



**John Keel, CPA**  
**State Auditor**

State of Texas Financial Portion of the  
**Statewide Single Audit Report**  
**for the Year Ended**  
**August 31, 2013**

February 2014  
Report No. 14-555



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State of Texas Financial Portion of the  
**Statewide Single Audit Report for the  
Year Ended August 31, 2013**

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SAO Report No. 14-555  
February 2014

## Overall Conclusion

In our audit opinion dated February 21, 2014, we concluded that the basic financial statements for the State of Texas presented fairly, in all material respects, the financial position and activities of the State for the fiscal year ended August 31, 2013. The Office of the Comptroller of Public Accounts published our audit opinion as part of the Comprehensive Annual Financial Report for fiscal year 2013, which it has posted on its Web site at <http://www.window.state.tx.us/finances/pubs/cafr/>.

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

The fiscal year 2013 financial statements convey the use of approximately \$121.4 billion during the fiscal year, an increase of \$878.3 million or 0.7 percent since the prior fiscal year.<sup>1</sup> The State's assets on August 31, 2013, totaled \$238.5 billion, an increase of \$7.1 billion or 3.1 percent since the prior fiscal year. The State's non-current investments increased by \$2.7 billion since the prior fiscal year, and net capital assets increased by \$5.0 billion since the prior fiscal year.

On August 31, 2013, the Economic Stabilization Fund (Fund) balance was \$6.2 billion. The Fund is reported in the General Fund on the governmental fund financial statements and in Governmental Activities on the government-wide financial statements.

### Basic Financial Statements

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

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

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<sup>1</sup> The \$121.4 billion in annual expenditures exceeded the \$92.7 billion appropriated for fiscal year 2013 primarily because:

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

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

The State Auditor's Office also audited the State's Schedule of Expenditures of Federal Awards (SEFA) in relation to the Comprehensive Annual Financial Report for fiscal year 2013. The Office of the Comptroller of Public Accounts prepares the SEFA by using SEFA data from all state agencies and higher education institutions that made federal expenditures during the fiscal year. The State Auditor's Office and KPMG LLP (KPMG) audited the processes for preparing SEFA information at 16 agencies and 16 higher education institutions. That audit work included following up on SEFA findings identified in audits of prior fiscal years at three agencies and seven higher education institutions. Auditors identified errors related to the SEFA information at three agencies and eight higher education institutions. Those errors are discussed in Chapter 2-F of this report.

To avoid duplication of effort, the State Auditor's Office relies on KPMG's testing of the internal controls over certain systems and processes. While testing the State's compliance with federal requirements, KPMG identified a material weakness in the managed care program at the Health and Human Services Commission that was caused by inadequate segregation of duties and the use of a manual calculation process for payments to managed care organizations. The managed care program is material to the State's financial statements, and payments to managed care providers for fiscal year 2013 totaled approximately \$14 billion. The material weakness KPMG identified was related to both financial processes and federal compliance. For more information, see finding 2013-021 in *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2013*, by KPMG LLP.

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

## ***Summary of Management's Responses***

The agencies and higher education institutions generally agreed with the recommendations in this report, with the exception of the Department of Transportation as discussed in issue 1 in Chapter 2-A.

## ***Summary of Information Technology Review***

Auditors reviewed the significant accounting and information systems at the agencies and higher education institutions audited. Specifically, auditors identified systems that compiled and contained data used to prepare the Comprehensive Annual Financial Report and then reviewed basic data protection controls such as security, access, application development and control, and data recovery.

## ***Summary of Objective, Scope, and Methodology***

The audit objective was to determine whether the State's basic financial statements present fairly, in all material respects, the balances and activities for the State of Texas for the fiscal year ended August 31, 2013.

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

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

The scope of the federal compliance portion of the Statewide Single Audit included an audit of the State's SEFA, a review of compliance for each major program, and a review of significant controls over federal compliance. The State Auditor's Office contracted with KPMG LLP to provide an opinion on compliance for each major program and internal control over compliance. The State Auditor's Office provided an opinion on the State's SEFA. Information on the federal compliance portion of the Statewide Single Audit is included in a separate report entitled *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2013*, by KPMG LLP.

The audit methodology consisted of collecting information, identifying risk, conducting data analyses, performing selected audit tests and other procedures, and analyzing and evaluating results against established criteria. Auditors assessed the reliability of data by (1) performing electronic tests of required data elements, (2) reviewing existing information about data and the systems that produced the

data, and (3) interviewing agency and higher education institution officials knowledgeable about data. Auditors determined that the data was sufficiently reliable for the purposes of this audit.

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# Independent Auditor's Report

*State of Texas Financial Portion of the  
Statewide Single Audit Report for the  
Year Ended August 31, 2013*

## Summary of Auditor's Results

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### Financial Statements

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

### Federal Awards

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2013 was included in Chapter 2-F of this report. All other fiscal year 2013 federal award information was issued in a separate report (see *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2013*, by KPMG LLP).



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of and for the year ended August 31, 2013, and the related notes to the consolidated financial statements, which collectively comprise the State of Texas's basic financial statements, and have issued our report thereon dated February 21, 2014. Our report includes a reference to other auditors who audited the financial statements of the University of Texas System and the Texas Lottery Commission, as described in our report on the State of Texas's consolidated financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all the deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency, described in the accompanying schedule of findings and responses, to be a material weakness.

Summary of Finding	
Agency or Higher Education Institution	Finding Number
Department of Transportation	14-555-01

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies, described in the accompanying schedule of findings and responses, to be significant deficiencies.

Summary of Findings	
Agency or Higher Education Institution	Finding Numbers
Department of Transportation	14-555-02
Health and Human Services Commission and Department of Aging and Disability Services	14-555-03
Department of Motor Vehicles	14-555-04
Texas Education Agency	14-555-05
Parks and Wildlife Department	14-555-06
Multiple agencies and higher education institutions	14-555-07

## Compliance and Other Matters

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

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

### **Other Work Performed by the State Auditor's Office**

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

- *A Report on the Audit of the Employees Retirement System's Fiscal Year 2013 Financial Statements* (State Auditor's Office Report No. 14-009, November 2013).
- *A Report on the Audit of the Teacher Retirement System's Fiscal Year 2013 Financial Statements* (State Auditor's Office Report No. 14-010, November 2013).
- *A Report on the Audit of the Permanent School Fund's Fiscal Year 2013 Financial Statements* (State Auditor's Office Report No. 14-014, January 2014).
- *A Report on the Audit of the Office of the Fire Fighter's Pension Commissioner's Fiscal Year 2013 Financial Statements* (State Auditor's Office Report No. 14-015, December 2013).
- *A Report on the Audit of the Department of Housing and Community Affairs' Fiscal Year 2013 Financial Statements* (State Auditor's Office Report No. 14-016, December 2013).

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

### **State's Responses to Findings**

The State's responses to the findings identified in our audit are included in the accompanying schedule of findings and responses. The State's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

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

Sincerely,

John Keel, CPA  
State Auditor

February 21, 2014

# Schedule of Findings and Responses

*State of Texas Financial Portion of the  
Statewide Single Audit Report for the  
Year Ended August 31, 2013*

## Financial Statement Findings

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

Chapter 2-A

### The Department of Transportation Should Improve Certain Financial Reporting and Information Technology Controls

#### Issue 1

#### The Department of Transportation Should Improve Its Financial Reporting Controls for Bridges

Reference No. 14-555-01  
(Prior Audit Issues 2012-1, 11-555, and 10-555)

Type of finding: Material Weakness

The State Auditor's Office initially reported in March 2010 that the Department of Transportation (Department) does not have a process that

#### Material Weakness in Internal Control

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Source: Section 265, *Codification of Statements on Auditing Standards*, American Institute of Certified Public Accountants, January 2013.

enables it to ensure that it has an accurate, comprehensive inventory of bridges.<sup>2</sup> Audit testing for fiscal year 2013 indicated that the Department still has not resolved that issue. Not having such a process prevents the Department from ensuring that it accurately reports the dollar amount associated with bridges in its annual financial report.

Because it does not have a process to ensure that it has an accurate, comprehensive inventory of completed bridges, the Department has had to make adjustments or restatements in its annual financial reports that have totaled \$1.85 billion from fiscal year 2009 through fiscal year 2013.

#### Department Activities Related to Bridges in Fiscal Year 2013

For its 2013 annual financial report, the Department had to make \$88.9 million in adjustments because it did not have an accurate, comprehensive inventory of bridges. That amount was less than similar adjustments the Department has had to make in prior fiscal years; however, without an adequate process to ensure the accuracy of its inventory of bridges, the Department still cannot ensure that its annual financial report is accurate.

The Department requires all of its 25 district offices to annually certify the accuracy of their individual lists of bridges each fiscal year. In addition, for fiscal year 2013, the Department created a new report that included lists of bridge projects in each district. The Department made those reports available

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

to all district offices. However, the Department did not require the district offices to use those reports in their annual certifications or submit their reviews of those reports to the Department along with necessary corrections.

In fiscal year 2013, the Department also completed an informal reconciliation of the reports discussed above to its bridge database. However, that reconciliation did not ensure that the information in the bridge database was accurate because:

- The reconciliation included only bridges placed into service in fiscal years 2012 and 2013.
- The Department did not have documented policies and procedures for that reconciliation.
- The Department did not retain supporting documentation for that reconciliation.
- The Department did not review that reconciliation.

#### Bridge Database

The Department's bridge database includes bridges considered complete that have been identified by either (1) the Department's district and area offices or (2) the Department's Finance Division through its review of non-traditional and pass-through toll agreements or its year-end identification of bridges for the annual financial report.

Source: The Department of Transportation.

### Recommendations

The Department should:

- Develop, implement, and document a process that enables it to ensure that it has an accurate, comprehensive inventory of completed bridges.
- Maintain sufficient documentation to support all of the information it uses to determine the capital asset balances in its annual financial report.
- Develop and implement policies and procedures for its bridge reconciliation process.
- Conduct and document an adequate supervisory review of all of the procedures it uses to determine the capital asset balances in its annual financial report.

### Management's Response

*Over the past four years from fiscal 2010 to 2013 the Department has made significant efforts to improve the accuracy of our bridge reporting process. As noted in the auditor's report, the fiscal 2013 adjustments total was significantly less than what was reported in 2009-2012 and, in fact, was immaterial. In fiscal 2013, the Department's senior management took an*

*active role in emphasizing the importance of the bridge reporting process to our District offices. In addition, the Finance Division director made a presentation on this topic to a gathering of all Department district engineers in February 2013 and TxDOT Executive Administration repeatedly stressed the importance.*

*It is the policy of the Department that each district engineer takes responsibility for ensuring that an accurate and complete bridge inventory procedure is in place at their respective district. Those inventories are then aggregated for preparation of the annual financial report. Per discussion with the SAO, the conclusion that this was a material weakness was made without evaluating district level policies, procedures and practices.*

*As noted, the Department created a new reporting tool in fiscal 2013 for the districts to use in identifying completed bridges. The district offices were to develop procedures and lines of communications to ensure that ongoing bridge activity is effectively monitored and applicable bridge update forms submitted to Finance on a timely basis. The new report was intended to be used as an additional tool for districts in performing the bridge inventory reconciliation. The Department does not believe that a requirement for the district offices to submit their reviews of the reconciliation reports to Finance would necessarily add to the accuracy of the information provided.*

*The Department is in progress of conducting research into alternative reporting methods for infrastructure and plans to pursue a more efficient and consistent approach for fiscal 2014. In this process the Department will ensure that sufficient documentation is maintained, policies and procedures are documented and adequate supervisory reviews are conducted and documented over the entire process. The Department plans to address all recommendations through the revised policies and procedures by August 31, 2014. The Department also plans to provide regular updates to the State Auditor's Office and Comptroller's office on our progress in addressing these issues.*

*Responsible Party: Director of Finance*

*Implementation Date: August 31, 2014*

#### **Auditor Follow-up Comment**

While it is reasonable to make the district offices responsible for their information, the responsibility for ensuring that the Department reports an accurate amount for Depreciable Capital Assets remains with the Department. Therefore, the Department is responsible for developing and implementing procedures to validate the information the district offices submit before it reports that information on its annual financial report. The classification of the issue as a material weakness was based partially on the fact that auditors

identified this issue during the audits of fiscal years 2009, 2010, 2012, and 2013. The Department's controls continue to be insufficient.

## Issue 2

### The Department of Transportation Should Strengthen Its Management of Access to the Right of Way Information System

Reference No. 14-555-02  
(Prior Audit Issues 2012-2)

#### Type of finding: Significant Deficiency

One programmer at the Department had access to Right of Way Information System (ROWIS) production data and could authorize transactions within ROWIS, approve them, and submit them to the accounting system for payment. While that programmer did not approve any transactions within ROWIS or submit any transactions to the accounting system for payment during fiscal year 2013, that programmer should not have access to production data.

Title 1, Texas Administrative Code, Section 202.20(8), requires agencies to ensure adequate controls and separation of duties for tasks that are susceptible to fraudulent or other unauthorized activity. Allowing programmers access to production data increases the risk that unauthorized changes could be made without detection.

#### Recommendations

The Department should:

- Ensure that programmer access to ROWIS is appropriate and allows for proper segregation of duties.
- Regularly review user access for ROWIS and ensure that users' access levels are appropriate.

#### Management's Response

*In response to the Department's inappropriate access level in ROWIS: We concur with the audit recommendation of modifying programmer access to ROWIS in order that the same individual cannot both approve and submit transactions to the accounting system for payment. We have made the adjustment in ROWIS. Effective immediately, no longer can the same individual approve the transactions that they submitted to the accounting system for payment. ROWIS has also been modified to allow for proper segregation of duties. User access levels are reviewed to ensure appropriateness.*

*Responsible Party: ROW Business Analyst*

*Implementation Date: January 30, 2014*

Chapter 2-B

## **The Health and Human Services Commission and the Department of Aging and Disability Services Should Improve Controls Over Information Technology**

### **Issue 1**

**The Health and Human Services Commission and the Department of Aging and Disability Services Should Improve Their Management and Monitoring of Certain Information Technology**

Reference No. 14-555-03

#### **Type of finding: Significant Deficiency**

Auditors identified significant weaknesses in controls over the information technology that the Health and Human Services Commission (Commission) and the Department of Aging and Disability Services (Department) use to process payments for the Home and Community Based Services Program (Program). To protect the integrity of their information, the Commission and the Department should improve their management and monitoring of the information technology the Program uses. While the Department is the owner of the Program's data, the Commission is responsible for administering components of the information technology that the Program uses, including user access.

#### **User Access**

User access to the information technology the Program uses was not appropriate. Periodic review of user access is important in identifying possible unauthorized access. Not having a strong user access review process increases the risk of unauthorized or undetected access to, modification of, disclosure of, or destruction of data.

Auditors identified the following issues:

- A total of 167 user accounts were associated with individuals whose employment had been terminated. The majority of those terminations occurred in fiscal years 2013 and 2012; however, 57 of them occurred during fiscal years 2002 through 2011.
- A total of 68 user accounts allowed inappropriate access based on the job duties of the associated employees.

- A total of 24 user accounts were accounts that the Department was unable to associate with current employees or contractors.
- A total of 23 user accounts were accounts for which each user's associated agency was misidentified in the Commission's documentation.

Title 1, Texas Administrative Code, Section 202.25(3)(B), requires a user's access authorization to be modified or removed when the user's employment or job responsibilities within a state agency change. In addition, the Commission's policies and procedures require all accounts to be disabled immediately upon termination or completion of a contract period and require account access to be reviewed at least every 12 months for appropriateness.

#### Servers

Two servers that the Program uses are no longer supported by the vendor. One server had not received software security patches in more than three years, and the other server had not received software security patches in more than eight years. When server software is not patched, that increases the risk that data could be compromised.

#### Passwords

The password configurations for one database the Program uses to process payments do not meet the minimum requirements in the Commission's policies and procedures, the Texas Administrative Code, or industry best practices for length, complexity, and periodic changing. Passwords that are not sufficiently lengthy or complex or are not required to be changed periodically increase the risk of unauthorized access.

#### Change Management

The Department was unable to provide sufficient evidence for auditors to verify its assertion that only five employees could migrate code to the production environment for the application the Program uses. Auditors tested all nine application changes the Department made during fiscal year 2013 and determined there was an appropriate segregation of duties. However, when the names of the individuals who can migrate code to the production environment are not documented, there is a risk of unauthorized changes being made to applications without detection.

Auditors identified additional information technology issues. Due to the sensitivity of those issues, auditors communicated them to Commission and Department management separately in writing.

## Recommendations

The Commission and the Department should:

- Develop and implement a process for reviewing user access to information technology that the Program uses.
- Disable employees' and contractors' access promptly upon termination of employment or services.
- Ensure that user access privileges align with job duties, and promptly modify user access when job duties change.
- Ensure that servers the Program uses are supported by the vendor and that software security patches are up to date.
- Ensure that password controls for the database the Program uses comply with Commission policies and procedures and Texas Administrative Code requirements.
- Develop and maintain sufficient evidence of the individuals who can migrate code to the production environment for the application the Program uses.

## Management's Response from the Commission

### Bullets 1 - 3

*The Health and Human Services Commission (HHSC), following the Health and Human Services (HHS) Enterprise Security Provisioning Process and the HHS Enterprise Information Security Standards and Guidelines, will provide system and application user lists to the business owner (Department of Aging and Disability Services (DADS)) annually upon request, for review and appropriate action. HHSC will continue to promptly add, modify, or terminate access for users, as determined by user reviews or user job changes, upon notification from a DADS supervisor or business owner on a completed and authorized Access Request Form.*

### Bullets 4 and 5

*HHSC IT Infrastructure & Operations will coordinate with DADS application teams to determine the proper course of action for these systems. Options include (1) upgrading the unsupported hardware in place, ensuring security requirement compliance and (2) transforming the application, if possible, from existing, unsupported hardware, to supported environments within the consolidated data centers. In the interim, HHSC will work with the data center services provider to update process manuals, including Runbooks and*

*Technical Recovery Guides, to comply with HHSC's security requirements for applying security patches and database password controls.*

***Estimated Completion Date:***

*Interim solution target - March 31, 2014*

*Option 1 (if selected) - December 31, 2014*

*Option 2 (if selected) - December 31, 2014*

***Title of Responsible Persons:***

*Sourcing Management Services Director, IT Infrastructure & Operations*

*Director, IT Infrastructure & Operations*

**Management's Response from the Department**

*DADS will follow the HHS Enterprise Information Security Policy, HSS Circular C-021, the HHS Enterprise Information Security Standards and Guideline, EISSG v5.1, and the DADS IT Standard Operating Procedure No. 1517 Requesting Access to Local Area Network and/or Mainframe, to develop and implement a process for reviewing user access to information technology that the Program uses. Specifically, the DADS Information Resources Manager (IRM) will coordinate with DADS executives, supervisors and system owners, to:*

- *Develop and implement a process for reviewing user access to information technology that the Program uses.*
- *Disable employees' and contractors' access promptly upon termination of employment or services.*
- *Ensure that user access privileges align with job duties and promptly modify user access when job duties change.*

*Additionally, DADS will support HHSC IT and comply with its policies and procedures in efforts to:*

- *Ensure that servers the Program uses are supported by the vendor and that software security patches are up to date.*
- *Ensure that password controls for the database the Program uses comply with Commission policies and procedures and Texas Administrative Code requirements.*

- *Develop and maintain sufficient evidence of the individuals who can migrate code to the production environment for the application the Program uses.*

***Estimated Completion Date:***

*August 31, 2014*

***Title of Responsible Person:***

*Director of Information Technology, IRM*

Chapter 2-C

**The Department of Motor Vehicles Should Improve Access Controls to Certain Information Technology**

**Issue 1**

**The Department of Motor Vehicles Should Improve Its Management of Access to the Registration and Titling System**

Reference No. 14-555-04

**Type of finding: Significant Deficiency**

The Department of Motor Vehicles (Department) did not adequately manage and monitor user access to the Registration and Titling System and its related servers and database. Auditors identified 115 active user accounts that were associated with individuals who no longer needed access due to a change in job duties or employment.

Title 1, Texas Administrative Code, Section 202.25(3)(B), requires a user's access authorization to be modified or removed when the user's employment or job responsibilities within a state agency change. Periodic review of user access is important in identifying possible unauthorized access. Not having a strong user access review process increases the risk of unauthorized or undetected access to, modification of, disclosure of, or destruction of data.

**Recommendations**

The Department should:

- **Develop and implement a process for reviewing user access to the Registration and Titling System and its related servers and database.**

- Disable employees' and contractors' access to the Registration and Titling System and its related servers and database promptly upon termination of employment or services.
- Ensure that user access to the Registration and Titling System and its related servers and database aligns with job duties, and promptly modify user access to that system and its related servers and database when job duties change.

### Management's Response

*The Texas Department of Motor Vehicles (TxDMV) agrees with the recommendations contained in the report from the State Auditor's Office (SAO) conducted for the year ending August 31, 2013, regarding the management of access to the Registration and Titling System (RTS). During this audit, the TxDMV was already in the process of defining, documenting, and implementing a security policy concerning account access management.*

*This issue has since been addressed in the TxDMV Information Security Manual that was implemented at the end of October 2013.*

*The SAO found that the TxDMV lacked the necessary and essential controls regarding access to certain information technologies.*

*The TxDMV Information Security Manual addresses all of the recommended actions, including an annual review of user accounts in the RTS. The first review of these accounts is scheduled for July 2014.*

*As a point of reference, TxDMV still relies on the Texas Department of Transportation (TxDOT) to implement RTS security changes described above since we are still sharing some of the legacy mainframe infrastructure with TxDOT. Once the refactored RTS system is in production, TxDMV will have full control over all security related functions of RTS.*

*Person Responsible: Chief Information Officer*

*Projected Date for Implementation: July 2014*

## The Texas Education Agency Should Strengthen Access Controls to Certain Information Technology

### Issue 1

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

Reference No. 14-555-05  
(Prior Audit Issue 13-555-01)

#### Type of finding: Significant Deficiency

The Texas Education Agency (Agency) should strengthen access controls for its database servers. The Agency did not fully implement recommendations to improve access controls over its information technology systems as the State Auditor's Office recommended in the previous year. Specifically, the Agency did not monitor user access, did not deactivate user accounts when employment ended, and did not change passwords for database server accounts.

Title 1, Texas Administrative Code, Section 202.20(1), requires agencies to protect information resources against unauthorized access, disclosure, modification, or destruction, whether accidental or deliberate, as well as to assure the availability, integrity, utility, authenticity, and confidentiality of information. Periodic review of user access is important in identifying possible unauthorized access. Not having a strong user access review process increases the risk of unauthorized or undetected access to, modification of, disclosure of, or destruction of data.

#### Recommendations

The Agency should:

- Routinely monitor user access to its database servers to protect information resources.
- Immediately deactivate user accounts when the employment of personnel ends.
- Immediately change passwords for database server accounts that the Agency does not deactivate when personnel responsible for those accounts leave the Agency.

## Management's Response

### **Recommendation 1:**

*Management agrees with the recommendation. Upon reviewing the previous status update provided to the State Auditor's Office on 02/12/2013 further action is required to fully implement the recommendation. Due to ITS/SEDS organizational, and staffing changes, we are in the process of verifying that our policies and procedures regarding the routine monitoring of user access to database servers is in place accordingly. Currently we are exploring an interim and long term solution to address this finding. Full implementation is expected by 12/31/14.*

### **Recommendation 2:**

*Management agrees with the recommendation. Upon reviewing the previous status update provided to the State Auditor's Office on 02/12/2013 further action is required to fully implement the recommendation. Due to ITS/SEDS organizational, and staffing changes, we are in the process of verifying that our policies and procedures regarding immediately deactivating user accounts upon termination of employment are implemented. Currently we are exploring an interim and long term solution to address this finding. Full implementation is expected by 12/31/14.*

### **Recommendation 3:**

*Management agrees with the recommendation. Upon reviewing the previous status update provided to the State Auditor's Office on 02/12/2013 further action is required to fully implement the recommendation. Database Administrators developed and followed a process to immediately change passwords for database server accounts that the Agency does not deactivate when personnel responsible for those accounts leave the Agency. Due to ITS/SEDS organizational, and staffing changes, we are currently in the process of verifying that our policies and procedures regarding changing passwords for database servers are current and being implemented. Full implementation is expected by 8/31/14.*

## The Parks and Wildlife Department Should Improve Its Reconciliations of Financial Data

### Issue 1

#### The Parks and Wildlife Department Should Improve Its Reconciliation of Its Internal Accounting System to the Uniform Statewide Accounting System

Reference No. 14-555-06  
(Prior Audit Issue 13-555-02)

#### Type of finding: Significant Deficiency

The Parks and Wildlife Department (Department) uses information from its internal accounting system and from the Uniform Statewide Accounting System (USAS) to prepare its Schedule of Expenditures of Federal Awards (SEFA) and the notes to its SEFA. While the Department reconciled the information in its internal accounting system with information in USAS, it did not make all necessary entries in USAS before fiscal year 2013 was closed.

The Comptroller of Public Accounts' *Reporting Requirements for Fiscal 2013 Annual Financial Reports of State Agencies and Universities* requires each state agency to ensure and certify that its financial data correctly reflects its financial position as of August 31, 2013, as recorded in USAS and the agency's internal accounting system.

#### Recommendations

The Department should:

- Reconcile its internal accounting system with USAS in a timely manner to help ensure that it can research all reconciling items and make necessary entries in USAS.
- Research and record all reconciling items in USAS or its internal accounting system so that the information in those systems is consistent (except for differences caused by timing).

#### Management's Response

*For Fiscal Year 2013, the TPWD fully complied with requirements applicable to the SEFA portion of the Annual Financial Report (AFR) by completing accurate and timely reconciliation of federally reimbursed revenues and associated expenditures. This reconciliation was developed and completed under the guidance of the Comptroller's Office SEFA analyst.*

*TPWD acknowledges that changes can be made to improve the timeliness of the overall financial reconciliation between its internal financial system (BIS-GL) and USAS for all funds. We will continue to work on that. In fact, we have*

*already implemented steps to ensure more timely and accurate identification and resolution of reconciling items, including modifications to enhance reporting and initiating a quarterly process for completion of cash reconciliation. In addition, please note that TPWD has made significant progress in completion of financial reconciliations and that the extent and nature of outstanding reconciliation issues do not compromise the Department's fiscal integrity.*

*As a point of clarification, the Fiscal Year 2013 cash reconciliation submitted to the State Auditor's Office reflected that outstanding reconciliation items as of the initial reconciliation report amounted to less than one-percent of revenues and expenditures in each TPWD Appropriated Fund. Moreover, a significant majority of the outstanding items were addressed in the September/October 2013 time frame.*

*To further clarify, of the \$380M in Fiscal Year 2013 expenditures, a total of \$288K, or 0.08 percent, remains outstanding in TPWD appropriated funds, the majority of which (\$280K) is attributed to the Department of Public Safety (DPS) Border Security Interagency Contract (IAC). The Comptroller's Office instructed TPWD to record transactions related to this IAC as credit expenditures in lieu of cash reimbursement to TPWD, and TPWD staff currently awaits further information from the Comptroller's Office and DPS before making correcting BIS-GL entries. Lastly, of the total \$348M in Fiscal Year 2013 revenues, a total of \$8K remains outstanding (0.002 percent).*

*Responsible Party: TPWD Planning, Analysis, and Reporting Director*

*Implementation Date: August 31, 2014*

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

Reference No. 14-555-07

(Prior Audit Issues 13-555-02, 12-555-05, 11-555-17, 10-555-26, and 09-555-19)

### Type of finding: Significant Deficiency

#### Schedule of Expenditures of Federal Awards (SEFA)

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

Federal awards include federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities [Office of Management and Budget (OMB) Circular A-133, Section .105].

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

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

The agencies and higher education institutions discussed below did not appropriately prepare or adequately review their fiscal year 2013 Schedules of Expenditures of Federal Awards (SEFAs) (see text box for additional information). Therefore, the SEFAs those agencies and higher education institutions submitted to the Office of the Comptroller of Public Accounts (Comptroller's Office) contained errors.

The 3 agencies and 8 higher education institutions discussed below reported \$3.1 billion in federal expenditures, or 6 percent of the total federal expenditures the State of Texas reported for fiscal year 2013. The errors listed below were not material to the fiscal year 2013 SEFA for the State of Texas or to the fiscal year 2013 *Comprehensive Annual Financial Report* for the State of Texas. However, collectively, they represent control weaknesses that could be significant to the State's SEFA.

#### Department of Public Safety

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

- Reported \$2,776,718 using revenue instead of expenditures for 6 Catalog of Federal Domestic Assistance (CFDA) programs on its SEFA.
- Incorrectly classified \$3,616,427 in direct expenditures as pass-through expenditures for 3 CFDA's on its SEFA.
- Incorrectly included \$699,764 in expenditures for 4 CFDA's and incorrectly excluded \$22,799 in expenditures from its SEFA because it inappropriately included adjustments for prior periods.
- Incorrectly classified \$155,994 in pass-through expenditures as direct expenditures for 4 CFDA's on its SEFA.
- Incorrectly classified \$126,197 in pass-through expenditures for one CFDA. DPS should not have included those expenditures on its SEFA because it made those expenditures with state funds.

- Incorrectly classified \$85,912 in expenditures among 8 CFDA's on its SEFA.
- Incorrectly included \$2,168 in expenditures for one CFDA on its SEFA.
- Could not provide adequate supporting documentation for (1) an adjustment to reduce expenditures for 1 CFDA by \$12,322 and (2) a reconciling item that it reported in the reconciliation note to its SEFA.
- Did not include all required information in the note to its SEFA related to non-monetary assistance. DPS did not report the original acquisition cost of \$14,180, the applicable CFDA number, and the federal agency that provided the funds.

### Recommendations

DPS should:

- Strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Improve its confirmations of pass-throughs to other state agencies to help ensure that it identifies the appropriate expenditures.
- Maintain adequate supporting documentation for all expenditures it reports on its SEFA.
- Use expenditure data to report expenditures for all CFDA's on its SEFA.
- Prepare and include all required information in the notes to its SEFA.

### Management's Response

*The Department agrees with the five recommendations. In FY2014, Finance management will be transitioning the preparation and review process of the SEFA from the Grants section to the Financial Reporting section within Finance. The addition of new staff in the Financial Reporting section brings to the Department several years of Annual Financial Reporting (AFR), Comprehensive Annual Financial Reporting (CAFR) and Federal Grant reporting experience. This experience also includes a strong understanding of the SEFA reporting requirements.*

*DPS will take steps to:*

- *Strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.*

- *Improve its confirmation of pass-throughs to other state agencies to help ensure that it identifies the appropriate expenditures.*
- *Maintain adequate supporting documentation for all expenditures it reports on its SEFA.*
- *Use expenditure data to report expenditures for all CFDA on its SEFA.*
- *Prepare and include all required information in the notes to its SEFA.*

*Implementation Date: November 2014*

*Responsible Person: Manager, Financial Reporting*

#### General Land Office

The General Land Office (GLO) incorrectly classified \$80,346,489 in direct expenditures as pass-through expenditures for one CFDA on its SEFA.

#### Recommendation

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

#### Management's Response

*Management agrees with the recommendation that the GLO should strengthen its review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate. The GLO has implemented enhancements to our review process to include additional checks to the SEFA. Better coordination through regular meetings between the Disaster Recovery Division and the Financial Reporting Division, implemented by the Director of Financial Reporting, have been put into place to ensure that total amounts are classified appropriately between direct expenditures and pass-through expenditures.*

#### Texas A&M AgriLife Extension Service

On its SEFA, the Texas AgriLife Extension Service (Extension):

- Reported \$3,972,207 using revenues instead of expenditures for 14 CFDA on its SEFA. That occurred because the Extension used revenue instead of expenditures to confirm pass-throughs from other state agencies.

- Incorrectly classified \$15,143 in expenditures between two CFDA's on its SEFA.

### Recommendations

The Extension should:

- Strengthen its review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Use expenditure data to confirm pass-throughs from other state agencies.
- Use expenditure data to report expenditures for all CFDA's on its SEFA.

### Management's Response

*Procedures and reporting will be modified to specifically address expenditures on the SEFA. Internal procedures are being reviewed and staff educated as to the importance of the verification of CFDA numbers in the account setup process.*

*Implementation Date: September 2014*

*Responsible Persons: Assistant Director and Chief Financial Officer and Director, Contracts and Grants*

### Midwestern State University

On its SEFA, Midwestern State University (MSU):

- Incorrectly reported expenditures for four CFDA's in the Student Financial Assistance cluster of federal programs using award year instead of fiscal year. As a result, MSU incorrectly excluded a net \$7,500 in expenditures from its SEFA and from the notes to its SEFA and overstated federal revenue by \$40,909 in the notes to its SEFA.
- Overstated the ending balance of direct loans from prior years by \$27,903,749 in the notes to its SEFA.
- Did not include in its SEFA a required note regarding depository libraries for government publications.

## Recommendations

MSU should:

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

## Management's Response

*Midwestern State University concurs with the SAO's findings. The net misstatement in the 2013 Schedule of Expenditures of Federal Awards (SEFA) represents 0.02% of total federal awards expended. The error rate indicates that internal control over financial reporting is operating as intended in identifying any material differences in reported federal expenditures on the SEFA. The overstatement of the ending balance of Federal Direct Loans was due to an input error in the SEFA web application. Our hard copy AFR correctly reported this balance to be zero. Additional data verification will be done prior to submission of the web application in future reporting periods. In the preparation of all future SEFA's, we will include the required Note 4, which indicates that the university participates in the Government Publications program, CFDA 40.001. All additional processes and controls will be implemented fully for fiscal year 2014.*

*Implementation Date: February 2014*

*Responsible Person: Controller*

## Texas Tech University

On its SEFA, Texas Tech University (TTU):

- Reported \$63,158,963 using revenues instead of expenditures for 133 (98 percent) of 136 CFDA's on its SEFA.
- For one CFDA that TTU reported using expenditures, TTU (1) incorrectly excluded \$155,912 in expenditures from its SEFA, (2) incorrectly excluded \$155,912 in expenditures from the notes to its SEFA, and (3) understated federal revenue by \$92,803 in the notes to its SEFA.
- Understated its balance of federal Perkins loans from prior years by \$768,425 in the notes to its SEFA.
- Did not disclose that it outsourced its processing of federal Perkins loans to a service organization in the notes to its SEFA.

## Recommendations

TTU should:

- Strengthen its review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Use expenditure data to report all CFDA's on its SEFA.
- Prepare and include all required information in the notes to its SEFA.

## Management's Response

*Texas Tech University management agrees with the audit recommendation to strengthen review of the Schedule of Expenditures of Federal Awards (SEFA). The Office of Sponsored Programs Accounting and Reporting (SPAR) will ensure the SEFA is prepared based on expenditures and that expenditures reported agree to the amounts recorded in the accounting system. Additionally, we will ensure that all other figures contained in the notes are accurate and complete.*

*Responsible Party: Managing Director, SPAR*

*Implementation Date: August 31, 2014*

## The University of Texas at Arlington

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

- Incorrectly reported expenditures for six CFDA's in the Student Financial Assistance cluster of federal programs. That occurred primarily because UT-Arlington inappropriately included prior fiscal year expenditures. As a result, UT-Arlington incorrectly included \$86,365,226 in expenditures on its SEFA. In addition, it (1) incorrectly excluded \$282,626 in expenditures from its SEFA, (2) incorrectly included \$64,856,949 in expenditures in the notes to its SEFA, (3) incorrectly excluded \$173,251 in expenditures from the notes to its SEFA, and (4) overstated federal revenue by \$21,545,123 in the notes to its SEFA.
- Incorrectly included \$18,038 in expenditures for 4 CFDA's on its SEFA. That occurred because UT-Arlington used revenue instead of expenditures to confirm pass-throughs to other state agencies.
- Incorrectly classified \$18,138 in expenditures between two CFDA's on its SEFA.

- Incorrectly included a \$146,686 reconciling item in the reconciliation note to its SEFA. That occurred because UT-Arlington overstated its federal revenue by \$146,686.

## Recommendations

UT-Arlington should:

- Strengthen its review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Use expenditure data to confirm pass-throughs to other state agencies.
- Use expenditure data to report all CFDA's on its SEFA.

## Management's Response

*At UT Arlington our new fiscal year begins September 1st each year, but the classes for fall semester begin the last few days of August. Historically UT Arlington recorded revenue, in the fiscal year being closed, to the extent of the class days in August. All other revenue for the fall semester was "deferred" to the new fiscal year. The external certified public accounting firm that performs the annual audit for UT System recommended this accounting method. During last year's SEFA audit, the State of Texas Auditor's Office determined this method of accounting for revenue did not agree with the accounting treatment prescribed by GASB 33. The GASB prescribes recognition of both revenue and expense related to externally sponsored financial aid (Pell Grants) when all applicable requirements have been met, absent time requirements established by the sponsoring agency. As a result, the State of Texas Auditors Office is requiring recognition of all revenue and expense related to Pell Grants in the fiscal year being closed, regardless of number of class days held, This reporting change was made in fiscal year 2012-2013.*

*The amount of Pell awards deferred to fall 2012 (using the old accounting method) was \$21,545,123. Under the new accounting method, this amount should have been recorded in August 2012. It was determined by the external auditors in conjunction with UT System management that a restatement of the FY 2011-2012 financial report was not needed. This was due to the fact that this change had a net effect of zero on the financial statements (the change to revenues and expenditures netted to zero) and the fact that these amounts are not material to the entire U. T. System. This change in reporting methodology affected only financial statements for fiscal year 2013.*

*Based upon the change in methodology, and since we reported the above amount of Pell in fiscal year 2013 expenditures, we included this amount in*

*our SEFA for the year. Unless financial statements are restated, there is no mechanism available to reflect the correction of these expenditures on the SEFA and to have not included them would have resulted in a gross misstatement of Federal fund expenditures.*

*The methodology applied to Pell was also applied to Federal Direct Loans. These are included in agency funds and are not included in the Statement of Changes in Revenue, Expenses and Changes in Net Assets for reporting purposes. The FY 2011-2012 SEFA audit determined that the expenditures recorded in the institution's accounting system should be used to record the amounts on the SEFA. Previously, UT Arlington reported amount of aid awarded from the Financial Aid System on the SEFA. The methodology change impacted the expenditures recorded in the accounting system did not impact awards made to students. Since this methodology change affected only FY 2012-2013, the accounting record expenditures will continue to be used to complete the SEFA as recommended.*

*In FY2013, \$18,038 was included due to differences in the amounts shown in our accounting support as expenditures and the amount reflected by the other agency during the pass through confirmation process with other state agencies. We will work with the our Financial Analyst at the State Comptroller to resolve differences in the expenditure amounts on our records and the revenue shown by other agencies during the pass through confirmation process with other state agencies to ensure that UT Arlington expenditure amounts are reflected on the SEFA.*

*In FY2013, the CFDA for \$18,138 of pass through to expenditures was incorrect due to multiple CFDA's included in the one budget group in our financial system. The pass through from pass through activity was correctly stated as we had updated our records before that data entry. We will make sure that the records used for data entry have been fully updated for these instances before updating the SEFA website.*

*In FY2013, \$146,686 was included in the reconciliation between the revenue and SEFA expenditures on the SEFA website. This was due to differences between expenditures and revenue during the pass through confirmation process and due to federal revenue of \$89,742.00 recorded in Loan Funds in our accounting system and also reported as loans distributed of \$85,578 on the SEFA. We will only record the loan amount distributed when future revenue is received. When discrepancies exist during the confirmation process we will contact our financial analyst.*

*We agree that it is important to ensure that our SEFA is reported accurately and will take the steps above to ensure compliance with SEFA reporting requirements. Several staff members attend the State Comptroller's year-end webinar to make sure we are current on all changes or updates to AFR reporting, including the reporting requirements for the SEFA. We will request*

*assistance from the proper contacts at the State Comptroller's Office during the pass through confirmation process with other State of Texas agencies to ensure that the SEFA is accurate.*

*Responsible Persons: Director of Financial Reporting and Executive Director of Financial Aid*

*Targeted Implementation Date: By next SEFA reporting period for FY 2014*

#### The University of Texas at Austin

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

- Incorrectly reported expenditures for six CFDA's in the Student Financial Assistance cluster of federal programs. That occurred because UT-Austin inappropriately included prior fiscal year expenditures. As a result, UT-Austin incorrectly included \$22,845,615 in expenditures on its SEFA and overstated federal revenue by \$22,845,615 in the notes to its SEFA.
- Incorrectly classified \$1,374,131 of direct expenditures as pass-through expenditures for 2 CFDA's on its SEFA.
- Incorrectly classified \$740,968 in expenditures among 7 CFDA programs on its SEFA.
- Incorrectly classified \$238,042 in expenditures related to 8 CFDA's as part of the Research and Development cluster of federal programs.
- Incorrectly moved expenditures among CFDA's during its pass-through confirmation process; as a result, it excluded \$59,418 in expenditures and federal revenue from its SEFA and from the notes to its SEFA.
- Incorrectly classified \$1,901 in administrative expenditure recoveries as expenditures for new federal Perkins loans issued in the notes to its SEFA.
- Did not include all required information in the note to its SEFA related to non-monetary assistance. Specifically, UT-Austin did not report \$840 in assistance, the applicable CFDA number, or the federal agency that provided the funds.

#### Recommendations

UT-Austin should:

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

- Improve its confirmation process for pass-throughs to other state agencies to help ensure that it identifies the appropriate expenditures.
- Prepare and include all required information in the notes to its SEFA.

#### Management's Response

*The University concurs with the results. Management is committed to improving the review process so the SEFA submission is accurate. These findings will be shared with the appropriate institutional personnel to review process improvements and controls over the creation and submission of the SEFA.*

*Implementation Date: August 2014*

*Responsible Persons: Associate Director and Finance Manager*

#### The University of Texas at El Paso

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

- Incorrectly reported expenditures for four CFDA's in the Student Financial Assistance cluster of federal programs. That occurred primarily because UTEP inappropriately included prior fiscal year expenditures. As a result, UTEP incorrectly included \$21,550,985 in expenditures on its SEFA. In addition, it (1) incorrectly excluded \$235,014 in expenditures from its SEFA, (2) incorrectly excluded \$235,014 in expenditures from the notes to its SEFA, and (3) overstated federal revenue by \$21,550,985 in the notes to its SEFA.
- Incorrectly classified \$5,028,276 in pass-through expenditures as direct expenditures for 29 CFDA's on its SEFA.
- Incorrectly classified \$1,602,290 in expenditures related to 16 CFDA's as part of the Research and Development cluster of federal programs.
- Did not identify \$8,900 in expenditures as American Recovery and Reinvestment Act expenditures on its SEFA.
- Incorrectly included \$2,211 in pass-through expenditures to the Texas A&M Research Foundation on its SEFA. Additionally, UTEP incorrectly excluded the \$2,211 in pass-through expenditures from the notes to its SEFA.

## Recommendations

UTEP should:

- Strengthen its review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Improve its process for identifying pass-throughs to other state agencies and non-state entities to help ensure that it identifies the appropriate expenditures on its SEFA.
- Improve its process for identifying awards that are part of the Research and Development cluster of federal programs.

## Management's Response

*We agree with the finding related to the Student Financial Assistance cluster. In working with the external auditors for the University of Texas System, a prior determination had been made to defer all but a few of the class days of tuition and fees, and related financial aid that pays the tuition and fees. However, during the course of the SEFA audit in the prior year, SAO pointed out that GASB 33 says that for Sponsored Program Recognition, when time requirements are not specified by the provider, the entire award should be recognized when all applicable requirements are met. Based upon this finding, the methodology used for recording PELL awards changed for reporting in fiscal year 2013.*

*The amount that was deferred for Pell awards for the fall of 2012 that should have been recognized in the same year was \$21,550,985. It was determined by the external auditors in conjunction with UT System management that a restatement of the financial report was not needed. This was due to the fact that this change had a net effect of zero on the financial statements (the change to revenues and expenditures netted to zero) and the fact that these amounts are not material to the entire U. T. System. This change in reporting methodology affected only financial statements for fiscal year 2013.*

*Based upon the change in methodology, and since we reported the above amount of Pell in fiscal year 12/13 expenditures, we included this amount in our SEFA for the year. Unless financial statements are restated, there is no mechanism available to reflect the correction of these expenditures on the SEFA. Our opinion was that to leave this information off of the report would have resulted in a gross misstatement of Federal fund expenditures.*

*We agree with the finding related to incorrect classification of pass-through expenditures. We will ensure that our review processes for the SEFA are strengthened in this area.*

*We believe that our review processes in classifying awards as research is thorough and the awards included in the Research and Development Cluster were properly justified. We will continue to utilize these processes which include review by the Texas Higher Education Coordinating Board. We look forward to reviewing our process with the SAO as part of the audit for August 31, 2014.*

*We agree with the ARRA finding and will improve our process for FY 2014, although the majority of our ARRA funding expired on September 30, 2013.*

*We agree with the finding related to Texas A&M Research Foundation.*

***Responsible Party:***

*Associate Vice President for Business Affairs*

***Implementation Date:***

*September 30, 2014*

**The University of Texas - Pan American**

On its SEFA, the University of Texas – Pan American (UT-Pan American):

- Incorrectly reported expenditures for four CFDA's in the Student Financial Assistance cluster of federal programs. That occurred primarily because UT-Pan American inappropriately included prior fiscal year expenditures. As a result, UT-Pan American incorrectly included \$21,570,074 in expenditures on its SEFA. In addition, it incorrectly excluded \$420,343 in expenditures from its SEFA and overstated federal revenue by \$21,149,731 in the notes to its SEFA.
- Overstated the ending balance of direct loans from prior years by \$54,223,140 in the notes to its SEFA.

**Recommendation**

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

**Management's Response**

*Management concurs with the Auditor's findings and recommendation*

1. *In working with the external auditors for the University of Texas System in the past, a prior determination had been made to defer all*

*but a few class days of tuition and related financial aid that pays the tuition and fees. However, during the course of the Fiscal Year 2012 SEFA audit, SAO pointed out that GASB 33 requires that for Sponsored Program Recognition, when time requirements are not specified by the provider, the entire award should be recognized when all applicable requirements are met. Based upon this finding, UT System advised that the methodology used for recording Federal Pell Grant (CFDA 84.038) awards change for reporting Fiscal Year 2013. The reporting methodology; however, was not changed for Federal Supplemental Educational Opportunity Grants (CFDA 84.007), Teacher Education Assistance for College and Higher Education Grant (CFDA 84.379) and Scholarships for Health Professions Students from Disadvantaged Backgrounds (CFDA 93.925).*

*The Pell Grant awards deferred for the fall of 2012 that should have been recognized in the same year was \$21,478,510. It was determined by the external auditors in conjunction with UT System management that a restatement of the financial report was not needed. This was due to the fact that this change had a net effect of zero on the financial statements (the change to revenues and expenditures netted to zero) and the fact that these amounts are not material to the entire UT System. Because of this change in reporting methodology of Pell, the timing difference affects only financial statements for Fiscal Year 2013. For the other awards, we will change our reporting methodology to conform to GASB 33.*

2. *SEFA Note 3a: Student Loans Processed and Administrative Cost Recovered requires ending balances of previous year's loans for those loan programs where the University has continuing compliance requirements on the outstanding loans. In determining the value of total loans expended for the previous year, UTPA's interpretation of compliance requirements took into account the due diligence lending and collections program requirements and our obligations towards default prevention. Accordingly, UTPA reported the amount of Federal Direct Student Loan awarded in the previous fiscal Year as the Ending Balances of Previous Year's Loans on the SEFA Note 3a — Student Loans Processed and Administrative Cost Recovered, FY 2013.*

*Based on guidance from the SAO and AICPA's Governmental Auditing Standards and Circular A-133 Audits guide, the University has no continuing compliance requirements for Federal Direct Loans other than the borrower repaying the loan. Therefore, UTPA will change its reporting methodology to reflect the Federal Direct Student Loans (CFDA 84.268) Ending Balances of Previous Year's Loans (SEFA Note 3a) as \$0.*

## The University of Texas at San Antonio

On its SEFA, the University of Texas at San Antonio (UT-San Antonio) incorrectly reported expenditures for two CFDA's in the Student Financial Assistance cluster of federal programs. That occurred because UT-San Antonio inappropriately included prior fiscal year expenditures. As a result, UT-San Antonio incorrectly included \$23,122,759 in expenditures on its SEFA and overstated federal revenue by \$23,122,759 in the notes to its SEFA.

### Recommendation

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

### Management's Response

*In working with the external auditors for the University of Texas System, a prior determination had been made to defer all but a few of the class days of tuition and fees, and related financial aid that pays the tuition and fees. However, during the course of the SEFA audit in the prior year, SAO pointed out that GASB 33 says that for Sponsored Program Recognition, when time requirements are not specified by the provider, the entire award should be recognized when all applicable requirements are met. Based upon this finding, the methodology used for recording PELL awards changed for reporting in fiscal year 2013.*

*The amount that was deferred for Pell awards for the fall of 2012 that should have been recognized in the same year was \$22,698,278. It was determined by the external auditors in conjunction with UT System management that a restatement of the financial report was not needed. This was due to the fact that this change had a net effect of zero on the financial statements (the change to revenues and expenditures netted to zero) and the fact that these amounts are not material to the entire U. T. System. This change in reporting methodology affected only financial statements for fiscal year 2013.*

*Based upon the change in methodology, and since we reported the above amount of Pell in fiscal year 1213 expenditures, we included this amount in our SEFA for the year. Unless financial statements are restated, there is no mechanism available to reflect the correction of these expenditures on the SEFA. Our opinion was that to leave this information off of the report would have resulted in a gross misstatement of Federal fund expenditures.*

*We agree that it is important to ensure that our SEFA is reported correctly. In order to do this, several staff members attend the State Comptroller's year*

*end workshop to make sure we are current on all changes or updates to the AFR reporting, to include the reporting requirements for the SEFA.*

#### The University of Texas Southwestern Medical Center

On its SEFA, the University of Texas Southwestern Medical Center (UTSWMC) incorrectly reported expenditures for five CFDA's in the Student Financial Assistance cluster of federal programs. That occurred primarily because UTSWMC inappropriately reported expenditures for the federal award year and not the fiscal year. As a result, UTSWMC (1) incorrectly excluded \$349,955 in expenditures from its SEFA, (2) incorrectly included \$9,612 in expenditures on its SEFA, (3) incorrectly excluded \$408,289 from the notes to its SEFA, (4) incorrectly included \$58,334 in the notes to its SEFA, and (5) overstated federal revenue by \$67,947 in the notes to its SEFA.

#### Recommendation

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

#### Management's Response

*The University of Texas Southwestern Medical Center agrees with the recommendations of the State Auditor's Office. Our review process will be amended accordingly.*

*We agree that federal award year and not fiscal year was the basis for reporting expenditures in five (5) CFDA's in the Student Financial Assistance cluster of federal programs. This was caused by inappropriate end of year entries deferring expenditures from a fiscal year basis to a federal award year basis within the financials of the university.*

*While state auditors were performing their audit, communications were made to the appropriate preparers of entries as well as reviewers that the expenditures associated with federal student financial assistance are non-exchange transactions and no deferrals from fiscal year to award year should be made. Since eligibility requirements are met at the time of disbursement and should be recorded in the fiscal year disbursed, no deferral entries will be prepared in the future and reviews will be made to ensure those types of entries do not recur.*

*Implementation Date: December 2013*

*Responsible Person: Director, Fiscal Reports & Accounting Operations*

## ***Federal Award Findings and Questioned Costs***

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A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2013 was included in Chapter 2-F of this report. All other fiscal year 2013 federal award information was issued in a separate report. See *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2013*, by KPMG LLP.

# Summary Schedule of Prior Audit Findings

*State of Texas Financial Portion of the  
Statewide Single Audit Report for the  
Year Ended August 31, 2013*

## Summary Schedule of Prior Audit Findings

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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 auditees report the corrective actions they have taken for the findings reported in:

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

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

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

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

*A Report on the Audits of the Fiscal Year 2012 Financial Statements of the Department of Transportation, the Central Texas Turnpike System, and the Texas Mobility Fund* (State Auditor’s Office Report No. 13-016, January 2013).

*State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2012* (State Auditor’s Office Report No. 13-555, February 2013).

The Summary Schedule of Prior Audit Findings (for the year ended August 31, 2013) has been prepared to address these responsibilities.

Chapter 4-A

### The Texas Education Agency Should Strengthen Access Controls

#### Issue 1

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

Reference No. 13-555-01

#### Type of finding: Significant Deficiency

The Texas Education Agency (Agency) did not terminate access to its database servers in a timely manner. Auditors identified five active user

accounts that belonged to personnel who were no longer employed by the Agency. Two of those 5 personnel had separated from the Agency 11 months prior to when auditors tested those user accounts; the remaining personnel had separated from the Agency 9 months, 6 months, and 3 months prior to when auditors tested those user accounts. Additionally, the Agency did not change the password for a database server account after the individual responsible for that account left the Agency.

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

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

### Corrective Action and Management's Responses

*See current year finding 14-555-05.*

Chapter 4-B

## The Department of Transportation Should Strengthen Its Financial Reporting Control Environment and Its Management of Access to Certain Systems

### Public-private or Public-public Partnerships

Public-private or public-public partnerships are agreements between governments and private entities or other governments to provide services on a more efficient and cost-effective basis. The arrangements often result in governments transferring existing or newly constructed facilities and the obligation to provide certain services to an external entity. They can be a variety of service arrangements, management arrangements, and service concession arrangements.

Source: Governmental Accounting Standards Board Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*.

### Issue 1

#### The Department of Transportation Should Strengthen Its Financial Reporting Control Environment <sup>3</sup>

Reference No. 2012-1

#### Type of finding: Significant Deficiency

The Department of Transportation (Department) should strengthen its financial reporting control environment to help ensure that it can produce financial information in a timely and accurate manner.

Although the Department recently improved its internal controls, additional controls are needed to help ensure that financial reporting keeps pace with new financing methods. To build roads, the Department has increasingly used innovative and complex financing methods such as bond financing, financing through Texas transportation

<sup>3</sup> For prior audit issue 2012-1, see *A Report on the Audits of the Fiscal Year 2012 Financial Statements of the Department of Transportation, the Central Texas Turnpike System, and the Texas Mobility Fund* (State Auditor's Office Report No. 13-016, January 2013).

corporations, toll roads, comprehensive development agreements, pass-through toll roads, and other public-private or public-public partnership agreements (see text box for additional details). However, the Department's financial reporting has not kept pace with those new financing methods. For example, prior to fiscal year 2012, the Department had no policy to ensure consistent reporting in its financial statements of various types of public-private partnership agreements. After it implemented new policies in fiscal year 2012, the Department had to adjust prior period balances to:

- Increase Accounts Payable in its financial statements by \$34.6 million. That adjustment was necessary because the Department had not originally recorded a public-public agreement (the Grand Parkway Project in Houston) in its financial records.
- Decrease Deferred Revenues in its financial statements by \$218.9 million. That adjustment was necessary because (1) the Department had incorrectly reported \$239.1 million in Revenue when it should have reported \$239.1 million in Deferred Revenue from a concession agreement associated with the Katy Managed Lanes Interstate 10 Project in Houston and (2) the Department had originally incorrectly reported \$458.0 million in Deferred Revenue when it should have reported \$458.0 million in Revenue associated with State Highway 161.

The Department does not have a central process for capturing and analyzing the details of new financing methods and determining their effect on its financial reporting. The Department recently conducted research by communicating with districts and divisions to identify agreements that meet certain criteria; however, because the Department does not have a structured and centralized process for identifying those agreements, there is still a risk that the Department could fail to identify all of those agreements and, therefore, not account for and report those agreements correctly. This could affect the assets, liabilities, revenue, and expenditures that the Department reports on its financial statements.

Issues in communication have led to significant adjustments in financial information. Since fiscal year 2008, auditors have identified significant adjustments that were necessary to correct Department financial information that ultimately was presented in the State's Comprehensive Annual Financial Report (CAFR). Those adjustments included a \$669.7 million adjustment to record bridges as depreciable capital assets in fiscal year 2009, a \$364.8 million adjustment for unrecorded pass-through toll roads in fiscal year 2010, and a \$432.7 million adjustment related to an error in reporting debt not used for capital assets in fiscal year 2011. Many of those adjustments were necessitated by breakdowns in communication among the Department districts and divisions that report financial information.

In addition to making required adjustments that auditors identify, the Department regularly makes prior period adjustments to Capital Assets-Depreciable because its districts and divisions cannot produce a complete and

verifiable population of bridges the Department owns in a timely manner. In fiscal year 2012, the Department also made prior period adjustments for bridges associated with public-private or public-public partnership agreements.

The Department has made prior period adjustments to account for bridges that were placed in service in prior years but not recorded. Those adjustments included \$177.5 million in fiscal year 2009, \$174.4 million in fiscal year 2010, and \$321.5 million in fiscal year 2011. In fiscal year 2012, a prior period adjustment the Department made included \$226.3 million in bridges that had been placed in service in prior years but not recorded in those years and \$195.6 million in bridges that had been removed from service in prior years but not recorded in those years.

In preparing its fiscal year 2012 annual financial report, the Department implemented new procedures to account for public-private partnerships. The Department worked directly with the districts to identify (1) bridges and infrastructure that the Department owns and should recognize in its financial statements and (2) bridges and infrastructure that the Department does not own and should remove from its financial statements. As a result of that effort, the Department identified \$863.0 million in additions to Capital Assets and \$810.4 million in deletions from Capital Assets. However, auditors identified \$45.4 million in bridge and infrastructure additions to Capital Assets that the Department did not identify and \$37.9 million in bridge and infrastructure deletions from Capital Assets that the Department did not identify.

During the preparation of its fiscal year 2012 annual financial report, the Department incorrectly accrued accounts payable twice for one of its non-major funds, resulting in a \$64.5 million overstatement of accounts payable

**Aggregated Non-major Fund**

The Governmental Accounting Standards Board requires that financial statements be presented with a focus on major funds. Funds that do not have activity or balances that are large enough to qualify as a major fund are aggregated and presented as one fund on the basic financial statements.

Source: Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

and transportation expenditures. That amount was 8.2 percent of the total liabilities and fund balance for the Department's aggregated non-major funds (see text box for additional details). After auditors questioned the support for one of the Department's accounting entries, the Department corrected that error. The error occurred because, according to the Department, two sections in the Department's Finance Division that estimate accounts payable and compile the Department's annual financial report did not properly coordinate when they calculated accounts payable.

#### Five Components of an Internal Control Integrated Framework

- **Control Environment:** Sets the tone of an organization, influencing the control consciousness of its people.
- **Risk Assessment:** An organization's identification and analysis of risks relevant to achievement of its objectives, forming a basis for determining how risks should be managed.
- **Control Activities:** Established by policies and procedures and should be performed at all levels and at various stages of business processes to ensure that management directives are carried out.
- **Information and Communication:** The identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- **Monitoring:** A process that assesses the quality of internal control performance over time.

Source: Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Department should strengthen its control environment. The Department's mission incorporates a variety of state transportation services into a single, diverse operation. The Department's decentralized operations require multiple offices, districts, and divisions across the state to coordinate. Efficient management of a decentralized operation requires strong centralized management that provides direction to and monitors reporting from the offices, districts, and divisions.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides a framework to help management of diverse organizations implement better internal controls (see text box for additional details). COSO principles suggest that the control environment is the foundation for all other components of internal controls because it provides discipline, process, and structure.

The COSO framework incorporates an organization's objectives: operations, reporting, and compliance. The reporting objective covers the preparation of reliable internal and external reports. Internal reporting objectives are driven by internal requirements, while external reporting objectives are driven primarily by regulations or standards that accounting bodies and other standards-setting organizations establish.

#### Corrective Action and Management's Responses

*Partially implemented. See current finding 14-555-01.*

## Issue 2

### The Department of Transportation Should Strengthen Its Management of Access to Certain Systems <sup>4</sup>

Reference No. 2012-2

(Prior Audit Issues 12-555-04, 11-555-07, and 10-555-01)<sup>5</sup>

#### Type of finding: Significant Deficiency

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

The Department should strengthen the management of access to its Right of Way Information System (ROWIS) and its Revenue Logging System (DLOG). The Department does not have adequate controls to ensure segregation of duties and adequately restrict access to ROWIS. Specifically, one programmer had access to authorize transactions within ROWIS and submit the approved transactions to the accounting system for payment. In general, programmers should not have access to approve transactions or submit them for payment. Allowing programmers inappropriate access increases the risk of unauthorized or fraudulent transactions. In fiscal year 2012, the programmer did not approve any transactions within ROWIS or submit any transactions to the accounting system for payment.

In addition, auditors tested 140 user accounts with access to the server that houses ROWIS and DLOG and identified:

- Twenty-two accounts that were associated with 20 terminated contractors. Two of those 22 accounts were associated with users with duplicated accounts.
- One user account that could not be associated with a current Department employee or contractor.

Not maintaining appropriate access to ROWIS, DLOG, and the server that houses those systems increases the risk of unauthorized access to financial information.

#### Corrective Action and Management's Responses

*Partially implemented. See current year finding 14-555-02.*

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<sup>4</sup> For prior audit issue 2012-2, see *A Report on the Audits of the Fiscal Year 2012 Financial Statements of the Department of Transportation, the Central Texas Turnpike System, and the Texas Mobility Fund* (State Auditor's Office Report No. 13-016, January 2013).

<sup>5</sup> For prior audit issue 12-555-04, see *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2011* (State Auditor's Office Report No. 12-555, February 2012); for prior audit issue 11-555-07, see *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010* (State Auditor's Office Report No. 11-555, February 2011); and for prior audit issue 10-555-01, see *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009* (State Auditor's Office Report No. 10-555, February 2010).

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

Reference No. 13-555-02

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

### Type of finding: Significant Deficiency

#### Schedule of Expenditures of Federal Awards (SEFA)

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

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

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

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

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

#### Department of Public Safety

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

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

## Corrective Action and Management's Responses

*See current year finding 14-555-07.*

### Office of the Attorney General

#### Program Income

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

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

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

### Corrective Action and Management's Responses

*Corrective action was taken.*

### Parks and Wildlife Department

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

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

### Corrective Action and Management's Responses

*See current year finding 14-555-06.*

### Texas Southern University

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

## Corrective Action and Management's Responses

*Corrective action was taken.*

### University of North Texas

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

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

## Corrective Action and Management's Responses

*Corrective action was taken.*

### The University of Texas at Arlington

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

- Incorrectly classified \$160,980,077 in expenditures as Federal Family Education Loans (CFDA 84.032) on its SEFA and in the notes to its SEFA when it should have classified those expenditures as Federal Direct Student Loans (CFDA 84.268).
- Incorrectly reported expenditures for one CFDA in the Student Financial Assistance Cluster of federal programs using award year instead of fiscal year. As a result, UT-Arlington incorrectly excluded \$3,067,329 in expenditures from its SEFA and from the notes to its SEFA.
- Incorrectly classified \$9,900 in expenditures on its SEFA.
- Did not identify (\$218) in expenditures as American Recovery and Reinvestment Act expenditures on its SEFA.
- Overstated federal pass-through revenue by \$50,394 in the notes to the SEFA. That occurred because UT-Arlington incorrectly reported revenue

received from vendor relationships with other state entities as federal pass-through revenue.

- Incorrectly listed (\$454) in expenditures as federal revenue received from a vendor relationship with the federal government, rather than as other reconciling items, in a note to its SEFA.
- Did not include in its SEFA a note regarding depository libraries for government publications.

### **Corrective Action and Management's Responses**

*See current year finding 14-555-07.*

#### **The University of Texas at Austin**

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

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

### **Corrective Action and Management's Responses**

*See current year finding 14-555-07.*

#### **The University of Texas at El Paso**

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

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

## Corrective Action and Management's Responses

*See current year finding 14-555-07.*

### The University of Texas - Pan American

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

## Corrective Action and Management's Responses

*See current year finding 14-555-07.*

### The University of Texas Southwestern Medical Center

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

- Incorrectly reported expenditures for three CFDA's in the Student Financial Assistance Cluster of federal programs using award year instead of fiscal year. That caused \$484,877 in expenditures to be incorrectly included on the SEFA and \$396,811 in expenditures to be incorrectly excluded from the SEFA, and the notes to the SEFA incorrectly reflected the net difference of \$88,066.
- Did not identify \$20,360 in expenditures related to one CFDA as part of the Research and Development cluster of federal programs.

## Corrective Action and Management's Responses

*See current year finding 14-555-07.*

# Appendices

Appendix 1

## **Objective, Scope, and Methodology**

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### **Objective**

The audit objective was to determine whether the State's basic financial statements present fairly, in all material respects, the consolidated balances and activities for the State of Texas for the fiscal year ended August 31, 2013.

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

### **Scope**

The scope of the financial portion of the Statewide Single Audit included an audit of the State's basic financial statements and a review of significant controls over financial reporting and compliance with applicable requirements. The opinion on the basic financial statements, published in the Comprehensive Annual Financial Report for the fiscal year ended August 31, 2013, was dated February 21, 2014.

The scope of the federal compliance portion of the Statewide Single Audit included an audit of the State's Schedule of Expenditures of Federal Awards (SEFA), a review of compliance for each major program, and a review of significant controls over federal compliance. The State Auditor's Office contracted with KPMG LLP to provide an opinion on compliance for each major program and internal control over compliance. The State Auditor's Office provided an opinion on the State's SEFA. Information on the federal compliance portion of the Statewide Single Audit is included in a separate report entitled *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2013*, by KPMG LLP.

### **Methodology**

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

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

Information collected and reviewed included the following:

- Agency and higher education institution policies and procedures.
- Agency and higher education institution systems documentation.
- Agency and higher education institution accounting data.
- Agency and higher education institution year-end accounting adjustments.
- Agency and higher education institution fiscal year 2013 annual financial reports.
- Agency and higher education institution fiscal year 2013 SEFA submissions to the Office of the Comptroller of Public Accounts.

Information systems reviewed included the following:

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

Procedures and tests conducted included the following:

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

Criteria used included the following:

- Texas statutes.
- Texas Administrative Code.
- General Appropriations Act (82nd Legislature).
- The Office of the Comptroller of Public Accounts' policies and procedures.
- The Office of the Comptroller of Public Accounts' *Reporting Requirements for Fiscal 2013 Annual Financial Reports of State Agencies and Universities*.
- Agency and higher education institution policies.
- U.S. Office of Management and Budget Circular A-133.

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

### Project Information

Audit fieldwork was conducted from June 2013 through February 2014. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- Brianna C. Lehman, CPA (Project Manager)
- Robert Pagenkopf (Assistant Project Manager)
- Shahpar Ali, CPA, M/SBT
- Robert H. (Rob) Bollinger, CPA, CFE
- Pamela A. Bradley, CPA
- Robert Burg, CPA, CFE
- Benjamin Carter
- Mark Cavazos
- Paige Dahl
- Hillary Eckford, CIA
- George D. Eure, CPA
- Adriana Garcia-Artiles
- Lauren Godfrey, CIA, CGAP
- Rachel Lynne Goldman, CPA
- Arby Gonzales, CFE
- Michael Goodwin
- Arnton Gray

- Kathryn K. Hawkins, CFE
- Frances Anne Hoel, CIA,CGAP
- Joyce Inman, CGFM
- Melissa Jones, CGAP
- Ann E. Karnes, CPA
- Kyle Ketry
- Robert G. Kiker, CGAP
- Nicole McClusky-Erskine
- William J. Morris, CPA
- Kelley Ngaide, CIA, CFE
- Laura Nienkerk, MAcy, CIA
- Bansari Patel, CPA
- Jeannette Quiñonez, CPA
- Fabienne Robin, MBA
- Jennifer Ranea Robinson, CPA, MBA
- Nakeesa Shahparasti
- Kendra Shelton, CPA
- Philip Stringer, CPA
- Jacqueline Thompson
- Jessica Volkmann
- Mary Ann Wise, CPA, CFE
- Michael Yokie, CISA
- Julia Youssefnia, CPA
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Angelica M. Ramirez, CPA (Audit Manager)

## ***Agencies and Higher Education Institutions Audited***

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Financial accounts were audited at the following agencies:

- Department of Aging and Disability Services.
- Department of Motor Vehicles.
- Department of Transportation.
- Health and Human Services Commission.
- Office of the Comptroller of Public Accounts.
- Texas A&M University.
- Texas A&M University System.
- Texas Education Agency.
- Texas Workforce Commission.

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

- |   |   |
|---|---|
| ▪ Department of Aging and Disability Services.  | ▪ Higher Education Coordinating Board.  |
| ▪ Department of Agriculture.                    | ▪ Office of the Attorney General.       |
| ▪ Department of Family and Protective Services. | ▪ Midwestern State University.          |
| ▪ Department of Housing and Community Affairs.  | ▪ Texas A&M AgriLife Extension Service. |
| ▪ Department of Public Safety.                  | ▪ Texas A&M University – Texarkana.     |
| ▪ Department of State Health Services.          | ▪ Texas Education Agency.               |
| ▪ Department of Transportation.                 | ▪ Texas State University.               |
| ▪ General Land Office.                          | ▪ Texas Southern University.            |
| ▪ Health and Human Services Commission.         | ▪ Texas Tech University.                |
|   | ▪ Texas Woman's University.             |
|   | ▪ Texas Workforce Commission.           |

- University of Houston.
- University of North Texas.
- The University of Texas at Arlington.
- The University of Texas at Austin.
- The University of Texas at El Paso.
- The University of Texas at San Antonio.
- The University of Texas – Pan American.
- The University of Texas M.D. Anderson Cancer Center.
- The University of Texas Medical Branch at Galveston.
- The University of Texas Southwestern Medical Center.
- Water Development Board.

Follow-up work on prior-year Schedule of Expenditures of Federal Awards findings was conducted at the following agency:

- Parks and Wildlife Department.

Copies of this report have been distributed to the following:

## **Legislative Audit Committee**

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair  
The Honorable Joe Straus III, Speaker of the House, Joint Chair  
The Honorable Jim Pitts, House Appropriations Committee  
The Honorable Harvey Hilderbran, House Ways and Means Committee

## **Office of the Governor**

The Honorable Rick Perry, Governor

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

Department of Aging and Disability Services  
Department of Agriculture  
Department of Family and Protective Services  
Department of Housing and Community Affairs  
Department of Motor Vehicles  
Department of Public Safety  
Department of State Health Services  
Department of Transportation  
General Land Office  
Health and Human Services Commission  
Higher Education Coordinating Board  
Midwestern State University  
Office of the Attorney General  
Office of the Comptroller of Public Accounts  
Parks and Wildlife Department  
Texas A&M AgriLife Extension Service  
Texas A&M University  
Texas A&M University - Texarkana  
Texas A&M University System  
Texas Education Agency  
Texas Southern University  
Texas State University  
Texas Tech University  
Texas Woman's University  
Texas Workforce Commission  
University of Houston  
University of North Texas  
The University of Texas at Arlington  
The University of Texas at Austin  
The University of Texas at El Paso  
The University of Texas M.D. Anderson Cancer Center  
The University of Texas Medical Branch at Galveston  
The University of Texas - Pan American  
The University of Texas at San Antonio  
The University of Texas Southwestern Medical Center  
Water Development Board



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