDMINE) generates discrepancy reports on a monthly basis. These reports are reviewed and any exceptions are researched and resolved at that time.

Implementation Date: January 1, 2000

Responsible Person: Director, Office of Student Financial Aid

Reference No. 00-555-9

Maintain Documentation of Pell Payment Data Submitted to U.S. Department of EducationCFDA 84.063 - Federal Pell Grant Program
Contract/Award - N/A

The University did not maintain necessary documentation to support the reporting of all Pell payment data to the U.S. Department of Education for the *Federal Pell Grant Program* during the period covered by our audit. As a result, we were unable to ensure that the University reported the student payment data as required.

Questioned Cost:	\$ 0.00
U.S. Department of Education	

Title 63 of the Federal Register, Section 34856, states that an institution must report student payment data within 30 calendar days after the school makes a payment or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Schools may do this by reporting once every 30 calendar days or bi-weekly, or a school may set up its own system to ensure that changes are reported in a timely manner.

In addition, Title 34 of the Code of Federal Regulations, Section 668.24 (e) (1), requires the institution to retain records for a minimum of three years after the end of the award year in which the records are submitted. Since the University electronically reports Pell payment data to the U.S. Department of Education, one way to do this would be to keep back-up tapes that document the Pell payment data submitted to the U.S. Department of Education.

Recommendation:

We recommend that the University maintain necessary documentation to support reporting of all Pell payment data to the U.S. Department of Education.

Management Response and Corrective Action Plan:

The University agrees with the need to keep accurate support documentation on all payments related to the reporting of Pell payment data to the U.S. Department of Education. Documentation currently maintained by the University includes:

- Raw data from the Pell Grant Recipient Financial Management System.
- Individual student records documenting the student’s eligibility for payment (i.e.: ISIRs, ESARs, and ECARs).
- Statements of accounts from the Department of Education acknowledging their receipt of Pell payment information.

In addition, the University now maintains historical information for Pell payment reporting purposes in its current Student Financial Aid System (GOLDMINE).

Implementation Date: January 1, 2000

Responsible Person: Director, Office of Student Financial Aid

Reference No. 00-555-27

Strengthen Controls Over Personnel Effort Reports

CFDA 43.002 - Technology Transfer
 Contract/Award - N/A

The University does not ensure that personnel effort reports (certification of an employee’s percentage of time and effort for a related project, or “PER”) are completed as required for employees working on federal research and development projects. The PER was missing for 1 of 32 employees (3.13 percent) tested. The missing report was submitted only after testing was completed.

Questioned Cost:	\$ 0.00
National Aeronautics and Space Administration	

When these certifications are not completed as required, the University has limited assurance that the related work has been completed prior to payment, which may result in questioned costs.

Office of Management and Budget (OMB) Circular A-21, Section J.8.g (2)(b) states that after-the-fact activity records will reflect an after-the-fact reporting of the percentage distribution of activity of employees.

Recommendation:

The University should strengthen controls to ensure that certifications are completed as required prior to payment.

Management’s Response and Corrective Action Plan:

The University certainly agrees that controls can be enhanced. While the University does ensure that PERs are completed as required for employees working on federal research and development projects, controls have been strengthened in this area. Although OMB Circular A-21 requires after-the-fact activity reports on a semester or six month basis, (Sect. (J.8 C (2)(e))), the University prepares PERs on a monthly basis. The system currently in place identifies which PERs have not been received and reminders are sent out in two-week intervals to these employees. The missing PER would have been discovered at the time of closeout for the project. The final closeout checklist would have prompted another review of PERs and is an additional control in place to ensure compliance in this area. Any corrections made to the PER are immediately corrected on the contract or grant payroll account in the following accounting period.

Implementation Date: April 1, 2000

Responsible Person: Associate Director, Office of Research and Sponsored Projects

Reference No. 00-555-29

Strengthen Controls Over Obtaining Certification for Suspension/Debarment

CFDA 43.002 - Technology Transfer

CFDA 47.076 - Education and Human Resources

CFDA 84.303 - Local Innovation - Challenge Grants for Technology in Education

Contract/Award - N/A

The University does not properly ensure that vendors who receive \$100,000 or more for approved transactions have not been suspended or debarred. We tested one of 14 vendors who received greater than or equal to \$100,000 for related transactions. The University did not have a vendor certification or evidence that the federal government listing was verified for suspension or debarment for one vendor tested. As a result, the University may be doing business with vendors who have been suspended or debarred by the federal government.

Questioned Cost:	\$ 0.00
National Aeronautics and Space Administration	
National Science Foundation	
U.S. Department of Education	

OMB Circular A-110, Subpart B, Section 13, states that recipients of federal funds shall comply with federal suspension and debarment requirements. These requirements can be satisfied by obtaining certifications from contractors receiving individual awards for \$100,000 or more that the organization and its principals are not suspended or debarred (14 CFR 1265.225 (c), 1265.510 (b), 34 CFR 85.225 (c), 85.510 (b), 45 CFR 620.225 (c), and 620.510 (b)). The University may rely on vendor certification unless it knows it to be erroneous.

Recommendation:

The University should strengthen its controls to ensure that federal suspension/debarment requirements are met. Specifically, the University should obtain certifications from the vendors and/or verify their status through the U.S. General Services Administration. The University should conduct business only with vendors who have been certified as neither suspended nor debarred.

Management's Response and Corrective Action:

We concur with the recommendation and have modified our current Purchase Order, per the state auditor's suggestion, to include vendors' certification and acknowledgment that they have not been suspended or debarred from doing business with the federal government.

Implementation Date: April 1, 2000

Responsible Person: Director, Purchasing Department

The University of Texas Medical Branch at Galveston
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Reference No. 00-555-40

Limit Expenditures to Allowable Costs

CFDA 93.824 - Area Health Education Centers

Contract/Award - N/A

The University does not have adequate controls over expenditures to ensure that only allowable costs are charged to federal research and development awards. For 1 of 32 items tested (3.13 percent), we noted that lawn care had been charged to a project, an expense which is not allowable. Our review of this project's fiscal year 1999 charges for lawn care resulted in a total of \$1,400 in questioned costs.

Questioned Cost:	\$1,400.00
U.S. Department of Health and Human Services	

Office of Management and Budget (OMB) Circular A-21 C.3 (a) states that a reasonable cost is "generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement." The University is therefore responsible for ensuring that costs charged to a sponsored agreement are allowable according to the cost principles stipulated.

Recommendation:

The University should improve controls to ensure that only allowable costs are charged to the federal research and development awards.

Management's Response and Corrective Action Plan:

The University of Texas Medical Branch at Galveston (UTMB) is committed to compliance with State and Federal Statutes and Regulations. UTMB has taken steps to ensure that only allowable costs are charged to federal research and development awards and that expenditures are not charged as both direct and indirect costs. As part of UTMB's Compliance Plan, costs charged to federally sponsored projects will be monitored by the Director of Research Facilitation and Compliance and reported to UTMB's Institutional Compliance Committee on a quarterly basis.

To date, our policies and procedures regarding consistent treatment of costs charged to federal research and development awards have been reviewed and updated to ensure compliance. We have begun training in the area of research administration and cost accounting practices, including cost allowability issues and direct charge versus indirect charge determinations. This training will continue as an integral part of UTMB's Compliance Plan.

With respect to the questioned lawn charges, UTMB will return \$1,400 (actual direct costs) and associated indirect costs to the awarding agency.

Implementation Date: June 1, 2000

Responsible Person: Director, Research Facilitation and Compliance

Reference No. 00-555-5

Strengthen Controls Over Equipment

CFDA 93.393 - Cancer Cause and Prevention Research
 CFDA 93.837 - Heart and Vascular Diseases Research
 CFDA 93.847 - Diabetes, Endocrinology and Metabolism Research
 Contract/Award - N/A

The University should strengthen controls over equipment to ensure compliance with federal requirements. Our testing indicated that:

- Two of 16 items inventoried (12.5 percent) could not be located during our initial test. One item was later determined to be in a principal investigator's possession; however, this was not accurately reflected in the inventory records. Another item was not accurately reflected as missing on the current year inventory verification form. There are no questioned costs reported because the University owns the equipment.
- Two of 16 items (12.5 percent) did not contain proper transfer documentation. One item on loan did not have the proper form completed for transfer. Another item's transfer documentation did not have all appropriate signatures. The forms were completed after we identified these problems.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

OMB Circular A-110, Section 34 Part (f), requires that equipment records be maintained accurately. These records should include information such as the location of the equipment and the date that this information was reported.

Recommendation:

The University should strengthen controls over equipment to ensure compliance with applicable federal requirements. Specifically, it should ensure that accurate and current records relating to the transfer and disposal of equipment are maintained.

Management's Response and Corrective Action Plan:

The University of Texas Medical Branch at Galveston is committed to compliance with State and Federal Statutes and Regulations. UTMB's policies over fixed assets are intended to ensure such compliance. The fixed asset management system and the controls over equipment are currently being reviewed in an audit by UTMB's Office of Audit Services. Since that review may identify related issues for management consideration regarding strengthening of controls over equipment, UTMB plans to await the issuance of that report and then develop a specific corrective action plan to address the findings of both audits.

Implementation Date: September 1, 2000

Responsible Person: Institutional Accountable Property Officer and Director, Research Facilitation and Compliance

Reference No. 00-555-37

Implement Controls Over Suspension and Debarment Requirements

CFDA 45.130 – Promotion of the Humanities – Challenge Grants
 CFDA 93.393 - Cancer Cause and Prevention Research
 CFDA 93.824 - Area Health Education Centers
 CFDA 93.856 - Microbiology and Infectious Diseases Research
 Contract/Award - N/A

The University does not have controls in place to ensure that vendors who receive \$100,000 or more for approved transactions or subrecipients have not been suspended or debarred. For two vendors and three subrecipients tested, the University did not have required certifications. As a result, the University may be doing business with vendors and subrecipients who are suspended or debarred by the federal government.

Questioned Cost:	\$ 0.00
National Foundation on the Arts and Humanities	
U.S. Department of Health and Human Services	

OMB Circular A-110, Subpart B, Section 13, states that recipients of federal funds shall comply with federal suspension and debarment requirements. These requirements can be satisfied by obtaining certifications from contractors receiving individual awards for \$100,000 or more and all subrecipients that the organization and its principals are not suspended or debarred (45 CFR 76.225(c), 76.510 (b), 1185.225 (c), and 1185.510(b)). The University may rely on the non-federal entity's certification unless it knows it to be erroneous.

Recommendation:

The University should implement controls to ensure that federal suspension/debarment requirements are met. Specifically, the University should obtain certifications from the vendors and subrecipients and/or verify their status through the U.S. General Services Administration. The University should conduct business only with vendors and subrecipients who have been certified as neither suspended nor debarred.

Management's Response and Corrective Action Plan:

The University of Texas Medical Branch at Galveston is committed to compliance with State and Federal Statutes and Regulations. UTMB's subrecipient agreements, purchase orders and vendor affirmation forms will be revised to include a certification that the subrecipient and/or vendor and its principal parties have not been suspended or debarred.

Implementation Date: July 1, 2000

Responsible Person: Director, Office of Sponsored Programs (for subrecipients) and Logistics Leader (for vendors)

University of Houston – Clear Lake

Reference No. 00-555-11

Report Pell Payment Data in a Timely Manner

CFDA 84.063 - Federal Pell Grant Program

Contract/Award - N/A

The University is not reporting payment data for the *Federal Pell Grant Program* to the U.S. Department of Education (Department) as required. The University failed to report data in a timely manner for all 15 students tested for both the Fall and Spring semesters. Pell payment data reports were only submitted three times during fiscal year 1999. This schedule does not ensure that all data is reported within 30 days of when payments are made or adjustments are identified. In addition, the University does not have any written policies and procedures regarding the submission of payment data to the Department. Failure to properly report all payment data could result in the submission of inaccurate data to the Department.

Questioned Cost:	\$ 0.00
U.S. Department of Education	

Title 63 of the Federal Register, Section 34856, states that an institution must report student payment data within 30 calendar days after the school makes a payment or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Schools may do this by reporting once every 30 calendar days or bi-weekly, or a school may set up its own system to ensure that changes are reported in a timely manner.

Recommendation:

We recommend that the University adjust its reporting schedule of *Federal Pell Grant Program* payment data to the Department. The adjusted schedule should ensure that the payment data is reported within 30 calendar days after making a payment or after the University becomes aware of the need to make an adjustment to previously reported payment data. Formalized policies and procedures should be developed and implemented to support the adjusted schedule.

Management Response and Corrective Action:

The University of Houston Clear Lake has adjusted its reporting schedule of Federal Pell Grant Program payment data to the Department of Education. During the 1999 - 2000 academic year, payment data was submitted in October and December 1999 and February 2000. Beginning in March 2000, Pell payment data will be reported at least every 30 calendar days. Written policies and procedures have been developed to support this adjusted schedule and they will be implemented by March 6, 2000.

Implementation Date: March 6, 2000

Responsible Person: Interim Director of Financial Aid

Texas Workforce Commission

State Auditor's Comment: *The State Auditor's Office is currently conducting an audit that will provide additional information. The audit includes a review of contract administration and key performance measures for the workforce program delivery system.*

Reference No. 00-555-4

Improve Oversight of Local Workforce Boards

(Prior Audit Issue - 99-555-59)

CFDA 17.246 - Employment and Training Assistance - Dislocated Workers

CFDA 17.250 - Job Training Partnership Act

CFDA 93.558 - Temporary Assistance for Needy Families

CFDA 93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund

Contract/Award - N/A

An audit released in August 1999 (*An Audit Report on Welfare Reform Implementation at the Texas Workforce Commission*, SAO Report No. 99-051) identified some concerns at the Commission regarding the oversight of the local Workforce Boards. Although the audit focused on the *Temporary Assistance for Needy Families* (TANF) program, some of the issues relate to other federal programs.

Questioned Cost:	\$ 0.00
U.S. Department of Labor	
U.S. Department of Health and Human Services	

- The Commission does not consider all relevant information when assessing risk to schedule monitoring visits.
- The Commission's fiscal and program monitoring of the local Workforce Boards does not provide adequate assurance that TANF funds are being spent appropriately.
- The Commission has not provided sufficient oversight for TANF funded contracts with local service providers.
- Most local Workforce Boards are not meeting their statutory responsibility to monitor their TANF service providers.
- The Commission lacks an effective process to ensure that monitoring findings are resolved. (Prior Audit Issue: 99-555-59)

The Commission has taken the following steps to resolve these concerns:

- Refining and expanding the risk assessment process
- Expanding communication and training on monitoring with the local Workforce Boards
- Modifying contract monitoring procedures to include monitoring reviews of the local Workforce Boards' subrecipients if the Boards do not have an adequate monitoring process in place
- Developing a database to centrally track all monitoring findings

The Commission's efforts to address the issues raised in this previous audit are in varying stages of completion, and the Commission continues to work toward fully implementing the recommendations. Without adequate assurances that the program is operating as intended, needed services might not be provided as contractual provisions require.

Recommendation:

The Commission should continue efforts to implement recommendations from the prior audit. The Commission should also work with local Workforce Boards to ensure they develop and implement monitoring programs that provide adequate assurance of the delivery of services to the citizens of Texas.

Management's Response and Corrective Action Plan:

The Contract Monitoring Department has taken action to address all concerns identified in the August 1999 report such as refining the risk assessment process, modifying monitoring tools and procedures, and developing a database to track findings. Additionally, the Department now provides formal training to Board staff on fiscal and programmatic monitoring

requirements and processes. The Department will continue to work with the Boards through individual or group training sessions in order to strengthen Board oversight activities.

Implementation Date: September 30, 2000

Responsible Person: Director of Contract Services Department and Director of Contract Monitoring Department

Reference No. 00-555-3

Improve Processes for Financial Reporting

CFDA 93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund
 Contract/Award - N/A

The Commission makes numerous manual adjustments to the automated accounting system information in order to prepare the federal expenditure reports for *Child Care Mandatory and Matching Funds of the Child Card and Development Fund*. These adjustments are not always recorded in the Commission’s automated accounting system.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

As a result, the Commission’s accounting system expenditures do not always agree with the amounts reported in required federal reports. In addition, the process of making numerous manual adjustments each quarter makes the financial reporting process more complex. Not recording those adjustments increases the possibility that errors could go undetected. This increases the risk that management is relying on inaccurate financial information. Inaccurate financial information can cause errors in the amount of federal funding requested to pay the federal portion of program expenditures.

According to the Commission, the agency’s budget and accounting systems are not flexible enough to provide consistent and accurate allocations of expenditures to the fund categories. The system was originally designed to handle only one grant, not the accounting for numerous federal grants and grant years it handles now. As a result, numerous manual adjustments must be made at the end of each fiscal quarter to properly allocate the expenditures.

Posting adjustments in a timely manner would help ensure accurate and complete information in federal reports and financial statements. Additionally, these controls will help ensure accurate requests for federal funds.

Recommendation:

The Commission should reevaluate its financial reporting processes, especially in light of a new accounting system implemented in September 1999. To ensure accuracy, adjustments should be posted to the accounting records as they are made. Additionally, procedures should be initiated that provide for the reconciliation of federal reporting amounts to the accounting records.

Management’s Response and Corrective Action Plan:

The Commission makes required adjustments to amounts reflected in the accounting system before submitting federal expenditure reports each quarter. Such adjusting entries are a normal part of the reporting process. The adjustments are carefully documented in the supported work papers and present a clear audit trail from the accounting system to the federal reports.

The accounting system used during the audit period was the ICESA/FARS System (Interstate Conference of Employment Security Agencies/Financial Accounting and Reporting System). The design of the accounting system created the need for numerous adjusting entries. The newly formed Texas Workforce Commission quickly recognized the need for a new accounting system and ultimately purchased the Peoplesoft accounting system. This new accounting system was implemented on September 1, 1999. The Peoplesoft system should greatly limit the need for adjusting entries noted by the auditors. Formal procedures for entering and documenting required adjusting entries into the accounting system will be developed by May 1, 2000.

Implementation Date: May 1, 2000

Responsible Person: Chief Financial Officer

Reference No. 00-555-35

Comply With Cash Management Requirements

(Prior Audit Issue - 99-555-61)

CFDA 17.246 - Employment and Training Assistance - Dislocated Workers

CFDA 17.250 - Job Training Partnership Act

CFDA 93.558 - Temporary Assistance for Needy Families

CFDA 93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund

Contract/Award - N/A

The Commission does not have adequate controls in place to ensure compliance with cash management requirements. Two calculations used to determine the State's interest liability for programs using the pre-issuance funding technique were incorrect:

Questioned Cost:	\$ 0.00
U.S. Department of Labor	
U.S. Department of Health and Human Services	

- The Period I calculation is not based on actual activity. The Commission reported zero days for Period I because its cash management procedures are designed to have warrants issued the same day funds are received. However, it sometimes takes longer to issue warrants. As a result, Period I is incorrect because it does not reflect actual activity. (Prior Audit Issue - 99-555-61)
- The Period II calculation is not based on complete information. The Commission instructed the Comptroller of Public Accounts (Comptroller) to track the funds disbursed for only one cost account per program, which represents less than 10 percent of activity. As a result, Period II is incorrect.

Because these incorrect calculations were used to determine the federal interest liability, the State may have paid an incorrect amount of interest for fiscal year 1999. According to the U. S. Treasury-State Agreement, Part VI, Section 6.2 and Part VII, Section 7.1, the State is supposed to track 99 percent of federal funds for a three-month period from deposit to issuance date (Period I) and from issuance to redemption date (Period II) when using the pre-issuance funding technique.

Recommendation:

We recommend that the Commission:

- Calculate Period I as required by the provisions of the Treasury-State Agreement for programs following the pre-issuance funding technique.
- Submit the revised Period I calculations to the Comptroller so that all necessary adjustments can be made to the State's fiscal year 1999 interest liability.
- Provide complete information to the Comptroller so that Period II calculations are based upon the required amount of activity.

Management's Response and Corrective Action Plan:

The Commission will

- *Revise CMIA procedures to ensure the pre-issuance technique is used to calculate the Period I amount*
- *Submit a revised Period I calculation to the Comptroller by May 1, 2000*
- *Submit revised Period II calculations based on complete information to the Comptroller by May 1, 2000.*

Implementation Date: May 1, 2000

Responsible Person: Chief Financial Officer

Reference No. 00-555-36

Ensure Federal Funds Reported Are Accurate**CFDA 93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund**
Contract/Award - N/A

The Commission underreported the *Child Care and Development Fund* program funds received by \$127.5 million on the Cash Management Improvement Act (CMIA) Annual Report submitted to the Comptroller of Public Accounts (Comptroller). The Comptroller uses the report information to calculate the State's interest obligation to the federal government for programs using the pre-issuance funding technique.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

A-102 Common Rule, .____.20 (b)(1) states that "Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the reporting requirements of the grant or subgrant." Because federal dollars were underreported, interest owed to the federal government was understated by \$44,800.

Recommendation:

We recommend that the Commission:

- Strengthen the reporting process to ensure federal funds reported on the CMIA Annual Report are accurate.
- Correct the fiscal year 1999 CMIA Annual Report and re-submit to the Comptroller.

Management's Response and Corrective Action Plan:

We are revising our CMIA procedures to include a review process to ensure accuracy and completeness of the report. In addition, we are updating our procedures to clarify the required steps for the review process. The revised procedures will be completed by May 1, 2000.

Implementation Date: *May 1, 2000*

Responsible Person: *Chief Financial Officer*

Summary Schedule of Prior Audit Findings Contents

The State of Texas.....	79
Aging, Texas Department on.....	79
Alcohol and Drug Abuse, Commission on	80
Attorney General, Office of the	84
Early Childhood Intervention, Interagency Council on.....	85
Education Agency, Texas.....	86
General Services Commission	91
Health, Department of	91
Housing and Community Affairs, Department of	93
Human Services, Department of.....	94
Mental Health and Mental Retardation – Central Office, Department of.....	96
Natural Resource Conservation Commission, Texas	96
Protective and Regulatory Services, Department of.....	97
Rehabilitation Commission	100
Stephen F. Austin State University.....	100
Sul Ross State University	101
Texas A&M International University	101
Texas A&M University – Corpus Christi	102
Texas A&M University – Kingsville	102
Texas Agricultural Experiment Station	105
Texas Engineering Experiment Station	107
Texas Southern University	108
The University of Texas – Brownsville.....	111
University of Houston.....	116
The University of Texas at San Antonio	112
The University of Texas at Tyler	113
The University of Texas Health Science Center at Houston.....	114
The University of Texas Health Science Center at San Antonio	115
The University of Texas M.D. Anderson Cancer Center	114
Workforce Commission, Texas	116

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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 auditee reports the corrective action it has taken for the following:

- Each finding in the 1998 Schedule of Findings and Questioned Costs
- Each finding in the 1998 Summary Schedule of Prior Audit Findings that was not identified as implemented or reissued as a current year finding

The Summary Schedule of Prior Audit Findings (fiscal year ended August 31, 1999) has been prepared to address these responsibilities.

The State of Texas

Reference No. 99-555-97

Material Noncompliance Exists for the State of Texas Regarding the Reporting of Enrollment Changes in the *Federal Family Education Loans* Program

CFDA 84.032 – Federal Family Education Loans

Material non-compliance exists for the State of Texas regarding the reporting of enrollment changes in the *Federal Family Education Loans* Program.

Initial Year Written:	1995
Status:	Partially Implemented
U.S. Department of Education	

This finding was reissued as current year reference number: 00-555-50.

Corrective Action:

The State Auditor’s Office has identified material noncompliance with this requirement for 21 universities since 1995 and has performed follow-up work at 12 universities. Eleven universities have either made progress toward correcting the issue or have resolved the issue.

Department on Aging

Reference No. 99-555-18

Implement Policies and Procedures to Ensure Compliance With Cash Management Requirements by Area Agencies on Aging

CFDA 93.044 - Special Programs for the Aging - Title III, Part B
CFDA 93.045 - Special Programs for the Aging - Title III, Part C

The Department on Aging did not ensure that its subrecipients complied with federal cash management requirements.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-50

Enhance Internal Controls Over Automated Systems

CFDA 93.044 - Special Programs for the Aging - Title III, Part B

CFDA 93.045 - Special Programs for the Aging - Title III, Part C

The Department on Aging needs to enhance its controls over automated systems.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Commission on Alcohol and Drug Abuse

Reference No. 99-555-31

Enforce Controls Over Monitoring Subrecipients

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

A material weakness exists in the Commission's monitoring of subrecipients.

This finding was reissued as current year reference number: 00-555-52.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Health and Human Services	

Corrective Action:

The risk assessment model and procedures were reviewed and revised to ensure that the risk assessment is updated and changes are documented. Additionally, the risk assessment will be automated in fiscal year 2000.

A Reporting Timelines process to track the receipt of financial status reports and performance reports was implemented during fiscal year 1999. This process included the development and implementation of policies and procedures related to tracking receipt of financial status reports and performance reports. TCADA will continue to take steps to ensure providers report information in a timely manner and take actions accordingly.

Manual review and analysis of financial status reports began during fiscal year 1999. This process is outlined in the policies and procedures. Providers will continue to be notified of concerns indicated during the review of financial status reports.

The Commission developed and implemented procedures in fiscal year 1999 to close fiscal year 1999 awards in a timely manner. TCADA will continue to apply these procedures in the future.

Contract specialist staff have been provided and will continue to be provided with training on the OMB Circulars and TCADA Rules.

The TCADA Provider Network will enable staff to better track and monitor provider performance. The new system was brought on line in April of 1999 and appropriate TCADA staff has been trained.

The desk review process of subrecipient single audits has been reviewed and changes have been implemented to prevent the same issues from occurring.

In the process of fine-tuning any programming needs in its new billing system and will resolve any problems with the system by July 31, 2000.

The changes to the information management system are scheduled to be completed by August 31, 2000, at which time all appropriate staff will have access to tracking data.

Reference No. 99-555-41

Improve Administrative Controls Over Federal Requirements

(Prior Audit Issue - 98-323-02, 97-339-02, 5-114)

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

The Commission continues to lack sufficient accounting procedures and fiscal controls to monitor and report spending activities in the Block Grants for Prevention and Treatment of Substance Abuse program.

Initial Year Written:	1994
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-33

Comply With Contracting Procedures

(Prior Audit Issue - 98-323-01)

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

The Commission did not comply with established procedures for executing and extending contracts.

Initial Year Written:	1997
Status:	Partially Implemented
U.S. Department of Health and Human Services	

This finding was reissued as current year reference number: 00-555-54.

Corrective Action:

Chapter 144 rules were amended to require submission of the contract acceptance notice within 14 days and require only one signature of a certifying authorized official. Chapter 144 rules were also amended to delete the requirement of board minutes showing acceptance of the contract.

TCADA will propose a new policy to the Board that will require that contracts be signed prior to the start date. The policy would generally require that all contracts be signed by both parties before the start date of the contract. (By August 31, 2000)

Current TCADA management believes that there is still room for improvement in the renewal process and, as such, that system is being systematically addressed in the realigned organization. The purchasing, procurement and processing unit of the Administrative Support Services Division / Finance & Administration Branch will manage the timeline and packet issuance and return, while the Program Management / Programs Branch and Fiscal Contract Management / Finance & Administration Branch will be responsible for providing input on subcontractor performance for consideration during contract renewal. TCADA expects the additional improvements to be in place for renewal contracts for Fiscal Year 2001 which begin on May 10, 2000.

Reference No. 99-555-35

Improve Controls Over Independent Peer Review Process

(Prior Audit Issue - 98-323-05)

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

The Commission does not have adequate controls over the independent peer reviews of funded treatment programs to ensure compliance as required by the Block Grants for Prevention and Treatment of Substance Abuse program.

Initial Year Written:	1997
Status:	Partially Implemented
U.S. Department of Health and Human Services	

This finding was reissued as current year reference number: 00-555-56.

Corrective Action:

TCADA revised and formalized its operating procedures for the Peer Review and Quality Improvement Project (PRQIP). Areas that were worked on include TCADA procedures for ensuring that (1) peer review's sampling methods are appropriate and well documented and (2) necessary forms are obtained and individual peer reviewer and treatment information is documented.

Peer Reviewers and PRQIP Steering Committee members are trained on the review instrument. Curricula includes discussion on the importance of complying with the instructions for documenting the program reviews.

TCADA's Community Networks Section will continue to ensure that (1) necessary forms (i.e. "Confidentiality Forms" and "Conflict of Interest Forms") are signed and (2) program reviews are documented.

TCADA's Community Networks Section maintains documentation of PRQIP activities, such as minutes of meetings.

The Commission has requested clarification from SAMHSA regarding applicable federal regulations. The Commission will provide the SAO with an update on the guidance it receives and will implement the appropriate procedures as directed by SAMHSA.

TCADA will also ensure that its sampling methodology is more clearly defined and well documented.

Reference No. 99-555-36

Ensure Funds Are Expended Properly

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

The Commission improperly expended funds for payments to for-profit subrecipient.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-37

Comply With Federal Suspension and Debarment Requirements

(Prior Audit Issue - 98-323-06)

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

The Commission's Goods Procurement Department does not have written procedures in place to address federal requirements related to suspension and debarment.

Initial Year Written:	1997
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-38

Improve Computer Security

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

The Commission has not properly implemented computer security regarding controls over user accounts, system security monitoring, and safeguarding against unauthorized types of system use or access by internal users.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Health and Human Services	

This finding was reissued as current year reference number: 00-555-57.

Corrective Action:

TCADA will revise Information Technology Policies and Procedures to incorporate recommendations related to internal system security monitoring, train staff on revised policies and procedures, and implement revised policies and procedures.

Human resources process has been established including a log of account deactivations and communication between divisions. Information technology process to be reviewed to strengthen audit trail to include deletion of system passwords from the employee exit forms.

System security process established through human resources division.

Reference No. 99-555-39

Create Policies for Computer Security and Disaster Recovery

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

The Commission does not have a Computer Security policy or a complete Disaster Recovery Plan.

This finding was reissued as current year reference number: 00-555-59.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Chapter 10, Computer Security and Management, was approved by executive management on August 19, 1999, and added to the TCADA Administration and Operations Policy and Procedures Manual. Attendance at training on the contents of this Chapter was required of all employees.

After the mandatory training was completed (September 2, 1999), all employees were required to sign a form affirming that training was received and understood. Another form, which must be signed by an employees' supervisor, is used to authorize access to systems. Maintenance of these records, and training for new employees, will be on going activities.

In April 1999, TCADA conducted successful Y2K Compliance testing on all hardware and software at the Austin Disaster Recovery and Operations Center. In addition, disaster recovery testing was conducted. An agreement to establish a long-range disaster recovery resource is planned. TCADA also contracted with a firm (DataLock) to complete a disaster recovery plan. A draft of this plan is expected in October 1999.

Solutions to address SAO issues regarding the Commission's Disaster Recovery Plan were partially implemented by August 31, 1999. We will continue implementation as described in management's response to the finding for fiscal year 1999.

Reference No. 99-555-28

Improve Testing and Documentation of Computer Applications

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

The Service Management System at the Commission was not adequately tested and documentation for this application is not complete.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Health and Human Services	

Corrective Action:

The Integrated Management System (IMS) Test Methodology (Plan) was approved in March 1999 and was followed for all modules not in production at that time. Documentation of the requisite processes has been retained and is available for review.

The Application Transition - Development to Production document was approved in March 1999, and was followed for all modules not in production at that time. Documentation of the requisite processes has been retained and is available for review.

IMS program level documentation, system data model and system overview documentation was updated on a regular basis until project development was completed. In order to assure that documentation remains current, additional resources and procedures will need to be put in place.

Due to the demands of completing IMS development by August 31, 1999, limited progress was made in producing SMS program level documentation. Contract resources have been hired to complete the documentation.

A post-implementation review of the SMS will be accomplished as part of a post-implementation review of the complete IMS. This is also a request of the Quality Assurance Team and is scheduled to be completed by September 30, 2000.

Reference No. 99-555-40

Improve Internal Audit by Completing Audit Plan

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

The Commission’s Internal Audit department did not complete any of the five planned audits for FY 1998 nor was there documentation of other audit work performed during the year.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Health and Human Services	

This finding was reissued as current year reference number: 00-555-53.

Corrective Action:

Four audits are completed. Representing 80 percent of the Audit Plan. Workpapers documentation occurred as audits progressed.

The audit plans for fiscal years 2000 and 2001 will be reassessed to better assess risk factors and address key internal control issues to more effectively assist agency management. Additional steps have been and are being taken by the Board in an effort to strengthen the internal audit function. The Audit Committee of the Board is working closely with Internal Audit and will continue to do so.

Office of the Attorney General

Reference No. 99-555-42

Ensure Accuracy of Child Support Arrearage Balances

(Prior Audit Issue - 98-329-02, 97-306-01, 96-301-01, 5-109, 4-074, 3-090, 2-068, 1-111, 0-037, 9-126)

CFDA 93.563 - Child Support Enforcement

The Office of the Attorney General (Attorney General) does not maintain accurate child support arrearage balances on the Child Support Enforcement automated system.

Initial Year Written:	1988
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-17

Implement Procedures to Identify Payments Made by a Claimant's Insurance Company**CFDA 16.576 - Crime Victim Compensation**

The Office of the Attorney General's Crime Victim Compensation program (Program) has not fully implemented procedures to properly investigate a claimant's insurance coverage or to identify payments made by a claimant's insurance company.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Justice	

Corrective Action:

Corrective action was taken.

Interagency Council on Early Childhood Intervention
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Reference No. 99-555-55

Comply With the Cash Management Improvement Act**CFDA 84.181 - Special Education - Grants for Infants and Families with Disabilities**

Early Childhood Intervention used the reimbursement method to draw down federal funds, rather than the pre-issuance (advance) method required by the CMIA Treasury-State Agreement.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-56

Ensure Compliance With Indirect Cost Requirements**CFDA 84.181 - Special Education - Grants for Infants and Families with Disabilities**

The Council does not have an approved restricted indirect cost rate for the Special Education - Grants for Infants and Families with Disabilities program, as required by federal regulations.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-57

Ensure Subrecipient Compliance With Cash Management Requirements**CFDA 84.181 - Special Education - Grants for Infants and Families with Disabilities**

The Interagency Council on Early Childhood Intervention (Council) makes cash advances to certain subrecipients without ensuring that the amounts advanced will be expended within three business days of receipt.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-58

Improve Accuracy and Completeness of the Schedule of Expenditures of Federal Awards**CFDA 84.181 - Special Education - Grants for Infants and Families with Disabilities**

The Interagency Council on Early Childhood Intervention's (Council) Schedule of Expenditures of Federal Awards (Schedule) for the 1998 fiscal year did not include all required disclosures and is not fully supported by the Council's working papers.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Texas Education Agency

Reference No. 99-555-89

Strengthen Controls Over Subrecipient Monitoring

CFDA 10.560 – State Admin. Expenses for Child Nutrition
 CFDA 84.186 - Safe and Drug-Free Schools - State Grants
 CFDA 84.213 - Even Start - State Educational Agencies
 CFDA 84.276 - Goals 2000 - State and Local Education Systemic Improvement Grant
 CFDA 84.281 - Eisenhower Professional Development State Grants
 CFDA 84.298 - Innovative Education Program Strategies

The Agency has not ensured that its subrecipients spent federal funds in accordance with federal requirements. The Agency has a material weakness in its controls over subrecipient monitoring.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Agriculture	
U.S. Department of Education	

This finding was reissued as current year reference number: 00-555-46.

Corrective Action:

An agencywide committee has developed a monitoring plan which will be implemented during the 2000-2001 school year. Risk assessment has been completed, and districts have been identified for on-site visits in 2000-2001. A needs assessment to determine current methods for collecting and storing information related to risk-based monitoring will be conducted in April-May 2000. The planning committee will continue to monitor progress on implementation of the plan through the 2000-2001 school year.

The Executive Assistant to the Deputy Commissioner for Finance and Accountability has been assigned responsibility for making strategic decisions and overseeing the development of an agency wide plan to monitor subrecipients of federal funds. A needs assessment was conducted during the summer 1999. Results of the needs assessment are being analyzed, and a monitoring plan will be developed during the spring of 2000 to be implemented during the 2000-2001 school year.

A Program Administrator position was created. The position will be posted by the second week in October 1999 and will be filled by the first week of November 1999.

A major function of this Program Administrator will be to coordinate and supervise the implementation of the DEC and Accreditation Report tracking (DART) System. The DART System has been completed for the 1998-99 on-site visits. However, the DART System has to be updated so that the 1999-2000 report data can be logged and tracked. As 1999-2000 reports are completed, that information will be inputted. This system alerts staff to approaching deadlines for monitoring reports and due dates for corrective action plans to be filed by the districts. The Program Administrator will ensure that deadlines are met. In addition, he/she, with the assistance of a committee composed of division and federal program staff, will establish the criteria by which to identify the districts which will receive corrective action follow-up on-site visits.

Corrective action follow-up on-site visits will begin during the month of November 1999. It is projected that by the end of September 2000, a minimum of 20 corrective action follow-up on-site visits will be conducted.

Recommendations were implemented. A tracking system is in place for documenting staff supervision of subrecipient programs, corrective actions, and program progress. Regarding funding of programs based on demonstration of "sufficient progress", is implemented with the funding of continuing projects for FY 1999-2000. A manual was compiled and will continue to be refined during FY 1999-2000.

Implementation of risk assessment survey with programmatic and fiscal indicators for all current Academics 2000 subgrants (Cycles 4, 5, and 6). Survey used as part of review and negotiation of continuation applications in Cycles 4 and 5. Instrument used in negotiations for Part II of Cycle 6 applications. Survey instrument includes a range of follow-up responses depending on indicated levels of risk. The risk assessment instrument is forwarded with the application through the approval process and is retained with the audit file for each grant recipient.

Reference No. 99-555-95

Strengthen Controls Over the General Accounting System and Financial Reporting

(Prior Audit Issue - 97-348-01)

CFDA 10.560 – State Admin. Expenses for Child Nutrition
 CFDA 84.002 - Adult Education - State Administered Program
 CFDA 84.186 - Safe and Drug-Free Schools - State Grants
 CFDA 84.213 - Even Start - State Educational Agencies
 CFDA 84.276 - Goals 2000 - State and Local Education Systemic Improvement Grant
 CFDA 84.281 - Eisenhower Professional Development State Grants
 CFDA 84.298 - Innovative Education Program Strategies

Because the Texas Education Agency (Agency) cannot ensure that its accounting system and annual financial report contains accurate information, the Agency has a material control weakness.

Initial Year Written:	1996
Status:	Partially Implemented
	U.S. Department of Agriculture
	U.S. Department of Education

This finding was reissued as current year reference number: 00-555-47.

Corrective Action:

Reconciliations between ISAS and USAS and ISAS and the federal systems (EDCAPS and ASAP) are well under way to being caught up and expect to be current by August 31, 2000. Management will analyze the key program subsystems to determine what reconciliations are needed, what resources should be responsible for performing the reconciliations, and conduct the reconciliations on an appropriate schedule.

Rupert and Penhall, CPA firm was hired to assist with the preparation of the FY99 AFR and to review and revise the FY98 data in ISAS that was converted from the old accounting system and the FY98 AFR adjusting entries. This work was completed by November 20, 1999 and ISAS was in balance with USAS cash as of 8-31-99.

95% of the federal schedule was automated for the FY99 AFR. A manual correction was made for the FY99 AFR resulting in a pass-through payment classification error. Future AFR federal schedules will be fully automated to improve accuracy. A correction has already been made to prevent the FY99 automated error.

In April 1999 a written procedure was developed and implemented requiring that all journal vouchers have adequate supporting documentation and are reviewed and approved by a supervisor. This procedure is strictly followed.

School Breakfast and School Lunch accruals were developed for the FY99 AFR as were accruals for other program areas. Additional work will continue in this area to improve our estimating ability.

In addition to using the Comptroller's AFR checklists, TEA has always had an internal checklist for the AFR. These checklists will continue to be used and refined as needed.

Reference No. 99-555-91

Reconcile Internal Federal Grant Accounting Records to the U.S. Department of Education's Records

CFDA 84.002 - Adult Education - State Administered Program
 CFDA 84.186 - Safe and Drug-Free Schools - State Grants
 CFDA 84.213 - Even Start - State Educational Agencies
 CFDA 84.276 - Goals 2000 - State and Local Education Systemic Improvement Grant
 CFDA 84.281 - Eisenhower Professional Development State Grants
 CFDA 84.298 - Innovative Education Program Strategies

The Texas Education Agency's federal grant records do not agree with the U.S. Department of Education's Grants Administration and Payment System.

Initial Year Written:	1998
Status:	No Action Taken
U.S. Department of Education	

This finding was reissued as current year reference number: 00-555-48.

Corrective Action:

TEA, with the extra contracted assistance of Rupert and Penhall, CPA firm has been working on the reconciliation between ISAS and EDCAPS since February 2000 and has made progress in identifying and resolving differences between TEA's records and the federal records. This project has been expanded to include the ISAS to ASAP reconciliation. TEA will complete the reconciliations and develop procedures to ensure reconciliations are kept current and reviewed on a regular basis by August 31, 2000. For any prior period adjustments needed, the agency will consider all factors and will consult with the State Auditors to determine the proper treatment as a current year or prior year adjustment.

State Auditor's Follow-Up Comment:

Although the Agency indicates that they have made progress on the reconciliation, we report the status to be as no action taken. The Agency's progress documented above was after our field work date. Therefore, we were unable to follow-up and verify the progress stated above. It will be followed-up on next year.

Reference No. 99-555-94

Strengthen Controls Over Access to Accounting Systems

CFDA 10.560 - State Admin. Expenses for Child Nutrition
 CFDA 84.002 - Adult Education - State Administered Program
 CFDA 84.186 - Safe and Drug-Free Schools - State Grants
 CFDA 84.213 - Even Start - State Educational Agencies
 CFDA 84.276 - Goals 2000 - State and Local Education Systemic Improvement Grant
 CFDA 84.281 - Eisenhower Professional Development State Grants
 CFDA 84.298 - Innovative Education Program Strategies

The Texas Education Agency (Agency) has weaknesses in controls that could lead to unauthorized changes in data contained in the State's accounting systems. The weakness stems from inappropriate access to data in the Uniform Statewide Accounting System (USAS) and the Integrated Statewide Administrative System (ISAS) by current and former employees.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Agriculture	
U.S. Department of Education	

This finding was reissued as current year reference number: 00-555-47.

Corrective Action:

All security profiles for access to USAS were reviewed and updated by December 31, 1999 to ensure the proper segregation of duties.

USAS and USPS security administrator duties were transferred out of Accounting to the Information Security Function (ISF) on June 15, 1999.

Operating Procedure 10-04 was amended September 1, 1999 to state that the Information Security Function (ISF) is to be notified by Human Resources when an employee has terminated or by the supervisor or division director when a contractor has terminated. Upon notification, ISF will remove the individual's access to USAS.

All functional access to ISAS is currently undergoing revision to ensure duties are properly segregated. This will be completed and in production by May 31, 2000.

Access to correction mode in ISAS is part of the current review and revision task that will be completed by May 31, 2000. Any remaining access to correction mode will be documented as to the business need for such access.

The initial system and password setup has been assigned to the Systems Operations and Support Division network administrator effective September 29, 1999 and the resetting of passwords has been assigned to the Customer Assistance and Training Division's HELP desk. These functions have been removed from Software Development.

By August 31, 2000, TEA will explore the benefits of ISAS' audit functions to determine if it can be used an effective access monitoring tool.

Development of ISAS security access reports is also part of the current review and revision task that will be completed by May 31, 2000. Procedures will be developed to ensure these reports are periodically reviewed to ensure access has remained properly restricted. The following three reports have been developed to date:

- 612_SECURITY - Provides OPERID, NAME, PRIMARY PROFILE, and ORIGIN (Cost Center)
- E_CLASSMENUS - Provides detailed security access for all ISAS operators, including menu items and authorized actions.
- E_CORRECTION - Provides operators and respective menu items where correction mode access is authorized.

Reference No. 99-555-90

Strengthen Controls Over Monitoring Cash Management for Subrecipients

- CFDA 10.560 - State Admin. Expenses for Child Nutrition
- CFDA 84.186 - Safe and Drug-Free Schools - State Grants
- CFDA 84.276 - Goals 2000 - State and Local Education Systemic Improvement Grant
- CFDA 84.281 - Eisenhower Professional Development State Grants
- CFDA 84.298 - Innovative Education Program Strategies

The Texas Education Agency (Agency) did not monitor subrecipients' cash management to ensure compliance with federal requirements that minimize the time federal funds are on hand. In addition, the Agency's cash advancement procedures during fiscal year 1998, at times, resulted in excess balances of federal funds on hand with subrecipients

Initial Year Written:	1998
Status:	Other
U.S. Department of Agriculture	
U.S. Department of Education	

Corrective Action:

As part of improved cash management controls, TEA implemented two systems to draw down grant funds in FY 99, IVR and WEB/ER. The implementation followed extensive communication with subgrantees. The systems were fully phased in over the course of the fiscal year. The phase-in included a revision of the Financial Accountability System Resource Guide to describe federal cash management requirements.

The new cash management controls mean that, as of the end of FY 99, all grants to school districts, education service centers, and charter schools are accessed through either the IVR system or the WEB/ER system. The only grants that are not accessed through those systems are selected grants to colleges and universities. For cash management purposes, those grants are administered on a reimbursement basis only. No funds are advanced.

In FY 2000 TEA internal audit division will consider planning for an analysis of year-end cash draw down and refunds in selected grant areas utilizing the IVR and WEB/ER systems. Procedures will be developed to review subrecipients' federal grant cash management practices to determine if federal funds held is minimized. These procedures may include the use of subrecipients' independent auditors, agency monitoring visits and desk reviews.

Auditor's Follow-Up Comment:

The Agency's newly implemented cash management system does provide the potential for subrecipients to minimize the amount of time cash is held. However, the Agency needs to ensure that monitoring of subrecipients' cash management procedures is considered in the development of the overall subrecipient monitoring plan. Based on the implementation date for the subrecipient monitoring plan, additional follow-up will be needed next year.

Reference No. 99-555-92

Ensure Federal Financial Reports Are Prepared and Submitted

CFDA 84.213 - Even Start - State Educational Agencies

CFDA 84.276 - Goals 2000 - State and Local Education Systemic Improvement Grant

The Texas Education Agency failed to submit required reports to the U.S. Department of Education.

Initial Year Written:	1998
Status:	Other
U.S. Department of Education	

Corrective Action:

Final disposition of this reporting issue is rolled into the status of the reconciliation needed to the U.S. Department of Education's EDCAPS system. See the corrective action and status in finding reference number 99-555-91.

Reference No. 99-555-93

Ensure That Subrecipient Selection Process Complies With Federal Requirements

CFDA 84.213 - Even Start - State Educational Agencies

The Adult Continuing Education Division (ACE) of the Texas Education Agency (Agency) did not clearly document compliance with federal requirements when selecting subrecipients for federal funds. Staff members from the Even Start program and external reviewers did not document designated empowerment zone or enterprise community status. Applicants also did not always properly document a method to be used to ensure it will serve families most in need.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

General Services Commission

Reference No. 99-555-79

Provide Proper Notification to Recipients of Federal Surplus Property

CFDA 39.003 - Donation of Federal Surplus Personal Property

The General Services Commission (Commission) did not notify recipients of the value of federal surplus property for fiscal year 1998.

Initial Year Written:	1998
Status:	Implemented
General Services Administration	

Corrective Action:

Corrective action was taken.

Department of Health

Reference No. 99-555-51

Review Medicaid Systems for Adequacy in Detecting Overpayment and Potential Fraud

CFDA 93.778 - Medical Assistance Program

The Department of Health questioned costs when the service providers failed to furnish medical records upon request.

This finding was reissued as current year reference number: 00-555-34.

Initial Year Written:	1998
Status:	No Action Taken
U.S. Department of Health and Human Services	

Corrective Action:

This finding was reissued to Health and Human Services Commission.

Reference No. 99-555-46

Improve Monitoring of a Contract With National Heritage Insurance Company

CFDA 93.778 - Medical Assistance Program

The Department of Health lacks some key elements in its monitoring of a contract with the National Heritage Insurance Company (NHIC).

This finding was reissued as current year reference number: 00-555-25.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Health and Human Services	

Corrective Action:

The TDH Sunset bill requires the agency to contract with an external auditor to perform independent financial and performance audits of the Texas Medicaid Administrative System (TMAS) contractors. The frequency and extent of the audits are to be determined on the basis of a risk assessment. In conjunction with this requirement and the audit recommendation, HCF plans to contract with an external entity for assistance in developing a risk assessment process to be used in planning audits and monitoring activities for the TMAS contracts. The Request for Proposal will be issued by February 2000. The risk assessment process will be in place before the end of FY 2000.

A pilot test of the centralized system for logging, tracking and reconciling correspondence associated with NHIC contract administration was initiated on September 1, 1999. The system was fully implemented on December 1, 1999.

Staff in the Reimbursement Analysis Division periodically compare requested fee changes with a sample of NHIC claims to ascertain whether the correct payments are being made. This division is currently planning on performing additional comparisons on a more frequent basis during FY 2000. Additional staff from HHSC also continue to monitor the accuracy of NHIC claims payments as part of their normal responsibilities.

Reference No. 99-555-45

Ensure Certification of Suspension and Debarment From Vendor Drug Providers

CFDA 93.778 - Medical Assistance Program

The Department of Health did not have suspension and debarment certification for 6 out of 29 vendor drug providers tested receiving Medicaid funds during fiscal year 1998.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-15

Establish Procedures for Monitoring Earmarking Requirements

CFDA 93.994 - Maternal and Child Health Services Block Grant

In federal fiscal year 1997, the Department did not meet the earmarking requirement related to primary and preventive care services for children

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-68

Report Correct Time Period for Refunds

CFDA 93.778 - Medical Assistance Program

The Department of Health reported the incorrect number of days a refund is held in the state's account.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Health and Human Services	

This finding was reissued as current year reference number: 00-555-26.

Corrective Action:

Information was adjusted in order to facilitate reporting in the exact manner recommended by State Auditors. Future reports will be done in accordance with the same procedures.

Department of Housing and Community Affairs

Reference No. 99-555-67

Ensure Documentation Exists to Justify the HOME Program's Award Decisions

CFDA 14.239 - HOME Investment Partnerships Program

Missing documentation for the HOME Program's contract awarding process indicates significant weaknesses in internal controls.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Housing and Urban Development	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-22

Improve Subrecipient Monitoring Over the HOME Program

CFDA 14.239 - HOME Investment Partnerships Program

The Department of Housing and Community Affairs requires improvements in subrecipient monitoring over the HOME program.

Initial Year Written:	1998
Status:	Other
U.S. Department of Housing and Urban Development	

This finding was reissued as current year reference number: 00-555-42.

Corrective Action:

The finding is not implemented because management developed policies and procedures effective FY99 that did not ensure compliance with monitoring requirements. Additionally, management did not hire staff for monitoring function until April 1999. In addition to the weaknesses noted in the original finding, we have noted various problems not reported in this prior year finding and have classified our current year finding as a material weakness.

Reference No. 99-555-20

The Department Should Implement Sanctions in a Timely Manner for the Community Services Block Grant

CFDA 93.569 - Community Services Block Grant

The Department of Housing and Community Affairs failed to terminate a mismanaged subrecipient contract in a timely manner.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-21

The Department Should Implement Sanctions in a Timely Manner for the LIHEAP Program

CFDA 93.568 - Low-Income Home Energy Assistance

The Department of Housing and Community Affairs failed to terminate and obtain questioned audit costs from a subrecipient in a timely manner.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-19

The Department Did Not Meet Required Leasing Rates

CFDA 14.855 - Section 8 Rental Voucher Program
 CFDA 14.857 - Section 8 Rental Certificate Program

The Department of Housing and Community Affairs has consistently and substantially been under the required leasing percentage for its last three fiscal years.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Housing and Urban Development	

Corrective Action:

The Department continuously makes every effort to comply with HUD requirements. The Department has communicated via telephone and site visits the following remedial measures to the Local Operators to help achieve a 95% utilization rate for the Dallas, San Antonio and Houston regions. Local Operators were required to implement efficient initiatives that included: (a) reallocation of certificates/vouchers not issued by specific cities to cities that have shown high utilization rates; (b) a more competitive issuance of certificates/vouchers; and (c) acceleration of the application process to reduce the time it takes to issue certificates/vouchers. The utilization rates for two of the three regions, Dallas and San Antonio, have surpassed the 95% target. The Department is confident that these initiatives will help achieve a 95% utilization rate for the Houston region. The Department remains committed to providing decent, safe and sanitary housing assistance to as many families as possible.

State Auditor's Comment:

Although the Department has reported meeting the target utilization rate in two of the three regions, there is no evidence to support that the increases were due to their corrective action.

Department of Human Services

Reference No. 99-555-64

Improve Procedures to Remove Deceased Individuals From Eligibility Files

CFDA 93.778 - Medical Assistance Program

Controls are inadequate to remove deceased individuals from the Department of Human Services' eligibility files.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-49

Ensure Adequate Procedures for the Referral of Suspected Fraud Cases

(Prior Audit Issue - 98-320-01)

CFDA 93.778 - Medical Assistance Program

All suspected fraud cases referred by the Department of Human Services are not being investigated.

This finding was reissued as current year reference number: 00-555-19.

Initial Year Written:	1997
Status:	Partially Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Communication between the Office of Program Integrity/Quality Assurance (OPI/QA) Section, Office of Attorney General (OAG), Health and Human Services Commission (HHSC) and the regions has not resulted in the appropriate initiation and

distribution of referrals, reconciliations of referrals received by the agencies and tracking of dispositions. Management updated the Fair Hearings, Fraud and Civil Rights Handbook 10/1/98, distributed information letter 5/29/98 and Regional Director memo 12/18/98 to notify regions of fraud referral procedures; however, appropriate actions are not being taken. Issues remain open pending formal communication links with OAG, HHSC and regions to ensure fraud referrals are initiated, distributed, reconciled and tracked to disposition.

Note: Effective September 1999, responsibility for tracking referrals of suspected fraud was transferred from QA to OIG.

Reference No. 99-555-48

Establish a Program for Conducting Periodic Risk Analysis and Security Review CFDA 93.778 - Medical Assistance Program

The Department of Human Services has not established and maintained a program for conducting periodic risk analysis and security review of automated data processing systems used in the administration of Medicaid.

This finding was reissued as current year reference number: 00-555-20.

Initial Year Written:	1998
Status:	Factors Delay Implementation
U.S. Department of Health and Human Services	

Corrective Action:

Although management agrees with the recommendation made by the SAO to establish a program for conducting periodic risk analysis and security review, MIS will not be in a position to begin the periodic risk analysis and security review process until after mid-FY2000 due to current focus on Y2K remediation.

Reference No. 99-555-47

Ensure the Accuracy of Reported Expenditures on the Form HCFA-64 (Prior Audit Issue - 98-320-04)

CFDA 93.778 - Medical Assistance Program

The Department of Human Services reported incorrect expenditures to the Health Care Financing Administration on Form HCFA-64 (Quarterly Medicaid Statement of Expenditures) for the first two quarters of federal fiscal year 1998.

Initial Year Written:	1997
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective Action was taken.

Reference No. 99-555-16

Recalculate Interest Time Period Due to Input Errors

CFDA 10.558 - Child and Adult Care Food Program
CFDA 93.558 - Temporary Assistance for Needy Families
CFDA 93.777 - State Survey and Certification of Health Care Providers and Suppliers
CFDA 93.778 - Medical Assistance Program

The Department of Human Services (Department) made various clerical errors in calculating the interest time period for four out of seven programs tested in fiscal year 1998.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Agriculture	

Corrective Action:

Corrective action was taken.

Department of Mental Health and Mental Retardation – Central Office

Reference No. 99-555-11

Comply With Independent Peer Review Requirements

CFDA 93.958 - Block Grant for Community Mental Health Services

The Department does not have a process which ensures that independent peer reviews of funded treatment programs are performed as required by the *Block Grants for Community Mental Health Services* program.

Initial Year Written:	1998
Status:	No Action Taken
U.S. Department of Health and Human Services	

This finding was reissued as current year reference number: 00-555-21.

Corrective Action:

The Department of Mental Health and Mental Retardation believes it is already in compliance with this requirement and therefore this finding should not have been an issue.

Reference No. 99-555-12

Fully Comply With Subrecipient Monitoring Requirements

CFDA 93.958 - Block Grant for Community Mental Health Services

The Department of Mental Health and Mental Retardation (Department) is not in full compliance with subrecipient monitoring requirements. The Department did not complete the review of subrecipient single audit reports in a timely manner and did not inform subrecipients of the CFDA number or title of awards in their contracts.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Natural Resource Conservation Commission

Reference No. 99-555-43

Ensure Compliance With the Davis-Bacon Act

CFDA 66.802 - Superfund State Site-Specific Cooperative Agreements

The Natural Resource Conservation Commission (Commission) is not adequately ensuring compliance with the Davis-Bacon Act (Act) for its Hazardous Substance Response Trust Fund grants. The Commission did not perform regular reviews of contractor payrolls or on-site compliance inspections during fiscal year 1998.

Initial Year Written:	1998
Status:	Implemented
U.S. Environmental Protection Agency	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-52

Develop a Formal Disaster Recovery Plan

CFDA 66.605 - Performance Partnership Grants
 CFDA 66.802 - Superfund State Site-Specific Cooperative Agreements

The Natural Resource Conservation Commission (Commission) does not have an agencywide disaster recovery plan for its automated systems. The Commission is completing nightly back-ups of critical computer data and storing them off site. However, there is no formalized, comprehensive disaster recovery plan that includes procedures and processes for conducting risk analyses, setting priorities for the recovery of information resources, and identifying which automation-based services are most critical to the Commission.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Environmental Protection Agency	

Corrective Action:

TNRCC contracted disaster recovery services support through the West Texas Disaster Recovery and Operations Center (WTDROC), effective 08/31/99. The contract was submitted as an amendment to the existing Biennial Operating Plan (FY 96 through FY 02) and approved by the Department of Information Resources. In addition, Information Resources Division staff have developed a draft Disaster Recovery Plan which is currently being revised. Agency operating policies and procedures will be created to support the plan. TNRCC anticipates validation and testing of the plan by 02/29/00.

Reference No. 99-555-44

Ensure the Accuracy of Financial Status Reports

CFDA 66.802 - Superfund State Site-Specific Cooperative Agreements

The Natural Resource Conservation Commission (Commission) is not adequately ensuring the accuracy of the Quarterly Financial Status Reports for the Superfund State Site-Specific Cooperative Agreements federal program. These reports, prepared by the Financial Administration Division, are not independently reviewed prior to submission.

Initial Year Written:	1998
Status:	Implemented
U.S. Environmental Protection Agency	

Corrective Action:

Corrective action was taken.

Department of Protective and Regulatory Services

Reference No. 98-318-1

Strengthen Controls Over Foster Care Rates

CFDA 93.658 - Foster Care - Title IV-E

The Department is not periodically analyzing or adjusting the federal portion of the foster care daily rates to ensure that federal funds are used to pay for only those services and costs allowed under the Foster Care - Title IV-E program (CFDA 93.658). This finding was reissued as a portion of reference number: 99-555-82.

Initial Year Written:	1997
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 98-318-2

Establish Appropriate Controls Over Foster Care Income

CFDA 93.658 - Foster Care - Title IV-E

The Department does not have adequate controls in place to ensure that income received on behalf of foster care children is appropriately applied against the cost of the child's care.

This finding was reissued as current year reference number: 00-555-33.

Initial Year Written:	1997
Status:	Factors Delay Implementation
U.S. Department of Health and Human Services	

Corrective Action:

The Department continues to work to resolve outstanding audit issues related to foster care income. A monthly reconciliation process for the regions to ensure that income was properly applied toward the cost of care will be implemented by August 1, 2000. Changes in the approach used to centralize the bookkeeping functions have delayed implementation of this finding. The Operational Support Division has received approval for a non-competitive procurement to move forward with automating this function into one bank with 11 regional accounts after no bids were received. The target date for centralization of bookkeeping is May 1, 2000 with the transfer to electronic centralized banking to occur as quickly as the different systems allow.

Reference No. 98-318-3

Strengthen Controls Over Foster Care Maintenance Payments Made to Child Placing Agencies

CFDA 93.658 - Foster Care - Title IV-E

The Department has not established adequate controls over foster care maintenance payments made to child placing agencies. This finding was reissued as a portion of reference number 99-555-82 and current year reference number 00-555-51.

Initial Year Written:	1997
Status:	Partially Implemented
U.S. Department of Health and Human Services	

Corrective Action:

A methodology for making the adjustment for the child placing agency segregation of administrative costs and client services costs was approved and adjustment made for fiscal years 1997 and 1998. The adjustment for fiscal year 1999 was made on the quarterly federal claim that was submitted on April 28, 2000. Beginning with the fiscal year 2000, the Department will make an annual adjustment in the quarter following the fiscal year in which the funds were overclaimed.

The monitoring tool for residential contracts contains a step to review the minimum pass through from child placing agencies and will be tested during fiscal year 2000 monitoring. The Contract Administration Division will review the monitoring reports submitted for these contractors to ensure this step is being performed.

Reference No. 99-555-82

Strengthen Controls Over Monitoring Subrecipients and Vendors With Compliance Responsibilities

(Prior Audit Issue - 98-318-1, 98-318-3)

CFDA 93.556 - Family Preservation and Support Services

CFDA 93.658 - Foster Care - Title IV-E

A material weakness exists in the controls over monitoring of (1) subrecipients for the Family Preservation and Support Services program and (2) vendors with compliance responsibilities for the Foster Care - Title IV-E program.

This finding was reissued as current year reference number: 00-555-51.

Initial Year Written:	1997
Status:	Partially Implemented
U.S. Department of Health and Human Services	

Corrective Action:

The Department has made a commitment to resolving issues noted regarding contract monitoring controls over the last year. These efforts began in June 1999 and evolved into the development of an agency-wide strategic initiative -- Improve Procurement and Monitoring of Purchased Client Goods and Services. A separate 90-day Contract Task Force was formed and began work on April 1, 2000 to accelerate progress toward better outcomes and resolve outstanding audit issues. Specialized workgroups have also been formed to update the policies and procedures, boiler plate contracts and recoupment policies. The Department believes these efforts will lead to a more effective and efficient contracting system.

The Contract Administration Division (CAD) has redesigned the format used for the fiscal year 2000 monitoring plan. CAD will release a Contract Administration Division Action (CADA) memo by May 3, 2000 which will include the new reporting format, written procedures, scheduled due dates and a new notification process. Regional staff will confirm dates on the monitoring plan. CAD will be accountable for ensuring that the plan is accurate, complete and contains sufficient information for decision making. Prior to the development of fiscal year 2001 monitoring plan, CAD will make any necessary changes as a result of this new format and procedures.

The review of 1998 cost reports has been completed and work has already started on reviewing 1999 cost reports. The results of these reviews are given to the Budget and Federal Funds Division for use in rate setting.

The Department completed a new contract monitoring instrument for vendors with compliance requirements (residential contractors). All residential contract managers were trained on the new instrument in February 2000 and began using the instrument to conduct the remainder of their fiscal year 2000 monitoring. The Department will continue to work on refining this instrument as the year progresses and will make any necessary updates for fiscal year 2001 monitoring.

Reference No. 99-555-80

Correct Overclaims of Federal Funds in a Timely Manner

CFDA 93.658 - Foster Care - Title IV-E

The Texas Department of Protective and Regulatory Services has not fully corrected an overclaim of federal funds that was identified during the fiscal year 1996 statewide audit.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-81

Comply With Federal Debarment/Suspension Requirements

CFDA 93.658 - Foster Care - Title IV-E

The Texas Department of Protective and Regulatory Services did not comply with federal debarment and suspension requirements.

Initial Year Written:	1998
Status:	Factors Delay Implementation
U.S. Department of Health and Human Services	

Corrective Action:

The Contract Administration Division required all counties to submit debarment and suspension certificates and notified contract managers of this requirement. This finding was brought to our attention after the fiscal year 1999 contracts were completed and therefore was implemented in fiscal year 2000.

Reference No. 99-555-83

Comply With All Eligibility Requirements for the Adoption Assistance Program

CFDA 93.659 - Adoption Assistance

The Texas Department of Protective and Regulatory Services did not comply with all eligibility requirements under the Adoption Assistance program.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Rehabilitation Commission

Reference No. 99-555-4

Recalculate Interest Time Period Due to a Change in Procedures

CFDA 96.001 - Social Security - Disability Insurance

The Texas Rehabilitation Commission instituted a new system to request federal funds. The change increased the time between deposit and issuance of federal funds, but Period 1 was never recalculated.

Initial Year Written:	1998
Status:	Implemented
Social Security Administration	

Corrective Action:

Corrective action was taken.

Stephen F. Austin State University

Reference No. 99-555-13

Develop and Implement Formal Policies and Procedures for Certain Management Information System Processes

CFDA 84.032 - Federal Family Education Loans
 CFDA 84.063 - Federal Pell Grant Program

Stephen F. Austin State University has not fully developed and implemented formal policies and procedures regarding several management information system processes for its automated student financial aid system.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-3

Report Enrollment Changes in a Timely Manner

CFDA 84.032 - Federal Family Education Loans

Stephen F. Austin State University is not reporting all enrollment changes for the *Federal Family Education Loans* program to the guarantor, lender, or U.S. Department of Education in a timely manner.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Sul Ross State University

Reference No. 99-555-10

Report Enrollment Changes to Guarantor, Lender, or U.S. Department of Education

(Prior Audit Issue - 98-333-02, 97-332-06)

CFDA 84.032 - Federal Family Education Loans

Sul Ross State University is not reporting all enrollment changes for the *Federal Family Education Loans* program to the guarantor, lender, or U.S. Department of Education.

Initial Year Written:	1996
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on next year. Each department involved with the reporting of enrollment changes has been delegated individual and joint responsibility to ensure that timely reports are submitted to the National Student Loan Clearinghouse.

Texas A&M International University

Reference No. 99-555-14

Report Enrollment Changes in a Timely Manner

(Prior Audit Issue - 98-331-02)

CFDA 84.032 - Federal Family Education Loans

Texas A&M International University is not reporting all enrollment changes for the *Federal Family Education Loans* program to the guarantor, lender, or U.S. Department of Education in a timely manner.

Initial Year Written:	1997
Status:	Partially Implemented
U.S. Department of Education	

This finding was reissued as current year reference number: 00-555-16.

Corrective Action:

The Office of Financial Aid met with all the offices on campus directly involved in the transmission of the SSCR's (CTS and Registrar's) and we also added two additional transmission dates for the long semesters thereby making a total of five transmission dates instead of the recommended three:

Fall 1998 Transmissions

September 16, 1998- After 12th class day

October 26, 1998- Mid-Term

November 23, 1998- Last day to drop or withdraw from University

December 11, 1998- End of Semester

January 15, 1999- End of Semester including graduates

Texas A&M University – Corpus Christi

Reference No. 99-555-2

Report Enrollment Changes to the Guarantor, Lender, or U.S. Department of Education

CFDA 84.032 - Federal Family Education Loans

Texas A&M University- Corpus Christi is not reporting all enrollment changes for the *Federal Family Education Loans* program to the guarantor, lender, or U.S. Department of Education. In addition, the University is not retaining records or documentation of the enrollment change updates in the National Student Loan Data System (NSLDS).

Initial Year Written:	1998
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on next year. The SSCR reports are processed after the 12th class day, during mid-term, and after the conclusion of the Fall/Spring semesters. In addition, the Student Financial Aid Office is working with the Purchasing Department to complete a School Participation Agreement with the National Student Loan Clearinghouse.

Reference No. 99-555-1

Delay Disbursements to First-Time, First-Year Borrowers

CFDA 84.033 - Federal Work-Study Program

Texas A&M University- Corpus Christi is not delaying disbursements to first-time, first-year borrowers of the *Federal Family Education Loans* program until 30 days after the first day of the student’s program of study.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Texas A&M University – Kingsville

Reference No. 99-555-23

Address Automated Information System Deficiencies

CFDA 84.032 - Federal Family Education Loans

Deficiencies in the Texas A&M University - Kingsville financial aid information system resulted in our inability to test certain compliance requirements and costs associated with the *Federal Family Education Loans* program.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-26

Maintain Enrollment Change Documentation

CFDA 84.032 - Federal Family Education Loans

Texas A&M University - Kingsville is not maintaining copies of the Student Status Confirmation Report for three years as required for the Federal Family Education Loans program. As a result, no testing could be conducted on enrollment changes to determine if the changes had been reported correctly and within the required time frame.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Education	

This finding was reissued as current year reference number: 00-555-12.

Corrective Action:

Beginning with the December 18, 1998 electronic submission of enrollment to the National Student Loan Clearinghouse, the University is maintaining the information on a CD. Each subsequent submission will be maintained on the CD under the date of submission. Also, beginning with the May 17, 1999 submission, the University is now producing a printed report. Both of these reports, CD and printed, will be kept for the minimum three years as required under Federal regulations.

Reference No. 99-555-24

Develop and Implement Formal Policies and Procedures Over Monitoring Security Violations

- CFDA 84.007 – Supplemental Educational Opportunity Grants
- CFDA 84.032 - Federal Family Education Loans
- CFDA 84.033 – Federal Work-Study Program
- CFDA 84.038 – Federal Perkins Loan Program – Federal Capital Contributions
- CFDA 84.063 - Federal Pell Grant Program

Texas A&M University - Kingsville (University) is not generating automated security reports to monitor security and it does not have documented internal policies and procedures for following up on reported security violations.

Initial Year Written:	1998
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on at a later date. Security reports from system accounting and auditing and other “security related” data sources are run on a weekly basis. The policies and procedures are being formalized and documented and will be submitted to University Management.

Reference No. 99-555-27

Delay Disbursements to First-Time, First-Year Borrowers

CFDA 84.032 - Federal Family Education Loans

Texas A&M University - Kingsville is not delaying disbursements to first-time, first-year borrowers of the *Federal Family Education Loans* program until 30 days after the first day of the student’s program of study.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-29

Obtain Financial Aid Transcripts

CFDA 84.032 - Federal Family Education Loans
 CFDA 84.063 - Federal Pell Grant Program

Texas A&M University - Kingsville is not obtaining financial aid transcripts for all transfer students who receive federal financial assistance.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Education	

This finding was reissued as current year reference number: 00-555-14.

Corrective Action:

The Financial Aid Office and Admissions regularly exchange information regarding a student's attendance at other institutions and will continue to do so. However, the Financial Aid Office has on its Institutional Application, a section whereby students are required to list any other colleges attended. The Financial Aid Office has mandated that the Data Entry Clerk, when posting the receipt of its institutional application to also post on the Financial Aid offices Transcript screen, any colleges listed by the student. If the dates of attendance are less than 90 days prior to the current semester, the Data Entry Clerk is required to immediately fax a FAT request to the university listed. If it is more than 90 days, the Data Entry Clerk is required to download the FAT immediately from the National Student Loan Database System. No Federal/State monies will be disbursed to the student(s) until all Fat's are received and reviewed by the Date Entry Clerk to ensure that the student is not overawarded or in default.

Reference No. 99-555-30

Maintain Complete and Accurate Information to Support Adjustments to Students' Budgets

CFDA 84.032 - Federal Family Education Loans
 CFDA 84.063 - Federal Pell Grant Program

Texas A&M University - Kingsville does not maintain complete and accurate information to support adjustments to students' budgets.

Initial Year Written:	1998
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on at a later date. A procedure has been implemented whereby the student must request and supply adequate documentation to the Student Financial Aid Office to support adjustments to the student's budget.

Reference No. 99-555-32

Report Pell Payment Data to U.S. Department of Education Within 30 Days

CFDA 84.063 - Federal Pell Grant Program

Texas A&M University - Kingsville is not reporting payment data on the Federal Pell Grant Program to the U.S. Department of Education within 30 days as required.

Initial Year Written:	1998
Status:	Other
U.S. Department of Education	

Corrective Action:

In following up on this issue, it was determined that the University is not maintaining necessary documentation to support the reporting of all Pell payment data to the U.S. Department of Education. As a result, we were unable to ensure that the University reported the student payment data as required.

Texas Agricultural Experiment Station

Reference No. 99-555-78

Strengthen the Control Environment Over Research and Development Programs

CFDA 10.001 - Agricultural Research-Basic and Applied Research
 CFDA 10.200 - Grants for Agricultural Research, Special Research Grants
 CFDA 10.203 - Payments to Agricultural Experiment Stations under Hatch Act
 CFDA 10.206 - Grants for Agricultural Research-Competitive Research Grants
 CFDA 93.103 - Food and Drug Administration-Research

The number and type of audit findings, inadequate policies and procedures, and untrained staff result in the conclusion that the control environment over research and development programs should be strengthened at the Texas Agricultural Experiment Station (Experiment Station).

Initial Year Written:	1998
Status:	Other
U.S. Department of Agriculture	

Corrective Action:

Resolution to the control environment will be followed up on next year due to the late implementation date. Follow up work related to the policies and procedures issue was performed during our audit. However, compliance testing could not be performed in all areas due to the implementation date of corrective action.

Reference No. 99-555-74

Ensure Compliance With Cash Management Requirements

CFDA 10.001 - Agricultural Research-Basic and Applied Research
 CFDA 10.203 - Payments to Agricultural Experiment Stations under Hatch Act

The Texas Agricultural Experiment Station (Experiment Station) is not complying with federal cash management requirements.

This finding was reissued as current year reference number: 00-555-43.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Agriculture	

Corrective Action:

The Experiment Station continues to request federal funds for reimbursement of Hatch Act program expenditures in excess of immediate cash needs and does not base requests upon actual expenditures. Consequently, it may incur an interest liability.

During our review, we noted additional issues identified in the current year finding, reference 00-555-43.

Reference No. 99-555-73

Maintain Federal Advances in Interest-Bearing Accounts

CFDA 10.001 - Agricultural Research-Basic and Applied Research
 CFDA 10.203 - Payments to Agricultural Experiment Stations under Hatch Act

The Texas Agricultural Experiment Station (Experiment Station) does not maintain advances of federal funds in interest-bearing accounts.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Agriculture	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-75

Obtain Certifications for Suspension/Debarment

- CFDA 10.001 - Agricultural Research-Basic and Applied Research
- CFDA 10.200 - Grants for Agricultural Research, Special Research Grants
- CFDA 10.203 - Payments to Agricultural Experiment Stations under Hatch Act
- CFDA 10.206 - Grants for Agricultural Research-Competitive Research Grants

The Texas Agricultural Experiment Station (Experiment Station) does not obtain required certifications from vendors indicating that they have not been suspended or debarred from doing business with the federal government.

Initial Year Written:	1998
Status:	Other
U.S. Department of Agriculture	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on next year.

Reference No. 99-555-77

Comply With Period of Availability Requirements

- CFDA 10.156 - Federal-State Marketing Improvement Program

The Texas Agricultural Experiment Station (Experiment Station) is not in compliance with federal period of availability requirements.

Initial Year Written:	1998
Status:	Other
U.S. Department of Agriculture	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on next year.

Reference No. 99-555-76

Implement Subrecipient Monitoring Procedures

- CFDA 10.001 - Agricultural Research-Basic and Applied Research
- CFDA 10.025 - Plant and Animal Disease, Pest Control and Animal Care
- CFDA 10.156 - Federal-State Marketing Improvement Program
- CFDA 10.200 - Grants for Agricultural Research, Special Research Grants
- CFDA 10.206 - Grants for Agricultural Research-Competitive Research Grants
- CFDA 10.961 - International Agricultural Research Program
- CFDA 11.427 - Fisheries Development and Utilization Research and Development Grants
- CFDA 12.300 - Basic and Applied Scientific Research
- CFDA 15.808 - Geological Survey - Research and Data Acquisition
- CFDA 66.500 - Environmental Protection-Consolidated Research

The Texas Agricultural Experiment Station (Experiment Station) has not implemented procedures to ensure adequate monitoring of its subrecipients.

This finding was reissued as current year reference number: 00-555-44.

Corrective Action:

The Experiment Station has made improvements to comply with subrecipient monitoring requirements as they relate to the Single Audit; however, it has not implemented procedures to ensure adequate monitoring of all subrecipients.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Agriculture	
U.S. Department of Commerce	
U.S. Department of Defense	
U.S. Environmental Protection Agency	
U.S. Department of the Interior	

Since the prior audit, the Contracts and Grants Department implemented a tracking system to identify subrecipient responsibilities. However, interviews with the Contracts and Grants Department indicated that fiscal monitoring procedures have not been implemented. Without adequate monitoring, management has no assurance that funds are spent in accordance with federal regulations.

Reference No. 99-555-72

Obtain Proper Payroll Approval

CFDA 10.206 - Grants for Agricultural Research-Competitive Research Grants

The Texas Agricultural Experiment Station (Experiment Station) is not obtaining proper payroll authorizations for employees funded by the federal research and development awards.

Initial Year Written:	1998
Status:	Other
U.S. Department of Agriculture	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on next year.

Texas Engineering Experiment Station

Reference No. 99-555-66

Improve Controls Over Subrecipient Monitoring

- CFDA 12.431 - Basic Scientific Research
- CFDA 12.800 - Air Force Defense Research Sciences Program
- CFDA 43.001 - Aerospace Education Services Program
- CFDA 47.049 - Mathematical and Physical Sciences
- CFDA 47.076 - Education and Human Resources
- CFDA 81.049 - Basic Energy Sciences - University and Science Education
- Contract/Award - N/A

Texas Engineering Experiment Station (Experiment Station) should strengthen controls over its subrecipient monitoring function.

Initial Year Written:	1998
Status:	Other
U.S. Department of Defense	
National Aeronautics and Space Administration	
National Science Foundation	
U.S. Department of Energy	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. The finding will be followed up on next year.

Reference No. 99-555-65

Improve Policies and Procedures for Certain Federal Compliance Areas

- CFDA 12.300 - Basic and Applied Scientific Research
- CFDA 12.431 - Basic Scientific Research
- CFDA 12.800 - Air Force Defense Research Sciences Program
- CFDA 43.001 - Aerospace Education Services Program
- CFDA 47.041 - Engineering Grants
- CFDA 47.049 - Mathematical and Physical Sciences
- CFDA 47.076 - Education and Human Resources
- CFDA 81.049 - Basic Energy Sciences - University and Science Education
- CFDA 81.110 - National Resource Center for Plutonium
- CFDA MISC - Other R&D Programs Each With Expenditures Less Than \$1 Million
- Contract/Award - N/A

The Texas Engineering Experiment Station (Experiment Station) has not developed formal policies for the areas of suspension/debarment, cash management, and subrecipient monitoring.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Defense	
National Aeronautics and Space Administration	
National Science Foundation	
U.S. Department of Energy	

Corrective Action:

Corrective action was taken.

Texas Southern University

Reference No. 96-042-3

Ensure That All Students Are Maintaining Satisfactory Academic Progress

(Prior Audit Issue - 4-046)

CFDA 84.032 - Federal Family Education Loans

CFDA 84.063 - Federal Pell Grant Program

The University is not ensuring that all recipients of the *Federal Pell Grant Program*, *Federal Family Education Loans* program and other federal financial assistance programs are maintaining satisfactory academic progress.

Initial Year Written:	1993
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on at a later date. The University contracted with KPMG, LLP to reengineer the Financial Aid Delivery System, to provide current training to all personnel involved in the delivery of financial aid, to restructure the Office of Student Financial Aid, and to review procedures in use by other University offices which support the delivery of aid to the students.

Reference No. 96-042-5

Obtain Financial Aid Transcripts

(Prior Audit Issue - 4-046)

CFDA 84.032 - Federal Family Education Loans

The University is not obtaining financial aid transcripts for all transfer students who receive federal financial assistance.

Initial Year Written:	1993
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on at a later date. The University contracted with KPMG, LLP to reengineer the Financial Aid Delivery System, to provide current training to all personnel involved in the delivery of financial aid, to restructure the Office of Student Financial Aid, and to review procedures in use by other University offices which support the delivery of aid to the students.

Reference No. 98-337-9

Submit a Default Management Plan to the Secretary of the U.S. Department of Education for Approval

(Prior Audit Issue - 96-042-09, 4-046)

CFDA 84.032 - Federal Family Education Loans

The University has not received approval from the Secretary of the U.S. Department of Education for its current default management plan for the *Federal Family Education Loans* program.

Initial Year Written:	1993
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on next year. The University submitted a default management plan, which the Department of Education accepted.

Reference No. 99-555-54

Correct Material Weakness in Student Financial Aid Administration

(Prior Audit Issue - 98-337-01, 96-042-01, 4-046)

- CFDA 84.007 – Supplemental Educational Opportunity Grants
- CFDA 84.032 - Federal Family Education Loans
- CFDA 84.033 - Federal Work-Study Program
- CFDA 84.063 - Federal Pell Grant Program

The material weakness continues to exist in the administration of Student Financial Aid (SFA) at the University.

Initial Year Written:	1993
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on at a later date. The University contracted with KPMG, LLP to reengineer the Financial Aid Delivery System, to provide current training to all personnel involved in the delivery of financial aid, to restructure the Office of Student Financial Aid, and to review procedures in use by other University offices which support the delivery of aid to the students.

Reference No. 99-555-69

Strengthen the Control Environment Over Payroll

CFDA Not Available - Agency Was Unable to Identify R&D CFDA's

A material weakness exists in payroll. The University's policies, procedures, and supporting documentation for processing payroll are not adequate and do not provide sufficient assurance that payroll expenditures are supported or accurate. Without payroll policies, procedures, and supporting documentation, there is no assurance that payroll charges to R&D federal programs are allowable. The University is unable to identify payroll expenditures charged to research and development (R&D) awards.

Initial Year Written:	1998
Status:	Other
Unable to Identify	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on next year. Management is in the process of reviewing policies and procedures as it relates to the proper administration of its payroll function. Management has implemented monitoring procedures to ensure that actual expenditures will not exceed the federally approved limits and has developed a checklist to identify all required documents to be maintained in each sponsored program folder.

Reference No. 99-555-96

Do Not Charge Supplemental Salary to Federal Programs

CFDA Not Available - Agency Was Unable to Identify R&D CFDA's

The University policy on supplemental salaries is not in compliance with federal cost requirements, which has resulted in questioned costs of \$136,617.

Initial Year Written:	1998
Status:	Other
Unable to Identify	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on next year. Management has implemented a new supplemental salary policy as of July 8, 1999, which prohibits the payments of supplemental salaries with federal awards.

Reference No. 99-555-34

Calculate Salary in Compliance With Federal Guidelines

CFDA Not Available - Agency Was Unable to Identify R&D CFDA's

The University did not ensure that all salaries were appropriately calculated.

Initial Year Written:	1998
Status:	Other
Unable to Identify	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on next year. Management implemented a new supplemental pay policy on July 8, 1999.

Reference No. 99-555-87

Maintain Optional Authorization Documentation

(Prior Audit Issue - 98-337-08, 96-042-13, 4-046)

CFDA 84.032 - Federal Family Education Loans
CFDA 84.063 - Federal Pell Grant Program

The University is not providing all recipients of the *Federal Pell Grant Program* or *Federal Family Education Loans* program the option to authorize or disapprove the use of their loan proceeds to cover non-tuition or fee obligations.

Initial Year Written:	1993
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on at a later date. The University contracted with KPMG, LLP to reengineer the Financial Aid Delivery System, to provide current training to all personnel involved in the delivery of financial aid, to restructure the Office of Student Financial Aid, and to review procedures in use by other University offices which support the delivery of aid to the students.

Reference No. 99-555-86

Maintain Copies of the Student Status Confirmation Reports

(Prior Audit Issue - 98-337-06, 96-042-11, 4-046)

CFDA 84.032 - Federal Family Education Loans

The University is not maintaining copies of the Student Status Confirmation Report (SSCR) for three years as required for the *Federal Family Education Loans* program.

Initial Year Written:	1993
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on the finding this year. It will be followed up on next year. The reports submitted to the National Student Loan Clearinghouse are on the mainframe computer and are accessible via a request to the Office of Information Technology.

Reference No. 99-555-85

Strengthen Controls Over Receipt of Law Access Loans Proceeds

(Prior Audit Issue - 98-337-02, 96-042-02, 4-046)

CFDA 84.032 - Federal Family Education Loans

The University should strengthen controls over the receipt of Law Access loan proceeds for the *Federal Family Education Loans* program.

Initial Year Written:	1993
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on next year. The Law School was notified that they will no longer receive the checks. The checks will be delivered to the Bursar’s Office to be accounted for, before they are sent to the Law School for eventual distribution.

Reference No. 99-555-88

Maintain Complete and Accurate Student Files

(Prior Audit Issue - 98-337-05, 96-042-07, 4-046)

CFDA 84.032 - Federal Family Education Loans

The University is not adequately maintaining complete and accurate student files for the *Federal Family Education Loans* program.

Initial Year Written:	1993
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on at a later date. The University contracted with KPMG, LLP to reengineer the Financial Aid Delivery System, to provide current training to all personnel involved in the delivery of financial aid, to restructure the Office of Student Financial Aid, and to review procedures in use by other University offices which support the delivery of aid to the students.

The University of Texas – Brownsville

Reference No. 98-343-3

Maintain Complete and Accurate Student Files

CFDA 84.032 - Federal Family Education Loans
CFDA 84.063 - Federal Pell Grant Program

The University is not adequately maintaining complete and accurate student files.

Initial Year Written:	1997
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 98-343-2

Obtain Financial Aid Transcripts

CFDA 84.032 - Federal Family Education Loans
CFDA 84.063 - Federal Pell Grant Program

The University is not obtaining financial aid transcripts for all transfer students who receive federal financial assistance.

Initial Year Written:	1997
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 98-343-4

Maintain Enrollment Status Information

CFDA 84.032 - Federal Family Education Loans

The University is not maintaining documentation regarding enrollment changes for the required five years for the *Federal Family Education Loans* program.

Initial Year Written:	1997
Status:	Other
U. S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow-up on this finding. It will be followed-up on next year. The Enrollment Office will produce and provide the Financial Aid Office a report that lists those students with drops and withdrawals. The Financial Aid Office will monitor those students that drop below the required status.

The University of Texas at San Antonio

Reference No. 99-555-5

Establish a Policy for Review of Computer Access Reports

**CFDA 84.063 - Federal Pell Grant Program
CFDA 84.032 - Federal Family Education Loans**

The University of Texas at San Antonio (University) does not have a written policy prescribing the frequency of reviewing computer access reports.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-9

Maintain Enrollment Changes Documentation

CFDA 84.032 - Federal Family Education Loans

The University of Texas at San Antonio (University) is not maintaining copies of the Student Status Confirmation Report (SSCR) for three years as required for the *Federal Family Education Loans* program. As a result, no testing could be conducted on enrollment changes to determine if the changes had been reported correctly and within the required timeframe.

Initial Year Written:	1998
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on at a later date. The Student Financial Aid Office (Office) has maintained an electronic backup copy of all SSCR reports submitted to the National Student Loan Data System. As part of an overall performance improvement project in the Office, the SSCR procedures will be reviewed in detail for additional improvements that are required.

Reference No. 99-555-7

Report Pell Payment Data to U.S. Department of Education Within 30 Days

CFDA 84.063 - Federal Pell Grant Program

The University of Texas at San Antonio (University) is not maintaining necessary documentation to support the reporting of all Pell payment data to the U.S. Department of Education for the *Federal Pell Grant Program*.

Initial Year Written:	1998
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on at a later date. The Student Financial Aid Office (Office) is in the process of implementing the U.S. Department of Education Recipient Financial Management System requirements. During the Fall 1999 term, the Office is undertaking a performance improvement project and is including the implementation of the new system capabilities.

Reference No. 99-555-8

Properly Verify Accuracy of Student Applications

CFDA 84.032 - Federal Family Education Loans

The University of Texas at San Antonio (University) is not properly verifying application information for *Federal Family Education Loans* program applicants selected by the U.S. Department of Education.

Initial Year Written:	1998
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on at a later date. A quarterly audit/review of verification cases is handled by the Associate Director of Student Financial Aid. Staff members have been updated on procedures when errors are detected. As part of the performance improvement project, the Student Financial Aid Office has designed a new automated verification system.

Reference No. 99-555-6

Distribute Loan Proceeds at Prescribed Times

CFDA 84.032 - Federal Family Education Loans

The University of Texas at San Antonio (University) is not ensuring that loan proceeds are distributed to students at the prescribed time for the *Federal Family Education Loans* program.

Initial Year Written:	1998
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on at a later date. During the Fall term 1999, the Student Financial Aid Office is undertaking a performance improvement project, which includes a complete review of the disbursement procedures.

The University of Texas at Tyler

Reference No. 98-344-7

Report All Enrollment Changes to the Guarantor, the Lender, or the U.S. Department of Education

CFDA 84.032 - Federal Family Education Loans

The University is not reporting enrollment changes of students participating in the *Federal Family Education Loans* program to the guarantor, the lender, or the U.S. Department of Education as required.

Initial Year Written:	1997
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

The University of Texas Health Science Center at Houston

Reference No. 98-339-2

Report All Enrollment Changes to the Guarantor Or Lender

CFDA 84.032 - Federal Family Education Loans

The University is not reporting all enrollment changes of students participating in the *Federal Family Education Loans* program to the guarantor, the lender, or the U.S. Department of Education.

Initial Year Written:	1997
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

The University of Texas M.D. Anderson Cancer Center

Reference No. 99-555-71

Strengthen Controls Over Subrecipient Single Audit Desk Reviews

CFDA 12.420 - Military Medical Research and Development
 CFDA 12.910 - Research and Technology Development
 CFDA 93.113 - Biological Response to Environmental Health Hazards
 CFDA 93.279 - Drug Abuse Research Programs
 CFDA 93.306 - Comparative Medicine
 CFDA 93.393 - Cancer Cause and Prevention Research
 CFDA 93.395 - Cancer Treatment Research
 CFDA 93.396 - Cancer Biology Research
 CFDA 93.399 - Cancer Control
 CFDA 93.847 - Diabetes, Endocrinology and Metabolism Research
 CFDA 93.894 - Resource and Manpower Development in Environmental Health Sciences

The Cancer Center does not have adequate controls to reasonably ensure that subrecipients obtain required audits, that they resolve audit findings, or that they take corrective actions to address audit findings. The Cancer Center also does not evaluate the effect that subrecipient noncompliance has on its ability to comply with federal regulations.

Initial Year Written:	1998
Status:	Other
U.S. Department of Defense	
U.S. Department of Health and Human Services	

Corrective Action:

Due to the timing of the implementation date, we were unable to test this requirement for compliance. Follow-up will be conducted next year.

Reference No. 99-555-53

Draw Down Federal Funds for Research and Development Expenditures in a Timely Manner

CFDA 12.800 - Air Force Defense Research Sciences Program
 CFDA 43.002 - Technology Transfer

The Cancer Center does not always "draw down" reimbursements from the federal government in a timely manner for state funds it spends on smaller federal research and development awards.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Defense	
National Aeronautics and Space Administration	

Corrective Action:

Corrective action was taken

Reference No. 99-555-70

Strengthen Controls Over Suspension and Debarment Certificates for Vendors

CFDA 93.393 - Cancer Cause and Prevention Research

The Cancer Center does not verify that vendors who receive \$100,000 or more for approved transactions have been neither suspended nor debarred.

Initial Year Written:	1998
Status:	Other
U.S. Department of Health and Human Services	

Corrective Action:

Due to the timing of the implementation date, we were not able to test the compliance requirement. The finding will be followed-up on next year.

The University of Texas Health Science Center at San Antonio

Reference No. 99-555-84

Report Enrollment Changes in a Timely Manner

(Prior Audit Issue - 98-342-05)

CFDA 84.032 - Federal Family Education Loans

The University of Texas Health Science Center at San Antonio (University) is not reporting all enrollment changes for the *Federal Family Education Loans* program to the guarantor, lender, or U.S. Department of Education.

Initial Year Written:	1997
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on next year. The University changed the reporting process and is now reporting enrollment changes for those students who graduate, withdraw, drop classes, or are expelled on a monthly basis.

Reference No. 98-342-2

Properly Verify Accuracy of Student Applications

CFDA 84.032 - Federal Family Education Loans

The University is not properly verifying application information for *Federal Family Education Loans* program applicants selected by the U.S. Department of Education.

Initial Year Written:	1997
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 98-342-4

Maintain Complete and Accurate Student Files

CFDA 84.032 - Federal Family Education Loans CFDA 84.063 - Federal Pell Grant Program

The University is not adequately maintaining complete and accurate student files to support the disbursement of federal financial assistance.

Initial Year Written:	1997
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

University of Houston

Reference No. 99-555-60

Strengthen Controls To Ensure Efficient Use Of State And Grant Funds

- CFDA 12.800 - Air Force Defense Research Sciences Program
- CFDA 47.049 - Mathematical and Physical Sciences
- CFDA 81.049 - Basic Energy Sciences - University and Science Education
- CFDA 84.048 - Vocational Education - Basic Grants to States
- CFDA 93.867 - Vision Research
- CFDA 93.969 - Grants for Geriatric Education Centers
- Contract/Award - N/A

The University of Houston (University) used state instead of federal funds for federal research activities.

Corrective Action:

Corrective action was taken.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Defense	
National Science Foundation	
U.S. Department of Energy	
U.S. Department of Education	
U.S. Department of Health and Human Services	

Texas Workforce Commission

Reference No. 99-555-63

Continue Efforts to Strengthen Cost Allocation System Controls

(Prior Audit Issue - 98-319-01)

- CFDA 17.207 - Employment Service
- CFDA 17.225 - Unemployment Insurance
- CFDA 17.246 - Employment and Training Assistance - Dislocated Workers
- CFDA 17.250 - Job Training Partnership Act
- CFDA 93.558 - Temporary Assistance for Needy Families
- CFDA 93.575 - Child Care and Development Block Grant
- CFDA 93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund

Control weaknesses exist in The Texas Workforce Commission's cost allocation system.

Corrective Action:

Corrective action was taken.

Initial Year Written:	1997
Status:	Implemented
U.S. Department of Labor	
U.S. Department of Health and Human Services	

Reference No. 99-555-61

Calculate Interest Time Period Correctly

- CFDA 93.558 - Temporary Assistance for Needy Families

The Texas Workforce Commission did not perform Period 1 calculations for TANF as required by the fiscal year 1998 Treasury-State Cash Management Improvement Act (CMIA).

This finding was reissued as current year reference number: 00-555-35.

Corrective Action:

Procedures have been revised to help ensure warrants are issued on the same day that federal funds are deposited. It should be noted that on September 1, 1999, TWC implemented ISAS. We now use FTP for transmitting all vouchers on-line daily. In addition, funds are requested based upon actual expenses that are generated daily from our Grant Draw Down Report.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Health and Human Services	

Reference No. 99-555-62

Report Correct Amount of Federal Dollars Received**CFDA 93.558 - Temporary Assistance for Needy Families**

The Texas Workforce Commission underreported the amount of federal dollars it received for the TANF program by \$58 million.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-59

Strengthen Contract Administration**CFDA 93.558 - Temporary Assistance for Needy Families**

The Commission needs to continue to improve its contract administration.

This finding was reissued as current year reference number: 00-555-04.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Health and Human Services	

Corrective Action:

The Agency is Taking Measures to Improve the Contract Administration Process.

Contract Monitoring:

- Reports: *Management has taken numerous steps to ensure future monitoring reports are released on a timely basis. Detailed analysis of the report process began September 1, 1999. New reporting performance standards will be established based on the results of this analysis.*
- Risk Assessment: *Contract Monitoring has also revised the risk assessment system to better provide effective monitoring coverage within available resources. We are improving our assessment processes and will evaluate the SAO's recommendations along with enhancements already being pursued by Contract Monitoring staff to refine and improve the risk assessment model.*

Technical Assistance:

The Workforce Development Division reorganized in December 1998, resulting in more clearly defined distinctions between duties and responsibilities with regard to technical assistance. The Technical Assistance department has initiated a survey of the Local Workforce Development Boards to identify their needs. The Commission has also provided extensive fiscal technical assistance to the Boards. We have developed and distributed a comprehensive financial manual and guide, "Financial Manual for Grants and Contracts" and have provided several two-day forums for Board personnel which consisted of detailed training on each section of the manual.

Contract Services Department:

A Contract Services Director was hired on to lead this new department. He has assembled a staff of Contract Specialists, and has begun development of a centralized contract tracking system. This Department also serves as the central repository of all agency contracts and ensures that all contracts are maintained in on a current basis. Contract Services is also responsible for reviewing all existing contracts, procedures and practices, and subsequently developing more effective contract procedures and standards.

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Appendix 1:

Related Reports

This section identifies the agencies and universities that had reports issued from September 1998 to present that relate to the audit work performed during the 1999 Statewide Financial and Compliance Audit. It also identifies auditors' reports that contain follow-up information on significant federal issues. Some of these reports go beyond the scope of the *OMB Circular A-133* Single Audit.

Related Reports Issued by the State Auditor's Office (SAO)

Attorney General's Office (Office)

An Audit Report on Selected Initiatives of the Child Support Division of the Office of the Attorney General
(SAO Report No. 00-009, February 2000)

The Office's State Disbursement Unit (SDU) will process child support collections when implemented (CFDA 93.563, *Child Support Enforcement*). Although the Office has developed a feasible design for the SDU as required by Welfare Reform, two critical components of the design are not yet complete. Without modifications to both the Office's and the Comptroller of Public Accounts' information systems, the Office will not be able to process child support payments within two business days as federally mandated. The Office missed the October 1, 1999, federal deadline for implementing the SDU. The objectives of this audit included determining (1) if the State Disbursement Unit (SDU) is designed to disburse payments within two days as required by Welfare Reform and (2) if the call center initiative will significantly increase the percentage of calls answered.

Texas Education Agency (Agency)

An Audit of the Financial Statements of the Permanent School Fund for the Fiscal Year Ended August 31, 1999
(SAO Report No. 00-017, March 2000)

The Permanent School Fund's (Fund) fiscal year 1999 financial statements are materially correct in accordance with generally accepted accounting principles. We also reported that the Fund had no instances of noncompliance with certain provisions of laws and regulations and no weaknesses in internal controls that would significantly affect the Fund's financial statements.

The scope of this audit included examining, on a test basis, evidence supporting the amounts and disclosures in the Fund's financial statements. Our audit did not cover the financial statements of the Texas Education Agency.

Fire Fighters' Pension Commissioner (Commission)

An Audit of the Office of the Fire Fighters' Pension Commissioner-Fiscal Year 1999 Financial Statements
(SAO Report No. 00-020, April 2000)

The August 31, 1999, financial statements for the Commission fairly and accurately represent the financial position and results of operations of the Commission. Since last year's audit, the Commission has begun implementing our previous recommendation for better segregation of duties.

The scope of the audit included testing controls and material accounts as deemed necessary to support the opinion. In addition, we tested compliance with laws and regulations primarily related to investments that may have a material impact on the financial statements.

Department of Health (Department)

A Review of Management Controls at the Department of Health's Immunization Program
(SAO Report No. 00-007, December 1999)

Incomplete immunization data, gaps in provider monitoring, and inconsistent reporting make it difficult to determine if the Department's Immunization Program (CFDA 93.268, *Immunization Grants*) has efficiently and appropriately used resources provided by the State and the federal government.

The primary objective of the audit was to evaluate management processes and control systems within the Department's Immunization Program. The scope of the project included the management of information, performance, and resources.

Lamar University – Beaumont (University)

A Report on the Follow-Up Audit at Lamar University - Beaumont
(SAO Report No. 99-040, June 1999)

The University was able to award more federal financial aid by significantly improving the timeliness and accuracy of processing. Between the Fall 1997 and Fall 1998 semesters, the University increased the amount of Stafford loans awarded by 14 percent. Furthermore, the University reduced the need for short-term loans by 23 percent.

The objective of the review was to determine if the University implemented corrective actions that resulted in improved service to students and accountability for its resources. The scope included a review and analysis of the Student Financial Aid Department.

Department of Mental Health and Mental Retardation (Department)

An Audit Report on Medicaid Services at the Department of Mental Health and Mental Retardation
(SAO Report No. 00-004, December 1999)

The Department does not routinely analyze the cost of providing Medicaid services through Intermediate Care Facilities for Mentally Retarded Persons (ICF/MR) and Home and Community Service (HCS) programs. Many controls are in place to administer provider contracts and to regulate providers. However, the Department can improve Central Office Medicaid operations and administration, particularly its business processes, policies and procedures, and information systems.

The objective of the audit was to evaluate the Department's management controls over ICF/MR and HCS programs. The scope of the audit included the duties and responsibilities of the Department's divisions of Medicaid Administration, Community Services, and Long-Term Services and Support.

Teacher Retirement System (System)

An Audit of the Financial Statements of the Teacher Retirement System of Texas for the Fiscal Year Ended August 31, 1999
(SAO Report No. 00-006, December 1999)

For the second consecutive year, we reported no significant audit recommendations for the System in the area of financial reporting. We noted excellent communication and coordination between the eight System departments responsible for producing the annual financial report. System management has received the Governmental Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting for the past nine years.

The System's pension plan remains fully funded for the second consecutive year and current assets together with future contributions required by law will be sufficient to pay benefits to retirees and to current active members when they retire. Net assets of the pension trust fund increased by \$13.4 billion, from \$66.5 billion to \$79.9 billion. The scope of the audit included expressing an opinion on the Teacher Retirement System's financial statements.

Texas Southern University (University)

February 2000 Follow-Up Report on Rider 5: Texas Southern University Accountability Systems
(SAO Report No. 00-021, March 2000)

Although the issues reported go beyond the scope of the federal compliance requirements for the statewide audit, the audit relates to the *Federal Family Education Loans* program (CFDA 84.032) and the *Federal Pell Grant Program* (CFDA 84.063). Since its change in leadership one year ago, the University has significantly improved operations and enhanced service to students and staff. The University has achieved 17 of the 19 performance measures set in conjunction with the State Auditor's Office in 1997. It has made progress on the two remaining measures, one of which concerns updating the policies and procedures for Student Financial Aid. A completed manual was provided to the auditors after audit fieldwork, and therefore was not reviewed in detail. The U.S. Department of Education recently requested a copy of the new manual for review.

Texas Workforce Commission (Commission)

An Audit Report on Welfare Reform Implementation at the Texas Workforce Commission
(SAO Report No. 99-051, August 1999)

The Commission has neglected the fiscal and administrative integrity of certain workforce programs it oversees. While the scope of this audit focused on the *Temporary Assistance for Needy Families* program (CFDA 93.558), the problems identified have implications for other programs overseen by the Commission and administered by the local workforce development boards. The Commission does not entirely agree with the results of our work.

Related Reports Issued by Other Entities

Texas Education Agency (Agency)

Follow-Up Audit on Accountability and Accreditation Final Report (Audit Report 97-05F, September 1998)

The follow-up audit resulted in several recommendations to improve subrecipient monitoring operations within the Accountability and Accreditation Department. Key findings included (1) monitoring on a cyclical basis is not efficient, (2) the Accountability Evaluation Division needs to define procedures for following up on corrective action plans, and (3) 58 bilingual program monitoring visits scheduled for 1999 need to be completed for the Agency to be in compliance.

The objectives were to validate the adequacy, completeness, and effectiveness of corrective actions taken by management in response to recommendations in the Internal Audit Final Report on Property Management, Audit Report 97-05. The report relates to the following programs: CFDA 84.010, Title I Grant to Local Educational Agencies; CFDA 84.011, Migrant Education Basic State Grant Program; CFDA 84.027, Special Education Grants to States; and CFDA 84.186, Safe and Drug-Free Schools and Communities State Grants.

Contracts and Grants Administration Follow-Up Audit (Audit Report 97-08F, December 1998)

Contracts and Grants Administration made significant progress in implementing the recommendations from the previous audit report. Sufficient corrective action was completed or in progress for four of the five recommendations in the report.

The scope of the internal audit included reviewing corrective actions taken on recommendations since the audit report was issued (97-08) for the Grants and Contract Administration Division. The audit related to CFDA 84.318, Technology Literacy Challenge Fund Grants.

Department of Housing and Community Affairs (Department)

HOME Investment Partnership Program Administrative Costs
(Report No. 00-FW-255-1002, January 2000)

In addition to the coverage provided by the statewide compliance audit, the U.S. Department of Housing and Urban Development's Office of Inspector General performed work specifically related to CFDA 14.239, *HOME Investment Partnership Program* (HOME Program). The audit generally covered February 1996 through February 1999. The audit found that the Department could not support \$1.26 million of its administrative costs and \$408,000 of its subrecipients' administrative costs, all of which were charged to the HOME Program.

The Department does not agree that the administrative charges are unsupported and is working with the U.S. Department of Housing and Urban Development to resolve the findings.

Department of Human Services (Department)

The State Auditor's Office relied on the work of the Department's Internal Audit Division. All reports relate to the Food Stamp Cluster programs (CFDA 10.551, *Food Stamps* and CFDA 10.561, *State Administrative Matching Grants for Food Stamps Programs*).

Compliance Audits of EBT Issuance Offices (Report No. 99-04, Quarterly audit dated October 1998)

The scope of the audit was to test 21 regions for internal controls related to issuance of Food Stamp benefits. Only minor deficiencies were noted.

Compliance Audits of EBT Issuance Offices (Report No. 99-048, Quarterly audit dated February 1999)

The scope of the audit was to test 28 regions for internal controls related to issuance of Food Stamp benefits. Only minor deficiencies were noted.

Compliance Audits of EBT Issuance Offices (Report No. 99-069, Quarterly audit dated May 1999)

The scope of the audit was to test 46 regions for internal controls related to issuance of Food Stamp benefits. Only minor deficiencies were noted.

Report on FY98 EBT Regional General Controls (Report No. 99-024, January 1999)

Three significant issues were noted. We reviewed the subsequent follow-ups performed by the Department's Internal Audit to determine that these significant issues were appropriately resolved (Follow-Up Report Nos. 1199-015-EB-05, 5299-016-EB-05, and 3098-007-EB-05).

The scope of the audit was to test controls over security at the regional level related to Food Stamp issuance documents and physical security over food stamps and EBT cards.

Report on the Food Coupon Inventory Audit (Report No. 5199-050-CI-05, May 1999)

The scope of the audit was to conduct physical inventory of bulk storage points for food coupons. No exceptions were noted.

Report on the FY98 EBT Reconciliation (Report No. 99-001, January 1999)

The scope of the audit was to ensure a vendor performed the appropriate reconciliation of funds entering, exiting, and remaining in the system. Reconciliation was tested and the audit found that the vendor was in compliance with reconciliation responsibilities.

Follow-Up Review on the EBT Control Environment (Report No. 99-019, February 1999)

The scope of audit was to follow up on issues noted during an *Audit of the Electronic Benefits Transfer System* (SAO Report No. 97-020, November 1996) and ensure appropriate controls continue to be in effect. This follow-up audit determined that all weaknesses were satisfactorily resolved and that appropriate controls exist over EBT.

Audit Report on the ARTS Application Controls (Report No. 99-005, November 1998)

The scope of the audit was to determine that the Accounts Receivable Tracking System (ARTS) was processing claims and collections accurately, completely, and in a timely manner. Minor deficiencies were noted. A follow-up audit was performed by Internal Audit with three of four issues resolved and progress made on completion of the fourth issue.

Lamar University - Beaumont (University)

Report to Management on Student Financial Aid Audit (March 1999)

Management made significant improvements in administering federal programs such as the *Federal Pell Grant Program* (CFDA 84.063) and the *Federal Perkins Loan Program* (CFDA 84.038). Procedures have been established and various reports have been created to help management provide better services to students and operate more efficiently. The audit recommended establishing procedures to review and monitor federal accounts, such as Perkins Loan Funds; complying with Section 674.16 of the Code of Federal Regulations for the Perkins Loan Funds; and reconciling amounts reported in the Fiscal Operations Report and Applications for Funds (FISAP). Management agreed to implement the audit recommendations.

The objective of the audit was to measure various performance measures associated with student financial aid. Drawdowns of federal funds were reviewed to ensure that applicable departments coordinate their efforts to minimize the use of University funds to support federal activities. Also, compliance with federal, state, and University rules and regulations for the federal programs was noted. Internal Audit also followed up on the recommendations in *An Audit Report on Management Controls at Lamar University – Beaumont* (SAO Report No. 98-029, February 1998).

The University of Texas at Brownsville (University)

1998 Follow-Up Audit of Financial Aid (September 1999)

Internal Audit conducted an audit to determine the level of implementation of recommendations made in the *1997 Audit of Financial Aid* report issued by Internal Audit and *An Audit Report on the 1997 Statewide Financial and Compliance Audit*

Results (SAO Report No. 98-041, June 1998) issued by the State Auditor. The audit included recommendations to strengthen the process in identifying students that fall below half-time status and to update the policies and procedures manuals regarding student financial aid programs. Internal Audit did not consider any of the findings included in the report as significant. All of the findings were either implemented according to Internal Audit, classified as other due to the implementation date, or disposed of by the State Auditor's Office.

The University of Texas Health Science Center at San Antonio (University)

Student Financial Aid Follow-Up (Report No. 00-06, November 1999)

Internal Audit conducted an audit to follow up on two findings cited in *A Report on the 1998 Financial and Compliance Audit Results* (SAO Report No. 99-555, June 1999). Management has implemented corrective action on both findings tested. The scope of the audit covered September 1, 1998, through August 31, 1999, with the inclusion of other periods deemed necessary to accomplish the audit objectives. The audit objectives were to determine if application information was properly verified and disbursements of federal financial assistance were properly supported.

The University of Texas of the Permian Basin (University)

Student Financial Aid Audit (December 1999)

The University of Texas System Audit Office performed an audit of The University of Texas of the Permian Basin's Student Financial Aid Office. The audit scope covered the 1998-1999 academic year and the audit procedures related to the financial and operational records of the Student Financial Aid Office. The overall objective was to determine whether the Student Financial Aid Office complied with certain aspects of the *OMB Circular A-133*. The compliance audit focused on the *Federal Pell Grant Program* (CFDA 84.063) and *Federal Family Education Loans* program (CFDA 84.032). The audit included recommendations to further enhance the existing internal control structure surrounding delaying disbursement to first-time, first-year borrowers; the reporting process for enrollment changes; and performing eligibility determinations. Management has agreed to implement the audit recommendations.

The University of Texas at Tyler (University)

Fiscal Operations Report and Application to Participate (December 1999)

Internal Audit performed certain audit procedures with respect to the Fiscal Operations Report and Application to Participate (FISAP) for the award period July 1, 1998, through June 30, 1999. In addition, Internal Audit performed follow-up procedures to update the status of the only remaining audit finding from *An Audit Report on the 1997 Financial and Compliance Audit Results*, "Report All Enrollment Changes to the Guarantor, the Lender, or the U.S. Department of Education" (SAO Report No. 98-041, June 1998). After test work, it was determined that all submissions to the National Loan Clearing House were made on a timely basis and in accordance with the submission schedule.

Texas Workforce Commission (Commission)

An Audit of Management Controls in the Contract Monitoring Department of the Administrative Support Division (Project No. 99-014-20, November 1999)

The audit concluded that while they exist, management controls governing policy and procedure, risk assessment, plan development, and human resources are inadequate. Management has developed goals, objectives, and an action plan to address these issues; however, management must continuously monitor the status of planned actions to ensure that they are implemented in a timely manner and address existing deficiencies. This audit, conducted by the Commission's Internal Audit Department, reviewed the policy, information, performance, and resource management controls of the Contract Monitoring Department.

Appendix 2:

Schedule of Federal Programs Examined for the Year Ended August 31, 1999

The State Auditor's Office examined federal programs at the agencies and universities listed in the schedule below. The schedule is organized by CFDA number.

OMB Circular A-133 Section 520 (f) requires "the auditor to audit, as major programs, Federal programs with Federal awards expended that, in the aggregate, encompass at least 50 percent of total Federal awards expended." A risk-based approach is used to determine which federal awards should be audited as major programs. For fiscal year 1999, 73.08% of the state's federal expenditures were audited. In addition, we performed follow-up work on all prior audit findings.

Schedule of Federal Programs Examined for the Year Ended August 31, 1999				
CFDA	Program Title	State Agency or University Audited	Total Program Expenditures (In Millions)	Program's Percentage of Total Federal Expenditures
10.550	Food Distribution	Human Services, Department of	62.80	0.34
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Health, Department of	329.06	1.76
10.570	Nutrition Program for the Elderly (Commodities)	Aging, Department on	8.35	0.04
14.239	HOME Investment Partnerships Program	Housing and Community Affairs, Department of	31.79	0.17
16.606	State Criminal Alien Assistance Program	Criminal Justice, Department of	39.04	0.21
84.010	Title I Grants-Local Educational Agency	Education Agency, Texas	678.29	3.62
84.011	Migrant Education-Basic State for	Education Agency, Texas	46.27	0.25
84.186	Safe and Drug-Free Schools - State Grants	Education Agency, Texas	35.97	0.19
84.196	Education for Homeless Children and Youth	Education Agency, Texas	0.114	0.00
84.318	Technology Literacy Challenge Grant	Education Agency, Texas	25.72	0.14
93.116	Project Grants and Cooperative Agreement for Tuberculosis Control Program	Health, Department of	6.30	0.03
93.217	Family Planning-Services	Health, Department of	11.25	0.06
93.268	Childhood Immunization Grants	Health, Department of	53.86	0.29
93.558	Temporary Assistance for Needy Families	Human Services, Department of	221.68	1.18
		Workforce Commission, Texas		
93.563	Child Support Enforcement	Attorney General, Office of the	135.39	0.72
93.568	Low-Income Home Energy Assistance	Housing and Community Affairs, Department of	53.97	0.29
93.658	Foster Care - Title IV-E	Protective and Regulatory Services, Department of	78.87	0.42
93.917	HIV Care Formula Grants	Health, Department of	37.32	0.20
93.919	Cooperative Agreements for State-based Comprehensive Breast and Cervical Cancer Early Detection	Health, Department of	6.36	0.03
93.940	HIV Prevention Activities-Health Department	Health, Department of	11.44	0.06
93.958	Block Grant for Community Mental Health Services	Mental Health and Mental Retardation, Department of	16.78	0.09
		Alcohol and Drug Abuse, Commission on		
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Alcohol and Drug Abuse, Commission on	133.50	0.71
93.991	Preventive Health and Health Services Block Grant	Health, Department of	7.44	0.04
93.994	Maternal and Child Health Services Block Grant	Health, Department of	42.46	0.23
N/A	Food Stamp Cluster ¹	Human Services, Department of	1,330.60	7.11
N/A	Child Nutrition Cluster ¹	Education Agency, Texas	684.43	3.66

Schedule of Federal Programs Examined for the Year Ended August 31, 1999				
CFDA	Program Title	State Agency or University Audited	Total Program Expenditures (In Millions)	Program's Percentage of Total Federal Expenditures
N/A	Special Education Cluster ¹	Education Agency, Texas	275.36	1.47
N/A	Child Care Cluster ¹	Workforce Commission, Texas	253.97	1.36
N/A	Job Training Partnership Act Cluster ¹	Workforce Commission, Texas	237.94	1.27
N/A	Aging Cluster ¹	Aging, Department on	42.92	0.23
N/A	Medicaid Cluster ¹	Health, Department of	6,756.00	36.09
		Human Services, Department of		
		Mental Health and Mental Retardation, Texas Department of		
		Health and Human Services, Commission on		
N/A	Research and Development Cluster ¹	The University of Texas Medical Branch at Galveston	824.90 ²	4.41
		The University of Texas at El Paso		
N/A	Student Financial Aid Cluster ¹	The University of Texas at El Paso	1,198.47 ²	6.40
		Lamar University		
		The University of Texas Permian Basin		
		The University of Houston-Clear Lake		
Total Federal Programs Examined			13,679.27	73.08

¹ Clusters of programs are groupings of closely-related programs that share common compliance requirements. The *Office of Management and Budget Circular A-133 Compliance Supplement* identifies the federal programs grouped into clusters.

² This amount is the total for the entire cluster, not just for the entities listed.

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