

# Key Points of Report

## A Report on the 1997 Financial and Compliance Audit Results

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June 1998

- **The statewide audit indicates the State has generally complied with federal, state, and bond laws and regulations that specify how funds can be used.** Also, the information contained in the financial statements in Texas' *1997 Comprehensive Annual Financial Report (CAFR)* accurately represents the State's financial activity and balances at year end.
- **Material weaknesses in controls exist at two universities.** A material weakness means that material errors could occur and not be detected and corrected.
  - Texas Southern University continues to have a material weakness in the controls over the Student Financial Assistance Office.
  - The University of Texas at Tyler has a material weakness in controls over the Student Financial Aid Office
- **Material noncompliance exists for the State of Texas.** The State of Texas, as related to student financial assistance, continues to be in material noncompliance with one federal requirement regarding the reporting of enrollment changes in the *Federal Family Education Loans* program (CFDA 84.032). Current and prior year audit results indicate that enrollment changes continue to be a problem at many universities. This statewide material noncompliance is the result of enrollment change reporting errors at seven of the ten universities tested. Material noncompliance with federal requirements occurs when errors exceed predetermined error levels.
- **Prior issues of material noncompliance have been corrected.** The Commission on Alcohol and Drug Abuse and the Department of Protective and Regulatory Services have corrected the issues of material noncompliance with federal requirements that were previously reported by the State Auditor's Office.
- **Prior material weakness has been corrected.** The Department of Human Services has corrected the material weakness in internal controls over the *Food Distribution* program (CFDA 10.550).
- **Efforts improve accountability to the State.** The Comptroller of Public Accounts and the State Auditor's Office reviewed agencies' compliance with reporting requirements issued by the Comptroller. Agencies' responses to this joint effort resulted in no agencies with significant problems with their fiscal year 1997 Annual Financial Reports.

### Contact

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## Office of the State Auditor

Lawrence F. Alwin, CPA

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

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# **Executive Summary**

# Executive Summary

## Clean Audit Opinions For A Big Business

### Federal, State, and Bond Compliance

A clean compliance opinion means that the State has generally complied with federal, state, and bond requirements which specify how funds can be used. Federal revenues of \$15 billion account for 28 percent of the State's annual funding sources. The State currently has \$11 billion of bonds payable.

### Financial Statements

A clean financial opinion means that the financial statements accurately represent the State's financial activity and balances for the year. The State's *1997 Comprehensive Annual Financial Report (CAFR)* reports \$159 billion in assets and \$34 billion in liabilities. Operating revenues of \$54 billion were received, including the \$15 billion of federal resources. State expenditures total \$52 billion.

## How the State's Future Looks

### Pension Funds Continue to Grow

The financial condition of the State's Pension Funds remains strong and continues to improve. Pension Funds' assets increased by \$16 billion or 26 percent. For state fiscal year 1997, Pension Funds accounted for 50 percent of the State's total assets. At the end of state fiscal year 1997, the State had 883,000 current employees contributing to pension funds and 199,000 retired employees receiving pension benefits.

## The Financial Condition of the State's General Operating Fund Improves

The State's General Fund balance for funds available for future operations improved during state fiscal year 1997 from a \$1 billion deficit to a \$483 million surplus. A less conservative method of financial reporting was implemented, and it more accurately represents the State's ability to designate the use of funds through the legislative process. This increase in the State's General Fund Balance and the continued improvement of the State's economic outlook are key factors for improving the State's bond rating. An improved bond rating can reduce interest rates and costs for future projects.

### Funds Available for Future Operations

Of the \$159 billion in total assets reported at August 31, 1997, the State had \$708 million available for future years for any operations from all sources including the State's General Fund.

## Material Weaknesses In Internal Controls<sup>1</sup> Exist at Two Entities

Highlighted below are internal control areas that need to be strengthened:

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<sup>1</sup> A **material weakness in internal controls** is a condition in which the design or operation of internal control component(s) does not reduce, to a relatively low level, the risk that (1) misstatements in amounts which would be material in relation to the general purpose financial statements, or (2) Noncompliance with applicable requirements that would be material to a federal program could occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

## Executive Summary

- **Texas Southern University** continues to have a material weakness in the internal controls over the Student Financial Assistance Office. The material weakness was a result of insufficient staffing, ineffective policies and procedures, and a continued lack of communication between departments. This weakness was originally identified in state fiscal year 1993.
- **The University of Texas at Tyler** has a material weakness in internal controls over the Student Financial Aid Office. The material weakness was a result of ineffective policies and procedures and significant limitations and deficiencies with the automated financial aid information system.

Strong internal controls help ensure that:

- Funds are spent as intended.
- Assets are adequately safeguarded.
- Information is accurately reported in the financial statements.

Risks resulting from weak internal controls range from a time-consuming reimbursement process for funding to a suspension or termination of federal funds.

### Material Noncompliance With Federal Requirements<sup>2</sup> Exists In One Program

The **State of Texas**, as related to student financial assistance, continues to be in material noncompliance with one specific federal requirement

<sup>2</sup> **Material noncompliance with federal requirements** occurs when instances of noncompliance in a federal program equal or exceed auditor-determined qualitative and quantitative levels.

regarding the reporting of enrollment changes in the *Federal Family Education Loans* program (CFDA 84.032). The *Federal Family Education Loans* program provided \$790 million in aid to Texas students in the 1997 fiscal year. Current and prior year audit results indicate that enrollment changes continue to be a problem at many universities. Noncompliance with this requirement has been identified for 14 individual universities since material noncompliance for the State was originally reported in 1995. Of the ten universities tested this year, significant noncompliance was reported at the following seven:

- Sul Ross State University
- Texas A&M International
- Texas Southern University
- The University of Texas at Brownsville
- The University of Texas at Tyler
- The University of Texas Health Science Center at Houston
- The University of Texas Health Science Center at San Antonio

Compliance with federal regulations helps reduce the risk of:

- A loss of federal funding
- Funds being misspent
- A reduction in services to citizens

### Two Issues Of Significant Noncompliance With Federal Requirements Exist

Other audit work performed by the State Auditor's Office revealed the following significant issues relating to

## Executive Summary

noncompliance with federal requirements:

- **Lamar University - Beaumont** needs improvements in many areas of operation within the Office of Student Financial Aid. This is due to inadequate management of financial aid processing and violations of federal requirements. In addition, a material weakness exists in the overall fiscal management of the University. The University received approximately \$12 million in federal student financial assistance for state fiscal year 1997.
- **Sul Ross State University** needs to resolve long-standing problems with student financial assistance. While some of these problems have been corrected, the University still has other significant issues. Over 65 percent of the students at the University receive an aggregate of over \$8 million in financial assistance.

Risks of noncompliance range from a time-consuming reimbursement process for funding to a suspension or termination of federal funds.

### Our Compliments

State entities strive to achieve high standards in compliance as indicated by the following accomplishments:

- The Commission on Alcohol and Drug Abuse and the Department of Protective and Regulatory Services have corrected the issues of material noncompliance with federal requirements that were previously reported by the State Auditor's Office.

- The Department of Human Services has corrected the material weakness in internal controls over the *Food Distribution* program.
- Three entities' individual reports contained no findings:
  - Department of Transportation
  - Water Development Board
  - The University of Texas Southwestern Medical Center at Dallas
- Efforts improve accountability to the State. The Comptroller of Public Accounts and the State Auditor's Office reviewed agencies' compliance with reporting requirements issued by the Comptroller. Agencies' responses to this joint effort resulted in no agencies which had significant problems with their fiscal year 1997 Annual Financial Reports (AFR). For fiscal year 1997, 194 out of 232 agencies (84 percent) complied with the Comptroller's reporting requirements. This is a 27 percent increase in compliance with the reporting requirements over fiscal year 1996.<sup>3</sup>

### Summary of Audit Objectives and Scope

The objectives of the Statewide Audit were to:

- Determine whether the financial statements of the State present fairly the financial position, results of operations, and cash flows in accordance with Generally Accepted Accounting Principles.

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<sup>3</sup> Source: Comptroller of Public Accounts

## Executive Summary

- Fulfill audit requirements of the Single Audit Amendments of 1996 (Federal Compliance).
- Determine compliance with significant bond covenants.
- Issue individual management letters on reportable conditions.<sup>4</sup>

The following procedures were performed:

- We gained an understanding of the overall control environment and the financial controls over the significant statewide and bond-related accounts. We also gained an understanding of administrative controls relevant to the federal programs examined.

- We tested accounts significant to the statewide financial statements. We also performed procedures to determine whether information reported in the general purpose financial statements was consolidated properly.
- We determined compliance with federal program requirements in accordance with *Office of Management and Budget Circular A-133*. We conducted audit work covering 29 federal programs and 76 percent of the total federal assistance received during the year.

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<sup>4</sup> **Reportable conditions** involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control structure that, in our judgment, could adversely affect the State's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements, or (2) administer federal financial assistance programs in accordance with applicable laws and regulations.

# **Auditor's Reports**



## OFFICE OF THE STATE AUDITOR

TWO COMMODORE PLAZA  
206 EAST NINTH STREET, SUITE 1900  
AUSTIN, TEXAS 78701

LAWRENCE F. ALWIN, CPA  
State Auditor

February 24, 1998

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

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

Ladies and Gentlemen:

We have audited the general purpose financial statements of the State of Texas as of and for the year ended August 31, 1997, and have issued our report thereon dated February 24, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

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

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the State's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## Work Performed by Other Auditors

The State Auditor's Office did not audit the following entities and funds, which are component units of the State for financial reporting purposes. These entities were audited by other auditors.

Entities Reviewed by Other Auditors	Scope of Work Performed
Texas Lottery Commission	An audit of the balance sheets and the related statements of operations and retained earnings and cash flows was conducted for the years ended August 31, 1997, and August 31, 1996.
Texas Department of Housing and Community Affairs	An audit of the general purpose financial statements and an audit of the compliance requirements in the <i>OMB Circular A-133 Compliance Supplement</i> were conducted for the year ended August 31, 1997.
Texas Turnpike Authority	An audit of the general purpose financial statements was performed for the year ended December 31, 1996.
Texas Guaranteed Student Loan Corporation	An audit of the consolidated financial statements and an audit of the compliance requirements in the <i>OMB Circular A-133 Compliance Supplement</i> were conducted for the year ended September 30, 1997.
Texas Workers' Compensation Insurance Fund	An audit of the statements of statutory balance sheets and the related statutory statements of revenues and expenses, of cash flows, and of changes in surplus was conducted for the years ended December 31, 1996, and December 31, 1995.
Surplus Lines Stamping Office	An audit of the statement of financial position and the related statements of activities and changes in net assets and cash flows was conducted for the year ended December 31, 1996.
Texas Local Government Investment Pool	An audit of the statements of assets and liabilities and the related statements of operations and changes in net assets was conducted for the years ended August 31, 1997, and August 31, 1996.
Texas A&M University Research Foundation	An audit of the financial statements and an audit of the compliance requirements in the <i>OMB Circular A-133 Compliance Supplement</i> were conducted for the year ended August 31, 1997.
Employees Retirement System	An audit of the general purpose financial statements was conducted for the year ended August 31, 1997.
Permanent University Fund	An audit of the statement of investment assets and liabilities was conducted for the year ended August 31, 1997; an audit of the comparison summary of investments was conducted for the years ended August 31, 1997, and 1996; audits of the statement of investment income, the statement of changes in net investment assets, and the schedule of changes in book value of investments were conducted for the year ended August 31, 1997.
Texas Prepaid Higher Education Tuition Board	An audit of the balance sheets and the related statements of revenues, expenses and changes in retained earnings, and cash flows was conducted for the years ended August 31, 1997, and August 31, 1996.

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

The Teacher Retirement System's management letter will be issued in March 1998 (SAO Report 98-325). The management letters for the Fire Fighters' Pension Commissioner and the Permanent School Fund are scheduled for release within the next few months.

This report is intended for the information of the Governor, the Legislature, management, and all federal and other entities from which federal financial assistance was received. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Lawrence F. Alwin, CPA  
State Auditor

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TWO COMMODORE PLAZA  
206 EAST NINTH STREET, SUITE 1900  
AUSTIN, TEXAS 78701

LAWRENCE F. ALWIN, CPA  
State Auditor

February 24, 1998

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

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

Ladies and Gentlemen:

#### Compliance

We have audited the compliance of the State of Texas with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 1997. The State's major federal programs are identified in the summary of auditor's results section of the accompanying "Schedule of Findings and Questioned Costs." Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the management at each state entity. Our responsibility is to express an opinion on the State's compliance based on our audit.

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

As described in items 98-337-06, 98-342-05, 98-344-07, 98-339-02, 98-343-04, 98-331-02, and 98-333-02 in the accompanying "Schedule of Findings and Questioned Costs," the State did not comply with one federal requirement regarding the reporting of enrollment changes that are applicable to its *Federal Family Education Loans* (CFDA 84.032) program. Compliance with such a requirement is necessary, in our opinion, for the State to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the State complied, in all material respects, with the requirements referred to above that are applicable to

each of its major federal programs for the year ended August 31, 1997. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with *OMB Circular A-133* and which are described in the accompanying "Schedule of Findings and Questioned Costs" as items:

98-318-01	98-320-04	98-323-01	98-337-03	98-342-06
98-318-03	98-320-05	98-323-02	98-337-04	98-343-01
98-318-04	98-321-01	98-323-04	98-337-07	98-343-02
98-318-05	98-321-02	98-323-05	98-338-01	98-344-02
98-319-01	98-321-03	98-323-06	98-339-01	98-344-03
98-319-02	98-322-01	98-329-01	98-340-01	98-344-04
98-320-01	98-322-02	98-329-02	98-342-02	98-344-05
98-320-02	98-322-03	98-333-03	98-342-03	98-344-06
98-320-03				

### Internal Control Over Compliance

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

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

98-318-02	98-330-02	98-337-01	98-337-08	98-342-04
98-323-03	98-331-01	98-337-02	98-337-09	98-343-03
98-330-01	98-333-01	98-337-05	98-342-01	98-344-01

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in

relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions listed above, we consider items 98-337-01 and 98-344-01 to be material weaknesses.

### **Work Performed by Other Auditors**

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

The Teacher Retirement System's management letter will be issued in March 1998 (SAO Report 98-325). The management letters for the Fire Fighters' Pension Commissioner and the Permanent School Fund are scheduled for release within the next few months.

This report is intended for the information of the Governor, the Legislature, management, and all federal and other entities from which federal financial assistance was received. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Lawrence F. Alwin, CPA  
State Auditor

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# **Our Compliments**

## Our Compliments to Agencies With No Findings

We are pleased to report that the following entities visited had no findings in the areas tested. The managements of these entities have established systems to ensure compliance with the state, federal, and/or bond regulations examined during the audit. While we recognize this accomplishment, it is important to understand that we may have only audited a very specific portion of the entity's operations. Three of the entities audited for federal compliance did not have any findings. The scope of our audit work at these entities is described below.

### Department of Transportation (Department)

The primary focus of our audit was the Department's financial and administrative controls over the *Federal Highway Planning and Construction* (CFDA 20.2005) program (\$1 billion), relating to the State's transportation system. We gained an understanding of the internal control structure, including general control environment, controls over federal billing, cash disbursements, payroll indirect costs, and the federal program. Specific procedures were used to test compliance with the major federal program.

### The University of Texas Southwestern Medical Center at Dallas (University)

The primary focus of our audit was on the University's Research and Development programs. Specific procedures were used to test compliance with federal requirements. The total dollar value of the Research and Development programs was approximately \$74 million in fiscal year 1996 and \$91 million in fiscal year 1997.

### Water Development Board (Board)

The primary focus of our audit was the Board's compliance with the federal requirements for the *Capitalization Grants for State Revolving Funds* (CFDA 66.458) program, representing \$68.6 million in expenditures for fiscal year 1997. We gained an understanding of the internal control structure including the general control environment. Specific procedures were used to test for compliance with the major federal program requirements.

### Bond Compliance Audits

The agencies and universities that had no findings for bond compliance audit work and the total dollars audited are represented in the following table.

<b>Agencies and Universities With No Bond Compliance Findings</b>	
Agency or University Name	Total Amount Bond Issues Outstanding as of Aug. 31, 1997 (Thousands) <sup>5</sup>
Angelo State University	\$ 4,790
Armory Board, Texas National Guard	26,710
Commerce, Texas Department of <sup>6</sup>	99,335
Coordinating Board, Texas Higher Education	553,397
Criminal Justice, Texas Department of	197,580
General Land Office and Veterans Land Board	1,419,052
Lamar University - Beaumont	15,297
Lamar University Institute of Technology	1,842
Lamar University - Orange	1,291
Lamar University - Port Arthur	1,804
Midwestern State University	10,100
Public Finance Authority, Texas	2,990,361
Sam Houston State University	12,210
Southwest Texas State University	72,180
Stephen F. Austin State University	27,650
Texas A&M University System	760,492
Texas Southern University	32,785
Texas State Technical College	10,535
Texas State University System	24,465
Texas Tech University	112,163
Texas Tech University Health Sciences Center	21,142
Texas Woman's University	27,585
University of Houston System	110,745
University of North Texas	40,735
University of North Texas Health Science Center at Fort Worth	9,655
The University of Texas System	1,095,055
Water Development Board	1,718,898
<b>Total</b>	<b>\$ \$9,397,854</b>

<sup>5</sup> Per Texas' 1997 Comprehensive Annual Financial Report

<sup>6</sup> The Texas Department of Commerce changed its name to Department of Economic Development, effective September 1, 1997.

# **Summary of Issues**

## Description of Issue Categories

The following information describes the nature of the categories used in "Summary of Current Issues by Agency and University" and "Summary of Current Federal Compliance Issues by Agency and University." The reporting in the "Summary of Current Issues by Agency and University" provides a summary of the issues identified in this report. Federal compliance issues are further analyzed in the "Summary of Current Federal Compliance Issues by Agency and University."

## Internal Controls

### Control Environment and Risk Assessment

The control environment reflects the overall attitude, awareness, and actions of the board, management, and others concerning the importance of and emphasis on controls within the organization. Risk assessment processes should be designed to identify factors that threaten the achievement of goals and to determine how risks should be managed. Findings related to the following control systems are summed under this category:

- Integrity and Ethical Values
- Risk Assessment
- Management Philosophy and Operating Style
- Managing Change
- Commitment to Competence
- Compliance with Laws and Regulations

### Policy Management

Policy management includes the systems, policies, and procedures for determining what the entity should be doing and how it should do it. Systems, policies, and procedures must be established and maintained to promote achievement of entity objectives and to limit risks that could jeopardize the achievement of objectives. Findings related to the following control systems are summed under this category:

- Planning and Budgeting
- Policies and Procedures
- Human Resources/Organizational Structure

### Performance Management

Performance management includes the systems, policies, and procedures that measure and monitor results. Findings related to the following control systems are summed under this category:

- Effectiveness and Efficiency of Operations
- Performance Measurement Systems

### Information Management

Information management includes the systems, policies, and procedures that provide appropriate, accurate, and timely information as needed to achieve entity objectives. Findings related to the following control systems are summed under this category:

- Information Flow and Communication
- Automation

### Resource Management

Resource management includes the systems, policies, and procedures used to safeguard and appropriately allocate and use the resources of the entity. Findings related to the following control systems are summed under this category:

- Assets
- Liabilities
- Revenues
- Expenditures

## Compliance

### Federal Compliance

There are many rules and regulations governing the accountability and use of federal awards. The rules and regulations are designed to ensure that the federal awards are used for their intended purpose and in an efficient manner. The Federal Government has categorized these into 14 types of compliance requirements. The first 13 types of compliance requirements may be applicable to all federal programs at agencies and universities. The fourteenth type, Special Tests and Provisions, contains various other requirements unique to individual federal programs. The 14 federal compliance requirements are briefly described below:

- a. Activities Allowed or Unallowed specifies the activities that can or cannot be funded under a federal program. Specific activities allowed or unallowed in each federal program are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program.
- b. Allowable Costs/Cost Principles includes the cost accounting policies prescribed by the Federal Government for the administration of federal awards. The required cost accounting policies are contained in the Office of Management and Budget (OMB) cost principle circulars. The circulars describe selected cost items, allowable and unallowable costs, and standard methodologies for calculating indirect costs rates.

- c. Cash Management specifies the federal rules for when and how federal funds are drawn from the U.S. Treasury to finance federal awards. These rules minimize the time that elapses between the transfer and disbursement of funds from the U.S. Treasury by grantees and subgrantees. They also specify the terms and conditions in which an interest liability would be incurred.
- d. Davis-Bacon Act establishes wages for laborers and mechanics employed by contractors or subcontractors who work on federally financed construction contracts in excess of \$2,000. These contracts must pay wages not less than prevailing wage rates established by the U.S. Department of Labor.
- e. Eligibility specifies the criteria for determining the individuals, groups of individuals, or subrecipients that can participate in the federal programs and the amounts for which they qualify. Specific eligibility requirements for federal programs are found in the laws, regulations, and provisions of contract or grant agreements pertaining to the program.
- f. Equipment and Real Property Management specifies how equipment and real property are to be used, managed, and disposed of under federal programs.
- g. Matching, Level of Effort, Earmarking specifies the matching, level of effort, and earmarking requirements for federal programs. The specific requirements for each federal program are found in laws, regulations, and provisions of the contract or grant agreements pertaining to each program.
- h. Period of Availability of Federal Funds establishes rules for when federal awards may be obligated and when those obligations must be liquidated.
- i. Procurement and Suspension and Debarment specifies the policies and procedures to use when procuring goods and services with federal funds. All pass-through entities must obtain a certification from all subrecipients and certain contractors documenting that they are not federally suspended or debarred.
- j. Program Income specifies how program income must be used. Program income is income received that is directly generated by the federally-funded project during the grant period.
- k. Real Property Acquisition and Relocation Assistance provides for uniform and equitable treatment of persons displaced by federally assisted programs from their homes, businesses, or farms.
- l. Reporting requires recipients to prepare and submit specific reports on the use of federal awards. The reports may include financial, performance, and special reporting information.
- m. Subrecipient Monitoring provisions in Office of Management and Budget (OMB) *Circular A-133* require Grant Recipients to ensure that subrecipients receiving certain levels of federal financial assistance are in compliance with Federal Single Audit requirements and that subrecipients comply with laws and regulations applicable to individual awards.

- n. Special Tests and Provisions specifies various other requirements unique to individual federal programs. These requirements are found in the laws, regulations, and the provisions of contract and grant agreements pertaining to individual programs.

### **State Compliance**

Entities must also comply with state laws and regulations such as the accrual of interest on delinquent child support, agencies' three day cash deposit rule, and universities' requirement for the preparation of a standardized student budget approved by the State's Higher Education Coordinating Board.

### **Bond Compliance**

Contractual promises within bond resolutions, known as covenants, set forth repayment schedules of principal and interest and other restrictions to protect the bondholders' investments. This category contains issues such as inadequate procedures to monitor interest payments, loan collections, investment transactions, and expenditures.

## **Accounting and Reporting**

Accounting and reporting includes issues that could impact the accuracy and completeness of the financial statements, such as promoting adherence to Generally Accepted Accounting Principles, ensuring the accuracy of financial reports, and ensuring timely correction of reconciling items and adjustments within the accounting records.

<p style="text-align: center;"><b>Special Note Regarding the Tables That Follow</b></p> <p>Some findings affect more than one issue. Therefore, the total number of issues in the following tables will not equal the number of findings written per state entity.</p>
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Summary of Current Issues by Agency and University												
Agency or University	Agency or University No.	SAO Report No.	Internal Controls					Compliance			Accounting and Reporting	Totals
			Control Environment and Risk Assessment	Policy Management	Performance Management	Information Management	Resource Management	Federal	State	Bonds		
Alcohol and Drug Abuse, Commission on	517	98-323	2	6		3	4	9				24
Attorney General, Office of the	302	98-329		1		2		2	1			6
Comptroller of Public Accounts	304	98-340	1	1		1		1			1	5
General Services Commission's State Energy Conservation Office	303	98-014		1		1	1		1			4
Health and Human Services Commission	529	98-322		3		1		3				7
Health, Department of	501	98-321		2		1	1	3				7
Hospital Equipment Financing Council <sup>7</sup>	075	98-502				1				1	1	3
Human Services, Department of	324	98-320		1		1	3	5				10
Lamar University - Beaumont	734	98-029	1	1		1	1	2				6
Protective and Regulatory Services, Department of	530	98-318		2			5	4				11
Sul Ross State University	756	98-031	1	1		1		2				5
	756	98-333		3		1		2				6
Texas A&M International University	761	98-331		2			1	1				4
Texas Southern University	717	98-337	1	9		1	3	4				18
The University of Texas at Austin	721	98-338		1				1				2
The University of Texas at Brownsville	747	98-343		4				3				7
The University of Texas at Dallas	738	98-330		1		1	1					3
The University of Texas at Tyler	750	98-344		5		1		6				12
The University of Texas Health Science Center at Houston	744	98-339		1				2				3
The University of Texas Health Science Center at San Antonio	745	98-342		6			2	4				12
Workforce Commission, Texas	320	98-319					2	2				4
<b>Totals</b>			<b>6</b>	<b>51</b>	<b>0</b>	<b>17</b>	<b>24</b>	<b>56</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>159</b>

<sup>7</sup> Of the entities listed in this summary, only the Hospital Equipment Financing Council was audited for bond compliance. Other entities that were audited for bond compliance and had no findings may be viewed in "Our Compliments."

Summary of Current Federal Compliance Issues by Agency and University																	
Agency or University	Agency or University No.	SAO Report No.	Compliance Requirements													Totals	
			Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability of Federal Funds	Procurement Suspension Debarment	Program Income	Real Property Acquisition and Relocation Assistance	Reporting	Subrecipient Monitoring		Special Test and Provisions
Alcohol and Drug Abuse, Commission on	517	98-323	1		1				1	1	1			1	2	1	9
Attorney General, Office of the	302	98-329														2	2
Comptroller of Public Accounts	304	98-340												1			1
General Services Commission's State Energy Conservation Office	303	98-014															0
Health and Human Services Commission	529	98-322														3	3
Health, Department of	501	98-321		1												2	3
Human Services, Department of	324	98-320		1			1						1			2	5
Lamar University - Beaumont	734	98-029					1									1	2
Protective and Regulatory Services, Department of	530	98-318	1	1			2										4
Sul Ross State University	756	98-031					1									1	2
	756	98-333														2	2
Texas A&M International University	761	98-331														1	1
Texas Southern University	717	98-337					1									3	4
The University of Texas at Austin	721	98-338														1	1
The University of Texas at Brownsville	747	98-343														3	3
The University of Texas at Dallas	738	98-330															0
The University of Texas at Tyler	750	98-344					3									3	6
The University of Texas Health Science Center at Houston	744	98-339														2	2
The University of Texas Health Science Center at San Antonio	745	98-342											1		3	4	
Workforce Commission, Texas	320	98-319		1												1	2
<b>Totals</b>			<b>2</b>	<b>4</b>	<b>1</b>	<b>0</b>	<b>9</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>3</b>	<b>31</b>	<b>56</b>

# **Schedule of Findings and Questioned Costs**

**(For the year ended August 31, 1997)**

The *Office of Management and Budget Circular A-133 (Circular A-133)* requires significant instances of noncompliance and questioned costs to be reported. This schedule includes a detailed list of findings and costs questioned as a result of the fiscal year 1997 statewide financial and compliance audit. Questioned costs are amounts charged to a federal program that may be unallowable. These costs result from noncompliance with requirements set by the federal grantor or federal legislation. The federal grantor will make the final determination as to the allowability of the costs. Unallowable costs may need to be returned to the federal grantor or program.

Findings are organized by state agency or university.

Section 1:

## Summary of Auditor's Results

Financial Statements		
1.	Type of auditor's report issued:	Unqualified
2.	Internal control over financial reporting:	
	a. Material weakness(es) identified?	No
	b. Reportable conditions identified not considered to be material weaknesses?	None Reported
	c. Noncompliance material to financial statements noted?	No
Federal Awards		
1.	Internal Control over major programs:	
	a. Material weakness(es) identified?	Yes
	b. Reportable condition(s) identified not considered to be material weaknesses?	Yes
2.	Type of auditor's report issued on compliance for major programs?	Unqualified <sup>8</sup>
3.	Any audit findings disclosed that are required to be reported in accordance with <i>Circular A-133</i> , Section 510(a)	Yes

<sup>8</sup> For all major programs except for the Student Financial Aid Cluster, which was qualified

4. Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.550	Food Distribution
10.557	Special Supplemental Food Program
14.228	Community Development Block Grant
14.239	Home Investment Partnership Program
17.207	Employment Service
17.225	Unemployment Insurance
17.246	Employment and Training Assistance
17.250	Job Training Partnership Act
20.205	Highway Planning and Construction
66.458	Capitalization Grant for State Revolving Funds
84.010	Title I Grants - Local Education Agencies
84.011	Migrant Education - Basic State Formula Grant Program
84.027	Special Education State Grant
84.048	Vocational Education - Basic Grants to States
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.569	Community Service Block Grant
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.645	Child Welfare Service
93.658	Foster Care - Title IV-E
93.959	Block Grant for Prevention and Treatment of Substance Abuse
Cluster	Food Stamps
Cluster	Nutrition
Cluster	Student Financial Aid
Cluster	Medicaid
Cluster	Research and Development
N/A <sup>9</sup>	Petroleum Violation Escrow Fund

<sup>9</sup> Petroleum Violation Escrow Funds received by the State as restitution relative to litigation involving violation of federal price controls are not federal funds but are subject to *Office of Management and Budget Circular A-133*.

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5.	Dollar threshold used to distinguish between Type A and Type B programs:	\$30 million
6.	Auditee qualified as low-risk auditee?	No

Section 2:

## Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*.

No matters were reported.

Section 3:

## Federal Award Findings and Questioned Costs

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

### ◆ Alcohol and Drug Abuse, Commission on ◆

Reference No. 98-323-01

#### Strengthen the Control Environment Over the Program Services Division

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

A weakness exists in the Program Services Division's (Division) control environment over the administration of substance abuse programs. The weakness has resulted in a lack of necessary documentation and adherence to established procedures designed to ensure compliance with the *Block Grants for Prevention and Treatment of Substance Abuse* program (SAPT). The risk to the Commission on Alcohol and Drug Abuse (Commission) is that allowable services may not be consistently provided in an efficient and economical manner.

Questioned Costs:	\$ 0
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U.S. Department of Health and Human Services
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The following are examples of deficiencies identified:

- The Commission does not have formal contracts with providers that are signed by all parties on a timely basis. Without a formal contract, the Commission may not be able to enforce contract provisions. The lack of a formal contract means the Commission must submit Grant Award Notices to providers and obtain alternate forms of acceptance such as Board Acceptance Minutes and Grantee Acceptance Notices. Out of 25 provider files tested, 13 (52 percent) did not contain the necessary documents.
- Available Grant Award Notices or Board Acceptance Minutes were dated after the cut-off date for obligating the 1996 SAPT block grant. Reasons for delays included difficulties negotiating final line-item budgets and delayed initiation of the contracting process. Although the Commission expended the 1996 SAPT block grant for authorized purposes, we were unable to determine whether the Commission obligated all funds by the cut-off date.
- The Division is not identifying on a timely basis the original source of funding for refunds, so that the Fiscal Department may clear the refunds from the Suspense Fund. We noted 106 (29 percent) of the 370 refunds received during state fiscal year 1997 remained in the Suspense Fund as of August 31,

1997. Commission policy requires the Division's Program Management Department to determine original source of funding within 48 hours of notification from the Fiscal Department.

- The Commission did not follow its funding procedures and rules for existing programs that were continued in 1998. No evidence exists to document the Commission's review of individual providers' ability to provide services. These reviews consist of annual provider performance reports and provider eligibility. Without these reviews, the Commission cannot ensure that the maximum benefit is received for over \$73 million expended on substance abuse prevention and treatment programs.
- The Commission failed to comply with procedures to review subrecipient quarterly Financial Status Reports for three of the four quarters in state fiscal year 1997. Without these reviews, the Commission may fail to identify and take corrective actions for subrecipients with unallowable costs or excess cash on hand. (Prior Audit Issue)
- The Commission did not notify subrecipients of award funding sources in state fiscal year 1997. *Office of Management and Budget Circular A-133* requires that pass-through entities identify federal awards by informing each subrecipient of the Catalog of Federal Domestic Assistance title and number, award name, number, year, and federal awarding agency. A lack of timely notification places the provider at risk of inaccurate financial reporting and delayed submission of single and program-specific audits.

Recommendations:

We recommend that the Commission:

- Create and implement formalized contracts to be signed by all parties for new and revised awards. Start the contracting process early enough so that contracts are finalized by the cut-off date for obligating SAPT block grant funds.
- Comply with the established policies and procedures regarding the clearance of refunds from the Suspense Fund.
- Follow and document established award funding procedures and rules.
- Comply with procedures to review subrecipient Financial Status Reports for unallowable costs and for cash on hand.
- Provide timely notification to subrecipients regarding federal funding award information.

Management's Response:

*The Commission concurs and will do the following to improve the control environment:*

- *The Commission will develop a policy and procedure by June 1998 to ensure that contracts are signed on a timely basis. The procedure will ensure that all funds are obligated by the appropriate SAPT block grant cut-off date.*
- *The Commission will comply with established procedures regarding the clearance of refunds from the Suspense Fund. The Suspense fund will be current by May 1998.*
- *The Commission will ensure that adequate documentation is maintained to document review of providers during the continuation process.*
- *The Commission will develop and use procedures to review subrecipient Financial Status Reports for unallowable costs and excess cash on hand. The commission will be current on the review of Financial Status Reports by June 1998. The Commission did have compensating controls during the fiscal year. The Compliance division reviews cash on hand for the current quarter during their audits of providers. Additionally, the Request for Advance form monitors cash advance requests against reported expenditures.*
- *The Commission implemented a process in February 1998 to notify subrecipients regarding federal funding award information at the time of each payment.*

*The Deputy of Finance and Administration Division will be responsible for correcting the finding.*

Reference No.98-323-02

**Improve Administrative Controls Over Federal Requirements**

(Prior Audit Issue)

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

Although the implementation of monthly variance reports has improved monitoring capabilities, the Commission continues to lack sufficient accounting procedures and fiscal controls to monitor and report spending activities in the *Block Grants for Prevention and Treatment of Substance Abuse* program. The Commission was the recipient of a federal block grant for prevention and treatment of substance abuse totaling over \$78 million for the 1996 and 1997 federal fiscal years. The block grant requires the Commission to meet specific thresholds on certain types of services. The following weaknesses were noted:

Questioned Costs:	\$ 0
U.S. Department of Health and Human Services	

- The Commission does not adequately review amounts reported to the Federal Government prior to submission.
- Internal funds included in maintenance-of-effort calculations are not consistent from year to year.
- The Commission has not documented how it defines eligible expenditures for determining compliance with maintenance-of-effort requirements.
- The Commission has not obtained supporting documentation from the Texas Department of Health for statewide non-federal expenditures for Early Intervention Services.
- One employee is responsible for preparing the spending activity reports; no one is cross-trained to perform those duties.

The *Code of Federal Regulations, Title 45, Section 96.30*, requires the Commission to establish accounting procedures and fiscal controls sufficient to monitor spending activity and ensure that block grant spending thresholds are met.

Recommendations:

We recommend that the Commission continue its efforts to improve accounting procedures and fiscal controls to monitor and report spending activities by:

- Implementing supervisory review of all federal reports
- Consistently applying procedures for preparation of maintenance-of-effort calculations
- Documenting definitions for qualifying expenditures of maintenance-of-effort calculations
- Obtaining documentation to support all reported data
- Cross-training employees to complete federal reports

Management's Response:

*Concur. A procedure will be developed, by June 1, 1998, to ensure that the narrative as well as the financial data and data tables included in the Block Grant application receive proper review. The Commission will document decisions made regarding qualifying expenditures for the maintenance of effort calculation. The Commission will develop and document procedures for the calculation of our SAPT Block Grant set-aside requirements by August 1, 1998. Additionally, the Commission will ensure that Fiscal Staff will be cross-trained to compile the financial data required by the Block Grant Application process.*

*The Deputy of Finance and Administration Division will be responsible for correcting the finding.*

Reference No. 98-323-03

### **Internal Audit Function Needs Improvement**

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

The internal audit function should be improved to more effectively assist the Board of Commissioners (Board) and executive management in the discharge of their responsibilities. We identified the following deficiencies:

Questioned Costs:	\$ 0
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U.S. Department of Health and Human Services
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- Insufficient communication between the Board, executive management, and the internal auditor
- Lack of compliance with the internal audit charter regarding the annual evaluation of the internal auditor, biannual Audit Committee meetings, and Audit Committee membership reappointment
- Lack of Board approval for audit plan revisions

#### Recommendation:

We recommend that the Commission ensure that the internal audit function is improved to effectively assist management. Communications between elements of the internal audit function can be improved by having the Board:

- Comply with the internal audit charter requirements of biannual Audit Committee meetings and annual review of appointments to the Audit Committee.
- Develop a methodology for evaluating the internal auditor. The methodology could include performance measures.
- Evaluate the internal auditor's performance.
- Participate in the Internal Audit Department's budget preparation
- Document the consideration of audit report recommendations through Board minutes or Commission memorandums.

#### Management's Response:

*The Board of Commissioners will review the constitution of the Board Audit Committee and appoint its membership in March 1998. The Audit Committee will be*

*charged with carrying out its responsibilities including biannual meetings. The Board will, working through its Audit Committee, evaluate the performance of the internal auditor on or before the date of the May 1998 Board meeting using current agency methodology and forms.*

*The Board of Commissioners will require the internal auditor to submit an annual budget request directly to the Board for review and approval by April 30, 1998. That budget request, as approved, will then be forwarded to agency management for inclusion in the annual agency budget. Any future budget revisions proposed for the internal audit function will also be directly reviewed for approval/disapproval by the Board upon submission.*

*The Board of Commissioners will, either within the minutes of a Board meeting, or by memoranda to agency management, document its consideration of internal audit report recommendations or any Board directions for agency management action on those recommendations.*

*The Executive Director will be responsible for correcting the finding.*

Reference No. 98-323-04

## **Improve Procedures for Collection of Questioned Costs**

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

No procedures exist establishing criteria for repayment of subrecipient questioned costs. Current practices of negotiating payment plans allow interest- and penalty-free repayment periods extending beyond expiration of the original grant. Repayments received for expired grants are no longer available for state use and must be remitted to the federal awarding agency. This creates a risk of the State failing to maximize the use of federal funds.

Questioned Costs:	\$ 0
U.S. Department of Health and Human Services	

Program regulations and statutes require funds to be obligated and expended within the two-year block-grant period. A one-year period of liquidation follows which allows for the drawing of funds for expenditures obligated. Questioned costs returned to the Commission within this third year may be reused for other expenditures incurred during the initial two-year period of availability.

The outstanding balance for questioned costs on payment plans is \$1,732,705. Approximately 93 percent of this balance is attributed to payment plans exceeding one year. Moneys received from payments that exceed the three-year period of availability for the grant that originally funded the questioned cost will have to be returned to the federal awarding agency. Returned payments are no longer available for state use.

Recommendation:

We recommend that policies and procedures for the collection of questioned costs be written and implemented. The procedures should include:

- Evaluations of ability to repay questioned costs using existing financial information
- Requirements that maximize repayments within the original grant period
- Consideration of services in lieu of payment for repayments of questioned costs outside the original grant period

Although not required, we recommend the Commission consider assessing interest or penalties to subrecipients requesting payment plans for questioned costs.

Management's Response:

*Concur. The Commission will develop a policy and procedures for repayment of questioned costs. The policy will be developed and procedures implemented by May 1, 1998. It's important to note that two providers represent 92% of the outstanding balance for questioned costs discussed above.*

*The Deputy of Compliance Division will be responsible for correcting the finding.*

Reference No. 98-323-05

**Improve Controls Over Independent Peer Review Process**

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

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

Procedures are not in place to ensure that programs selected for independent peer review are representative of all funded treatment programs in the State. In addition, policies and procedures are not enforced to ensure that peer reviewers collect and document the necessary forms and information. For example:

- Confidentiality or conflict-of-interest forms were not obtained from peer reviewers for state fiscal year 1997.
- The entity reviewed, the peer reviewer, or the date of the review were not documented for 6 of the 11 programs reviewed in state fiscal year 1997.

Questioned Costs:	\$ 0
U.S. Department of Health and Human Services	

The Commission is required to perform independent peer reviews that assess the quality, appropriateness, and efficacy of program treatment services provided. The

peer reviews must include a representative sample of not fewer than 5 percent of the entities providing program treatment services in the State. Although the Commission adequately documented 20 peer reviews (5.9 percent) of 339 treatment programs, which represented \$6,208,625 (6.06 percent) of the \$102,425,789 treatment program dollars funded in state fiscal years 1996 and 1997, there is no assurance that the selection of programs reviewed were representative of all funded programs in the State.

Noncompliance with independent peer review requirements may result in the loss of federal funds.

Recommendation:

We recommend that the Commission establish procedures to ensure that peer reviews include a representative sample of all treatment programs. We further recommend that the Commission enforce established procedures to ensure that necessary forms are obtained and individual peer reviewer and treatment program information is documented.

Management's Response:

*Concur. The Commission will revise its procedures by May 1998 to ensure that programs selected for independent peer review are representative of all funded treatment programs in the State. Additionally, the Commission has revised our procedures in February 1998 to ensure that all necessary forms are obtained and other information is properly documented.*

*The Deputy of Program Division will be responsible for correcting the finding.*

Reference No. 98-323-06

## Improve Procurement Procedures Related to Federal Requirements

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

The Commission's Goods Procurement Department does not have procedures in place to address federal requirements related to suspension and debarment. This results from a lack of established procedures for communicating changes in federal requirements that impact procurement practices. We noted one procurement expenditure for a telecommunications system which was not supported by evidence certifying that the vendor and its principals were not suspended or debarred from doing business with the Federal Government. This error resulted in known questioned costs of \$126,525.

Questioned Costs: \$126,525

U.S. Department of Health  
and Human Services

The *Office of Management and Budget's Circular A-133* prohibits non-federal entities from contracting or making subawards to parties that are suspended or debarred for transactions equal to or greater than \$100,000. The Commission is responsible for obtaining a certification from the vendor which indicates that the vendor and its principals are not suspended or debarred.

Recommendation:

We recommend that the Commission create and implement procurement procedures that address federal requirements. These procedures should ensure that suspension and debarment requirements are met.

Management's Response:

*Concur. A new policy and procedures have been implemented as of February 1998 that ensures that all state and federal guidelines relating to suspension and debarment of entities are fulfilled.*

*The Deputy of Finance and Administration Division will be responsible for correcting the finding.*

◆ Attorney General, Office of the ◆

Reference No. 98-329-01

## Enhance Policies and Procedures for the Medicaid Fraud Control Unit

### CFDA 93.775 - State Medicaid Fraud Control Unit

The Medicaid Fraud Control Unit does not have formal procedures for recording the exact date of receipt of fraud referrals or the date the preliminary investigation was performed.

Additionally, formal procedures were not in place during fiscal year 1997 for notifying the Health and Human Services Commission of the

disposition of those referrals that were not opened into an investigation. This weakness affects the *State Medicaid Fraud Control Units* program which had program expenditures of \$1,857,895 in fiscal year 1997.

Questioned Costs:	\$ 0
U.S. Department of Health and Human Services	

Without formal policies and procedures to guide the referral process, the Medicaid Fraud Control Unit risks inconsistent enforcement of federal and state requirements as well as inefficient administrative operations.

Terms cited in the Memorandum of Understanding (MOU) between the Office of the Attorney General, the Health and Human Services Commission, and the Department of Health have not been clearly defined. For example, the MOU states that the Medicaid Fraud Control Unit "shall take prompt action on referrals of potential fraud from the Department [of Health]." During fiscal year 1997, the Medicaid Fraud Control Unit had not defined prompt action in terms of timeliness or the steps needed to be considered an action. The MOU and the original federal grant application state that specific written procedures for referrals be adopted by the parties. Senate Bill 30, 74th Legislature, effective September 1, 1997, now requires the Medicaid Fraud Control Unit to act within 30 days of referral of the case from the Commission.

#### Recommendation:

We recommend that the Medicaid Fraud Control Unit:

- Further develop, update, and document procedures for recording and processing referrals.
- Clearly delineate the referral process and more clearly define terms with input from the Health and Human Services Commission.

Management's Response:

*Thank you for the opportunity to respond to the findings noted during your recent audit. The OAG is pleased that the observations were confined to procedural enhancements. Nothing was cited which suggests the unit is not meeting its congressional mandate to conduct criminal investigations into allegations of wrongdoing by Medicaid providers in the Medicaid arena. The OAG is justifiably proud of the work it does.*

*Medicaid Fraud Control Unit response to State Auditor's Recommendations:*

- *The unit does have procedures for recording, reviewing and acting on fraud and drug diversion referrals that come into the unit. The operations director logs in the referral and assigns a tracking number to it. At the next weekly meeting, senior staff discuss the next action to be taken on the referral, i.e. conduct a preliminary investigation, open a case, refer to another agency, or take no further action. Because of the unit's desire to continue refining procedures, we have recently formalized new central intake procedures and they will be in place March 23, 1998. The unit has been moving in this direction since it began steps to redesign its computerized case management system last year.*
- *We are already in discussion with HHSC regarding the establishment and documentation of formal referral procedures which include more clearly defined terms.*

*Listed below are some additional comments that are intended to clarify several statements in the audit report.*

- *SAO audit report, first paragraph, first sentence: OAG agrees. However, prior to September 1, 1997, no such requirement existed nor do we know of a single instance in which the information was requested. The date of receipt can be determined on most referrals as can the date the preliminary investigation was conducted. The unit will document this procedure in its procedures manual.*
- *SAO audit report, first paragraph, second sentence: Again, OAG agrees. Again, prior to September 1, 1997, no such requirement existed. However, had HHSC asked for the information, we would have supplied it. Since Senate Bill 30, the unit has notified HHSC in writing when it is not going to investigate an HHSC referral.*
- *SAO audit report, second paragraph: We agree with the auditor's assertion that risk is an important internal control consideration and believe that the unit's policies and procedures mitigate the risk of inconsistent enforcement and inefficient operations. In fact, the risk has not materialized in the unit.*

*The Division Chief over Medicaid Fraud will be responsible for implementation of the corrective action.*

Auditor's Follow-Up Comment:

During our tests, neither the date of receipt of fraud referrals nor the date of the preliminary investigation could be determined on most referrals. Although there were no statutory requirements to dictate procedures discussed in this section, good business practice calls for effective documentation and communication of business activities to ensure proper and timely action. This has been reinforced by the passage of SB30, which now requires these actions. However, we believe that management should not wait for statutory requirements or for risk to materialize to implement sound internal controls.

Reference No. 98-329-02

**Ensure Accuracy of Child Support Arrearage Balances**

(Prior Audit Issue)

**CFDA 93.563 - Child Support Enforcement**

The Office of the Attorney General (Office) does not maintain accurate child support arrearage balances on the Child Support Enforcement automated system. Arrearage balances represent past-due child support. Accuracy is essential to ensure collecting the full amount due, if possible, and to prevent over-collection. Additionally, correct arrearage balances help ensure proper distribution of child support payments.

Questioned Costs:	\$ 0
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U.S. Department of Health and Human Services
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Of the 46 child support cases tested, 18 had incorrect arrearage balances, resulting in a 39.1 percent error rate. This error rate is consistent with errors noted during the last eight audits (since fiscal year 1989). The Office's Internal Audit and the Child Support Division's Program Monitoring sections noted similar error rates from their own reviews of arrearage balances.

There are over 863,000 child support cases handled through the *Child Support Enforcement* program. Approximately 443,000 cases have court-ordered support that must be monitored for arrearage balances.

Data entry errors and misinterpretation of support order information contribute to the inaccuracy of arrearage balances. The Office implemented the Texas Child Support Enforcement System (TXCSES) in September 1997. This new automated system may improve the accuracy of the arrearage balances.

Recommendation:

We recommend the Office ensure the accuracy of the arrearage balances on the current Child Support Enforcement System. Procedures should be developed to review case file data when it is entered, modified, or deleted in order to minimize errors.

Management's Response:

*The Child Support Division continues to monitor the accuracy of child support arrearage balances. Field management staff have continued to review, on a quarterly basis, child support balances and have developed corrective action plans as deemed appropriate. Child Support staff entering case file data have been required to complete the division's certified arrearage training sessions. However, due to the high turnover rate of staff reviewing the arrearage balances, it has been difficult to maintain a consistent level of knowledge and expertise in the handling of this issue.*

*Currently, all child support arrearages are computed by TXCSES. Implementation of TXCSES occurred on September 8, 1997, and the system has been calculating child support arrearages. Program Monitoring, was to conduct a quarterly review in January 1998, but due to issues relating to TXCSES's implementation, the review was temporarily postponed. Program Monitoring will assess the results of this automation by the end of the second quarter of FY'98.*

- QUALITY CONTROL: *Continued efforts will be made at the field offices and area management levels to monitor and adjust, as appropriate, the current quality control processes in the respective area field offices.*
- QUARTERLY REVIEW: *Area management will continue to ensure that quarterly reviews are conducted in their respective area field offices and shall continue to ensure corrective action plans are prepared and implemented accordingly.*
- VISITATION OF REVIEWS: *Division level management, with assistance of the OAG Program Monitoring Section, will conduct quarterly reviews by Area to ensure and validate the Area level reviews.*

*The Director of Field Operations will be responsible for implementation of the corrective action.*

◆ Comptroller of Public Accounts ◆

Reference No. 98-340-01

**Continue to Implement Procedures to Ensure the Schedule of Expenditures of Federal Awards Fully Complies With *Office of Management and Budget Circular A-133***

The Schedule of Expenditures of Federal Awards (Schedule) presented in *Texas' 1997 Comprehensive Annual Financial Report* (CAFR) was not prepared in full compliance with the revised *Office of Management and Budget Circular A-133* (*Circular A-133*). This was caused by the late issuance of the revised *Circular A-133*, additional information required by *Circular A-133*, and the large number of federal awards expended by the state agencies and universities.

Questioned Costs:	\$ 0
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This finding affects all federal agencies that provide federal awards to the State of Texas.

During fiscal year 1997, the State expended \$16 billion from approximately 7,500 individual federal awards.

The revised *Circular A-133*, which requires the auditee to prepare the Schedule, was published in the Federal Register only two months before the end of the State's fiscal year. Although the *Comptroller's Reporting Requirements for Annual Financial Reports* included instructions to state agencies and universities to comply with the revised *Circular A-133*, many state agencies and universities were not able to modify their systems in time to include the additional information in their reports. Much of the additional information was not previously captured by state agency and university systems.

A summarized Schedule was prepared for the fiscal year 1997 CAFR because the Comptroller was not able to obtain the additional information for inclusion in the CAFR. The summarized Schedule was in substantial compliance with the requirements of *Circular A-133* for this "transition" year.

Since the release of the CAFR, the additional information has been obtained and will be submitted in the final reporting package to the Federal Government in compliance with *Circular A-133*.

Recommendations:

To ensure the Schedule of Expenditures of Federal Awards for fiscal year 1998 is prepared in full compliance with *Circular A-133*, the Comptroller's Office should:

- Immediately communicate to the state agencies and universities the areas where insufficient information was received for fiscal year 1997 and the need to modify their systems to capture the additional information.

- Implement internal procedures to prepare the Schedule in full compliance with *Circular A-133*.
- Revise the *Comptroller's Reporting Requirements for Annual Financial Reports* as necessary to emphasize the additional information requirements.

*Management's Response:*

*As recommended, immediately following the preparation of the CAFR, the Comptroller's Financial Reporting Section contacted those state agencies and universities which failed to furnish the additional information required under revised Circular A-133. As noted in the State Auditor's finding above, the additional information was obtained from the various agencies and institutions and will be submitted in the final reporting package. It should be noted that, while the information was completed subsequent to the audit, it was completed within the time frame allowed by the Circular.*

*Procedures for preparing the Schedule of Expenditures of Federal Awards will be modified to ensure full compliance with the Circular in future years. This will include revising the "Comptroller's Reporting Requirements for Financial Reports" to emphasize the additional reporting required of agencies under the revised Circular.*

*Implementation Date: July 15, 1998*

*Responsibility: Financial Reporting Section Manager – Fund  
Accounting*

*The Comptroller's Office wishes to acknowledge the assistance provided by the State Auditor's Office in conducting training for state agencies on the new requirements of OMB Circular A-133 and for their efforts related to preparation of the Schedule and for their work with the state's federal cognizant agency on matters related to the implementation of the Circular in this transition year.*

## ◆ Health, Department of ◆

Reference No. 98-321-01

**Document Procedures for the Detection and Referral of Potential Fraud****CFDA 93.778 - Medical Assistance Program**

During fiscal year 1997, there were no documented policies and procedures in the Department of Health's (Department) Vendor Drug Program for the detection and referral of potential fraud. Additionally, the Vendor Drug Bureau did not maintain a record of referrals to the Health and Human Services Commission or the Office of the Attorney General for fiscal year 1997. This is corroborated by the Internal Audit Division which recently concluded a review of the Vendor Drug Bureau. This weakness affects the *Medical Assistance Program*.

Questioned Costs:	\$ 0
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U.S. Department of Health and Human Services
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The Department has several sources from which potential fraud related to the Vendor Drug Program can be detected including regional pharmacists, the drug utilization review process, internal audit, and a telephone hot line. There is an adequate utilization review process. In addition, the Internal Audit Division conducts compliance audits at pharmacies on a continuous basis. These compliance audits led to three referrals in fiscal year 1997. Although the Internal Audit Division does not have specific procedures for detection and referral of fraud, it appears that the Internal Audit Division has recognized its responsibilities according to generally accepted auditing standards to be alert to potential fraud and make appropriate referrals.

Recommendation:

The Vendor Drug Bureau should document policies and procedures for the detection and referral of potential fraud. Additionally, management should establish a tracking system for potential Medicaid fraud detected and referred to the Health and Human Services Commission.

Management's Response:

*TDH agrees with the audit finding that there were no documented procedures for the referral of fraud cases to the Health and Human Services Commission (HHSC) during fiscal year 1997. Following a recent and similar finding by the TDH Internal Audit Division on this topic, the Vendor Drug Bureau staff have initiated a meeting with the HHSC Office of Investigations and Enforcement to develop the following procedures:*

- *HHSC will develop a standardized fraud referral document. Pending development of this referral document all referrals from the Vendor Drug Bureau will be made electronically via E-mail to HHSC Office of*

*Investigations and Enforcement (with supporting documentation forwarded via interagency mail).*

- *HHSC will share information regarding the status of pending fraud referrals with the Vendor Drug Bureau. This will enable the Vendor Drug Bureau to promptly initiate any necessary follow-up administrative actions.*
- *Fraud referrals from the Vendor Drug Bureau will be directed only to the HHSC Office of Investigations and Enforcement and they will coordinate referrals with the Attorney General's Medicaid Fraud Unit. The Vendor Drug Bureau will continue to respond and work directly with the Attorney General's Medicaid Fraud Unit when assistance with securing records or other fraud investigations activities are requested.*
- *Referrals made from the Vendor Drug Bureau will be kept in a central file. The electronic E-mails will serve as the central file until HHSC completes development of a formal fraud referral and tracking system*

*Bureau Chief, Vendor Drug Bureau, is the contact person responsible for corrective action.*

Reference No. 98-321-02

**Consistently Comply With All Food Voucher Reconciliation Requirements**

**CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children**

The Department should consistently comply with all food voucher reconciliation requirements for the U.S. Department of Agriculture's *Special Supplemental Nutrition Program for Women, Infants, and Children*. A reasonable effort was not made to match all redeemed food vouchers to validly issued vouchers within 150 days of the first valid date that the participant could use the voucher. This requirement is part of the federal regulations found in *Title 7 of the Code of Federal Regulations, Sections 246.12 (n) and 246.23 (a) (4)*.

Questioned Costs: \$145,131  U.S. Department of Agriculture
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As food vouchers are received from the *Special Supplemental Nutrition Program for Women, Infants, and Children* (Program) vendors, they are electronically matched to validly issued vouchers. Historically over 99 percent of the vouchers are matched through this process. However, some of the approximately 1.5 million vouchers received from the Program vendors each month are not matched, and the reason why is not known. The Department pays the vendors for these redeemed vouchers that were not classified as validly issued on the database. In the past, a list of the unmatched vouchers was sent to the local agencies to research the discrepancy. In most cases the local agencies determined that the voucher should have been classified as validly issued.

During the 1997 fiscal year, the Program staff requested the local agencies to research the unmatched food vouchers only for the month of November 1996. Unmatched food vouchers issued during the months of May, June, and July 1997 were referred to the local agencies after November 1997. However, this was after the 150-day limit stated in the federal requirements.

The unmatched food vouchers used by participants during fiscal year 1997 that were not referred to the local agencies in a timely manner resulted in questioned costs of \$145,130.87 on 6,146 food vouchers. This includes \$39,891.45 on 1,739 food vouchers for the months of May through July 1997. The rate of the unmatched vouchers since November 1996 has been less than .06 percent.

Program staff members at the Department intend to request a waiver from the requirement to refer the unmatched redeemed food vouchers to the local agencies. They believe it is not cost effective to go through this process because of the low percentage of unmatched vouchers. In addition, most of these vouchers historically have been found to be validly issued.

Recommendation:

Although the process of referring unmatched food vouchers to local agencies may not be cost effective given the low rate of unmatched vouchers, it still must be done to be in compliance with federal requirements. Therefore, we recommend that the Program staff consistently comply with this reconciliation requirement and refer unmatched food vouchers to the local agencies in a timely manner until a waiver is obtained.

Management's Response:

*While the Program's position is that .06% of initially unmatched food vouchers to an issuance record is not material, it agrees with the finding. The Program has already begun the process of referring all the unmatched vouchers to local agencies from November 1996 to present and will continue to do so each month forward.*

*Division Director, Local Agency and Vendor Management Division, is the contact person responsible for corrective action.*

Reference No. 98-321-03

**More Care Should Be Used to Scan Food Vouchers for Counter Signatures**

**CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children**

The Department should use more care to scan for counter signatures on food vouchers used for the U.S. Department of Agriculture's *Special Supplemental Nutrition Program for Women, Infants, and Children*. The procedure, which

Questioned Costs:	\$190
U.S. Department of Agriculture	

consists of visually scanning the vouchers, did not detect five out of six food vouchers in our test sample that did not have the required counter signature. *Title 7 of the Code of Federal Regulations, Section 246.12 ( r ) (5)* requires the Department to establish procedures to ensure the propriety of redeemed food vouchers.

In addition, the Department's procedures did not detect 6 out of 30 food vouchers in our test sample that were not in compliance for other reasons. Of these six food vouchers that were not in compliance, three had a signature that differed from the authorized signature, and three were accepted by the vendor before the allowable period to spend.

The amount of questioned costs for the 11 food vouchers that were not in compliance with the Program requirements was \$189.50. The amount of the food vouchers sampled was \$46,783.24, out of a total population of \$351,576,605. If the results of our test were projected to the population of all fiscal year 1997 food vouchers, the projected amount would exceed \$10,000.

Recommendation:

We recommend that the Department use more care when scanning the food vouchers for the existence of counter signatures. Given the volume of food vouchers processed each month, we believe the other procedures used are reasonably effective in detecting food vouchers that are not in compliance with program requirements and should be continued.

Management's Response:

*The Program agrees with this finding. The claims intake staff have already undertaken to double the effort by fanning through each stack of vouchers twice. Additionally, on February 2, 1998, the United States Department of Agriculture approved a sampling plan for a visual inspection of food vouchers. Therefore, starting in March 1998, a sample of approximately 2,400 food vouchers will be examined manually each month to detect errors such as missing or non-matching counter signature as well as missing redemption dates and altered amounts.*

*Division Director, Local Agency and Vendor Management Division, is the contact person responsible for corrective action.*

◆ Health and Human Services Commission ◆

Reference No. 98-322-01

## Investigative Files and Reports Should Be Improved

### CFDA 93.778 - Medical Assistance Program

A review of Medicaid investigation case folders and reports at the Health and Human Services Commission (Commission) Medicaid Program Integrity unit revealed weaknesses in the documentation of Medicaid fraud investigations.

Questioned Costs:	\$0
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U.S. Department of Health and Human Services
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- The following weaknesses were noted in investigative case files:
  - Five of 31 (16 percent) requested files could not be located.
  - Investigators' identities were not evident in 11 of 20 (55 percent) cases.
  - A preliminary investigation was not evident in 10 of 12 (83 percent) cases reviewed.
  - A case investigation log or other documentation to describe the status of the investigation was not evident in 10 of 24 (42 percent) cases.
  - Three (12 percent) cases were closed with no apparent support for case closure.
  - Two (8 percent) cases were open with no support of why the cases remained opened.

A lack of policies and procedures regarding investigations and file maintenance has resulted in inconsistent exercise of responsibilities and insufficiently documented files. These results corroborate an Internal Audit report dated June 1997 that recommended the development of written policies and procedures for investigations and file management.

- Reports used for managing investigations may not yield useful information:
  - Three different reports are used to track the status of cases: the 90H Open Cases report, the 90H Closed Cases report, and the Case Tracking file.
  - The 90H reports cannot be easily reconciled to the Case Tracking file.

- The column information on the 90H reports is incomplete; for example, data is not entered in every column for every case, and data appears to be entered inconsistently.

The Commission reports open and closed investigations from the Office of the Attorney General Medicaid Fraud Control Unit and the Commission's Medicaid Program Integrity unit. However, 59 percent of the Medicaid Fraud Control Unit's closed cases and 29 percent of the Medicaid Fraud Control Unit's open cases did not appear on the 90H report for fiscal year 1997. Based upon our test work, we were unable to conclude whether the Medicaid Fraud Control Unit did not communicate the information to the Commission or whether the Commission did not properly capture the information.

Recommendation:

The Commission should continue with its efforts to develop procedures and reports for its investigative activities. A policy should be established requiring compliance with the developed procedures. Management should implement procedures to ensure that the collection and input of data is complete and accurate.

Management's Response:

*Corrective action began early in fiscal year 1998, and management plans to have all deficiencies, except for the conversion of the 90H report, identified and corrected within the first two quarters of fiscal year 1998. The Associate Commissioner for Investigations and Enforcement will oversee this activity. Steps have been taken to correct the weaknesses identified. These include:*

1. *Investigative staff reviewed all Medicaid Program Integrity (MPI) files from 1991 to date. Deficiencies in the files have been noted and corrected, when possible.*
2. *A new filing system is in place as of February 1, 1998. Controls have been established to enter, pull, and/or archive files. File custodians have been designated.*
3. *Procedures to open, assign, transfer, and/or close are part of the filing system procedures and will be incorporated in the compliance manual for MPI.*
4. *Draft investigative procedures were completed by December 31, 1997 and are currently being edited. Final procedures, in the form of a compliance manual, will be published no later than April 15, 1998. These procedures include requirements for investigative plans, case logs, and standard case documentation.*

*Staff in the Office of Investigations and Enforcement, with assistance from the Commission's Database Manager, are currently developing a database and report format to replace the 90H report and consolidate all information in one tracking system. This is a labor-intensive process as all cases in the 90H will have to be*

entered into the new tracking system, and it is expected to be completed no later than August 31, 1998.

*The Commission and the Office of the Attorney General have been negotiating a new memorandum of understanding and procedures to improve the communication between the Medicaid Fraud Control Unit (MFCU) and the Commission. All information received from the Office of the Attorney General has been promptly captured by the Commission, but we agree the information for MFCU cases in the 90H report is still incomplete.*

Reference No. 98-322-02

## **Hospital Utilization Review Procedures Should Address Fraud Detection and Referral**

### **CFDA 93.778 - Medical Assistance Program**

The hospital utilization review process at the Texas Department of Human Services did not include procedures for identification and referral of potential Medicaid fraud during fiscal year 1997. According to agency personnel, there were no referrals during fiscal year 1997 for potential Medicaid fraud cases as a result of the hospital utilization review process. Procedures for Medicaid fraud detection were documented as of December 22, 1997, and included as part of the Nurses Review Manual. Nurse Reviewers are scheduled to receive training in Medicaid fraud detection during fiscal year 1998.

Questioned Costs:	\$0
U.S. Department of Health and Human Services	

#### Recommendation:

The Commission should ensure that procedures for Medicaid fraud detection and referral are adopted and that nurse reviewers receive necessary training in techniques for detection of Medicaid fraud.

#### Management's Response:

*During fiscal year 1997, the hospital utilization review (UR) process was a function of the Texas Department of Human Services. Senate Bill 30, 75<sup>th</sup> Legislature, Regular Session, transferred this function to the Commission effective September 1, 1997. Upon transfer of the UR function, a complete assessment of its organization, functions, skills, issues, and performance was conducted. Even before procedures were documented on December 22, 1997, information had been given to the nurse reviewers through staff meetings, conference calls, memoranda and E-mail, as to referral procedures. In addition to a procedures guide, nurse reviewers are scheduled to receive training in Medicaid fraud detection and referral during the annual Spring training scheduled for April 1998. The Associate Commissioner for Investigations and Enforcement will oversee this activity.*

Reference No. 98-322-03

## Claims Review Procedures Should Address Fraud Detection and Referral

### CFDA 93.778 - Medical Assistance Program

During fiscal year 1997, the claims monitoring and referral function at the Texas Department of Health did not include formal procedures for the detection and referral of potential Medicaid fraud in its claims review process. Referrals for improper payments were made to other program areas, such as the Texas Department of Human Services Hospital Utilization Review and the National Heritage Insurance Company. However, there were no formal fraud referrals to the Commission's Sanctions unit or the Office of the Attorney General Medicaid Fraud Control Unit during fiscal year 1997. A new handbook has been developed in fiscal year 1998 which documents procedures for fraud detection and referral.

Questioned Costs:	\$0
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U.S. Department of Health and Human Services
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#### Recommendation:

The Commission's Compliance Monitoring and Referral section should ensure that procedures for Medicaid fraud detection and referral are documented and implemented as a part of its claims review process.

#### Management's Response:

*During fiscal year 1997, the compliance monitoring and referral (CMR) process was a function of the Texas Department of Health. Senate Bill 30, 75<sup>th</sup> Legislature, Regular Session, transferred this function to the Commission effective September 1, 1997. Upon transfer of the CMR function, a complete assessment of its organization, functions, skills, issues, and performance was conducted. Even before procedures were documented, information had been given to the CMR analysts through staff meetings, conference calls, memoranda and E-mail, as to referral procedures. In addition to a procedures manual, CMR analysts are scheduled to receive training in Medicaid fraud detection and referral no later than April 1998. The Associate Commissioner for Investigations and Enforcement will oversee this activity.*

◆ Human Services, Department of ◆

Reference No. 98-320-01

**Procedures for Fraud Detection and Referral Should Be Updated and Fully Implemented**

**CFDA 93.778 - Medical Assistance Program**

The Department of Human Services (Department) has documented procedures in place for the detection and referral of possible Medicaid fraud documented in the *Fair Hearings, Fraud, and Civil Rights Handbook*. The Department also has standard forms for the referral of potential fraud to appropriate entities. However:

Questioned Costs:	\$0
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U.S. Department of Health and Human Services	
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- Portions of the Handbook are outdated, and there was no evidence that the forms were used in fiscal year 1997.
- The Program areas did not maintain a record of referrals during fiscal year 1997.
- Staff awareness and training for these procedures were lacking in the Program areas in fiscal year 1997.

Currently, only the Sanctions Section has documented procedures for both the detection and referral of fraud. These procedures are in the Sanctions Section's own handbook, which contains a definition of fraud, where fraud should be reported, and generalized questions to assist in determining when fraud referrals should be made. Other areas such as Community Living Assistance and Support Services (CLASS), Day Activity Health Services (DAHS), and Trust Fund Monitoring do not have specific, documented procedures for the referral of suspected fraud within their own procedures manuals.

Recommendation:

The Department should:

- Ensure that policies and procedures for the detection and referral of potential Medicaid fraud are updated and fully implemented.
- Maintain a record of referrals.
- Provide training to staff members who are in a position to detect and refer potential fraud.

Management's Response:

We agree with the recommendation. Our action plan is as follows:

- Regional Directors for Services to Aged and Disabled will be contacted and directed to identify all field staff positions (primarily case workers and contract management staff) who are potentially in a position to detect Medicaid fraud.

Implementation Date: April 30, 1998

Responsible Person: LTC/RD Liaison, Long Term Care Services

- Materials dealing with fraud referral currently found in some program handbooks, in the available Fraud Handbook, or in instructions sent by the Office of Program Integrity to field staff concerning detection and referral of provider fraud, will be identified, restated in an Information Letter, and sent to all field staff who are identified by their Regional Directors (see immediately above). This will serve to inform all staff who are active case workers or contract managers of the appropriate procedures to follow in referring suspected fraud.

Implementation Date: April 30, 1998

Responsible Person: Director, Client Eligibility

- The Contract Managers' Handbook (previously titled Contract Managers' Guide) will be updated, with material related to fraud detection and referral. The Sanctions Section, which includes fraud will be revised to include more information on how to detect fraud/patterns, guidance on determining fraud, and to whom fraud should be referred. Training regarding the Handbook will be provided to contract management.

Implementation Date: July 31, 1998

Responsible Person: Acting Director, CCAD

- The Trust Fund Monitoring Procedural Guide also will be updated in the Sanctions Section (see immediately above) to include fraud assessment and reporting procedures; monitoring staff will receive training on this material.

Implementation Date: July 31, 1998

Responsible Person: Audit/Trust Fund Coordinator, Long Term Care - Regulatory

- The Information Letter sent to staff will be added to the Basic Job Skills Training (BJST) materials for use in training new staff.

*Implementation Date: July 31, 1998*

*Responsible Person: Director, LTC Education Services*

- *Information sent to staff, provided to contract management, and incorporated into BJST will be incorporated in all appropriate program handbooks as an amendment.*

*Implementation Date: December 31, 1998*

*Responsible Person: Appropriate Section Administrators, Long Term Care Services, Assistant Deputy Commissioner, Long Term Care*

- *Effective November 1, 1997, all TDHS staff were instructed via commissioner memo to send a copy of all term care provider fraud referrals to the Office of Program Integrity/Quality Assurance at the time that the referral is made to the appropriate entity. OPI will track and analyze these referrals, and will provide quarterly reports of trend analyses for management review. Negotiations will also be initiated with the Health and Human Services Commission and the Office of Attorney General to secure feedback on the disposition of referrals for use in future prevention efforts and staff training related to fraud detection.*

*Implementation Date: November 1, 1997*

*Responsible Person: Director, Quality Assurance OPI*

Reference No. 98-320-02

### **Correct Significant Eligibility Errors in a Timely Manner**

#### **CFDA 93.778 - Medical Assistance Program**

The staff at a regional office (Regional Staff) incorrectly assessed an applicant to be eligible for the U.S. Department of Health and Human Services' *Medical Assistance Program* under spousal impoverishment. The Office of Program Integrity (Quality Review) informed the Regional Office of problems with the client's eligibility in a report dated September 29, 1997. However, the Regional Staff did not review and correct the eligibility determination in a timely manner. Management at the Regional Office indicated the delay was due to unfilled staff positions.

Questioned Costs:	\$19,063
U.S. Department of Health and Human Services	

The Regional Staff declared the client ineligible as of December 31, 1997, after an inquiry from the auditors. The ineligible client received benefits from January 1 to December 31, 1997. The amount of ineligible benefits paid was \$28,880.75 for nursing home care and \$1,590.40 for vendor drugs. The federal portion, 62.56 percent, was \$19,062.72. In addition, National Heritage Insurance Company (NHIC) made payments on behalf of the individual totaling \$4,849.00.

Department management has designated eligibility determination under spousal impoverishment to be high risk because it is a complicated procedure. The Office of Program Integrity currently reviews 80 spousal impoverishment cases per month. We identified the ineligible client from a sample of 45 Office of Program Integrity reviews of spousal impoverishment cases.

Recommendation:

The Regional Staff should address findings from the Office of Program Integrity in a timely manner.

Management's Response:

*We agree with the recommendation. Our action plan is as follows:*

- *Region 1 has increased the emphasis of having accurate Spousal Impoverishment cases. All Spousal Impoverishment cases are now being read either prior to certification or immediately afterward based on the tenure and experience of the caseworker making the determination.*

*Implementation Date: December 19, 1997*

*Responsible Person: Program Manager, Services to the Aged and Disabled Region 1*

- *In addition, Region 1 recommended the training material regarding Spousal Impoverishment be enhanced to reflect the complexity of Spousal Impoverishment cases. This training material was presented to TDHS' State Office on February 13, 1998 for review and publication. Also Region 1 is working on developing an appendix to the Medicaid Eligibility Handbook which would be a consolidated reference reflecting the scope and uniqueness of Spousal Impoverishment cases. This appendix will be completed by Region 1 and submitted to TDHS' State Office by May 1, 1998.*

*Implementation Date: May 1, 1998*

*Responsible Person: Program Manager, Services to the Aged and Disabled, Region 1*

*The failure to take timely action was attributable to multiple vacancies in the unit. Region 1 Supervisors are now expected to provide timely written responses to the Region 1 Program Manager regarding actions being taken in cases with Program Integrity Findings.*

Reference No. 98-320-03

## Correct Errors in Levels of Care (LOC) at Mentally Retarded Nursing Facilities

### CFDA 93.778 - Medical Assistance Program

The Nursing Facility Program (Program) incorrectly listed some clients in Intermediate Care Facilities for the Mentally Retarded (ICF-MR) at a level of care (LOC) of "6" instead of "8." This caused the U.S. Department of Health and Human Services' *Medical Assistance Program* to overpay some ICF-MR providers by \$34.09 per day, per client.

Questioned Costs:	\$6,718
U.S. Department of Health and Human Services	

A programming error caused the incorrect LOC determinations in January 1997. The Program identified the problem in January 1997 and attempted corrective action. At two different times, turnaround reports were generated identifying the clients' correct level of need. Each time Nursing Home Billing verified and adjusted the rates accordingly.

However, we found two ICF-MR clients still incorrectly listed at a LOC of "6" after the Program's correction process. We found one of these in an initial sample of ten nursing facility clients. That sample contained one ICF-MR client who was incorrectly listed at a LOC of "6" instead of "8." The Program overpaid the provider \$10,738.35 (January 1 through November 11, 1997) before the error was identified. The federal portion, 62.56 percent, was \$6,717.91. The Program's staff members corrected this error and adjusted the provider's billing when we brought it to their attention.

We found the other client incorrectly listed at a LOC of "6" in a follow-up sample of 20 ICF-MR clients listed at a LOC of "6." This error had been discovered by an ICF-MR provider who brought the error to the attention of the Program's staff. The Program made the correction and adjusted the provider's billing. We consider this to be an error because it was not corrected by the Program's attempted corrective action and was subsequently found by the ICF-MR provider.

The total population of ICF-MR clients listed at a LOC of "6" could not be provided. An estimate of the population is 1,032 (based on the number of facilities and an estimated occupancy rate).

#### Recommendation:

The Nursing Facility Program should review all ICF-MR facility clients to determine if there are other clients incorrectly listed at a LOC of "6." Any overpayments to providers should be adjusted in future billings. In addition, management should determine why prior corrective actions did not entirely correct the problem and take appropriate steps to ensure that levels of care are correct.

#### Management's Response:

*We agree with the recommendation. Our action plan is as follows:*

- TDHS MIS will run a computer program that will search for all Intermediate Care Facilities/Mental Retardation (ICF/MR) LOCs effective after 12/31/96 that appear as Level of Need (LON) 6 in the LOC index of the Nursing Home Master File (NHMF). It is unnecessary to review forms prior to 01/01/97 because the reprogramming of the nursing home system that caused this problem was due to the implementation of ICF/MR LON that was not effective 01/01/97. This program will retrieve a Document Locator Number (DLN) in order to match against the LOC assessment master. Then, instead of printing all of the forms for review (which is what was done with the original corrective action plan), the program will check the LON in item 85. If the LON in item 85 is a 6, there is no problem and the NHMF and vendor payment is correct. However, if the LON in item 85 is an 8, then NHMF and the vendor payment is incorrect. These incorrect forms will then be printed for correction by staff in Provider Claims Payment Services.*

*Implementation Date: April 1, 1998*

*Responsible Person: Assigned dually to the Director, Provider Claims Payment Services, and the Manager, Management Information Systems, Long Term Care Application Support*

Reference No. 98-320-04

**Review of Health Care Financing Administration (HCFA) Quarterly Medicaid Statement of Expenditures (HCFA-64 Report) Should Be More Stringently Followed**

**CFDA 93.778 - Medical Assistance Program**

Errors in the HCFA-64 Report resulted in a net overstatement of federal expenditures and questioned costs of \$241,618 for the U.S. Department of Health and Human Services' *Medical Assistance Program*. The errors were not identified during the Department's preparation and review of the report. Three out of four quarterly HCFA-64 Reports were audited (the fourth was not complete at the time of the audit). The errors were:

<p>Questioned Costs: \$241,618</p> <p>U.S. Department of Health and Human Services</p>
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- The 1997 third quarter HCFA-64 Report overstated expenditures for Nursing Facilities by \$410,285. This was caused by a failure to make adjustments for the Type 51 Reports for March, April, and May 1997. The Type 51 Report for April was never provided to the preparer of the 1997 third quarter HCFA-64 Report. The federal portion for these three months, 62.56 percent, was \$256,674.

- The 1997 second quarter HCFA-64 Report understated expenditures for Vendor Drugs by \$24,067. The federal portion, 62.56 percent, was \$15,056.

The expenditures for both Nursing Facilities and Vendor Drugs are reduced quarterly before submission to the Federal Government. The amounts for the reductions are generated by the Type 51 Report, which is a statistical report that identifies suspected overpayments. The reduction occurs manually. According to Department staff, the reductions caused by the Type 51 Report are reviewed, but the review failed to detect the errors.

The Federal Government uses the HCFA-64 Report to determine how much cash the State has drawn and how much is owed to the State for the *Medical Assistance Program*. An error in the HCFA-64 Report causes the Federal Government to incorrectly calculate how much cash the State has drawn and how much is owed to the State.

Recommendation:

The review process for the HCFA-64 Report should be more stringently followed. An adjustment should be made to the HCFA-64 Report to correct the errors.

Management's Response:

*We agree with the recommendation. Our action plan is as follows:*

- *A log has been established to ensure that the MH-432, Type 51 Statistical report is delivered every month.*

*Implementation Date: September 1997 (Implemented)*

*Responsible Person: Accountant IV, Cost Allocation Section responsible for Federal Reporting*

- *A correction to Nursing Facilities of (\$153,618), (\$96,103 FFP) has been made on the 1998 1st quarter HCFA-64 Report.*

*Implementation Date: December 30, 1997*

*Responsible Person: Accountant IV, Cost Allocation Section responsible for Federal Reporting*

- *The Nursing Facilities amount of (\$256,666), (\$160,570 FFP) and the Vendor Drug amount of (\$24,067), (\$15,056 FFP) will be claimed on the 1998 2nd quarter HCFA-64 Report.*

*Implementation Date: March 30, 1998*

*Responsible Person: Accountant IV, Cost Allocation Section responsible for Federal Reporting*

Reference No. 98-320-05

**Monitor Food Coupon Inventory**

**CFDA 10.551 - Food Stamps**

Inventory of coupons related to the U.S. Department of Agriculture’s *Food Stamps* program exceeds a six-month supply. Federal regulations (*Title 7 of the Code of Federal Regulations, Part 74.45 [a][1]*) state “inventory levels are not to exceed a six-month supply taking into account coupons on hand and on order.”

Questioned Costs:	\$0
U.S. Department of Agriculture	

Food coupon activity has significantly declined since the statewide implementation of the Electronic Benefits Transfer (EBT) system in November 1995. Coupon issuance was less than 1 percent of the total food benefits issued in fiscal year 1997.

Although the Department uses a federal form (FNS-260) to request coupons and uses a spreadsheet to track coupons issuance, the coupon balance exceeded a six-month supply during fiscal year 1997. As a result, the Department is not in compliance with federal regulations.

Recommendation:

The current spreadsheet used to monitor coupon issuance should be revised to include information that would allow the Department to determine if inventory exceeds a six-month supply.

Management’s Response:

*There is no risk to the State since the contractor’s current bond limit of \$5,000,000 is sufficient to cover our inventory ( November 30, 1997 inventory balance \$1,081,929). However, we will expand our spreadsheet to include information to allow TDHS to monitor the six-month supply limit. We will, however, buffer this with sound management practices to ensure that sufficient quantities are on hand to meet our client’s needs.*

*Implementation Date: February 28, 1998*

*Responsible Date: Program Administrator, EBT Client and Program Relations*

*Additionally, please note:*

- *Monthly paper coupon issuances vary greatly each month due to the make-up of the population being issued these coupons and our declining case loads.*

- *The Federal Regulation (7 CRF 274.7 (a)(1) requiring that inventory levels not exceed a six-month supply was written prior to the implementation of EBT when a six-month supply of food coupons approached one billion dollars; therefore, six-month supplies were much easier to manage for this large population. To further complicate the issue, food stamps may only be ordered by the carton and the size of one carton in several dollar denominations is more than a six-month supply.*

## ◆ Protective and Regulatory Services, Department of ◆

Reference No. 98-318-01

**Strengthen Controls Over Foster Care Rates****CFDA 93.658 - Foster Care - Title IV-E**

The Department of Protective and Regulatory Services (Department) is not periodically analyzing or adjusting the federal portion of the foster care daily rates to ensure that federal funds are used to pay for only those services and costs allowed under the *Foster Care - Title IV-E* program. The current federal portion of the rates is based upon cost report data from 1991 that was submitted by foster care providers.

Questioned Costs:	\$0
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U.S. Department of Health and Human Services
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Because the federal portion of the foster care rates has not been adjusted to reflect more current cost report data, there is a risk that the Department could be overclaiming or underclaiming federal funds under the *Foster Care - Title IV-E* program. The Department has indicated that several factors have contributed to its delay in analyzing and adjusting the rates, including:

- Insufficient staffing to complete audits of provider cost reports
- Legislative requirements precluding a reduction in foster care rates
- Insufficient funds to raise foster care rates

To ensure compliance with Section 475(4)(A) of the Social Security Act, 42 United States Code, Section 675, the Department should maintain foster care daily rates that clearly identify and separate payments for foster care maintenance, which are allowable under *Foster Care - Title IV-E*, from those for tuition, treatment, social services, and other expenditures not allowable under *Foster Care - Title IV-E* maintenance. In addition, *Title 45 of the Code of Federal Regulations, Part 74.45*, requires that a cost analysis be performed for all procurement transactions, including the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability.

Recommendation:

We recommend that the Department strengthen controls over the foster care daily rates by periodically analyzing and adjusting the *Foster Care - IV-E* allowable portion of the rates as necessary to prevent potential overclaims or underclaims of federal funds under the *Foster Care - Title IV-E* program. Annual analysis and adjustment of the foster care rates appears to be sufficient.

Management's Response:

The Department is currently in the process of implementing three major efforts designed to strengthen controls over foster care rates. The Deputy Director for Finance will oversee implementation of the first two efforts.

1. *The Contract Administration Division has developed a business plan with detailed timeframes for analyzing residential child care cost report data, reviewing the current cost-finding methodology, and reporting the results of such analyses to the Board. Based upon the information presented at the Board meeting, the Board will make a decision about adjusting the residential child care (foster care) daily reimbursement amounts and/or the federal portion of the daily payments. The 1996 cost report analysis will be presented at the June 1998 Board meeting, and the 1997 data will be presented at the December 1998 Board meeting. The plan is to continue with analysis and Board decision on an annual basis.*
  
2. *The Department will analyze the daily reimbursement payments and the federal portion of the daily payments to be claimed to the Title IV-E program in its effort to require all residential child care contractors to seek Medicaid reimbursement for all therapy (counseling) needed by Department-placed children. Currently, contractors are not allowed to obtain Medicaid reimbursement for therapy (counseling) services required by Department-placed children receiving services at Level of Care 3 and higher and those receiving emergency shelter services. This effort will coincide with the analyses of the 1996 cost-report information with the results reported to the Board at its June 1998 meeting.*
  
3. *The Department is involved in a competitive procurement pilot for purchasing residential child care services in Region 3 under the direction of the Deputy Director for Field Operations. The pilot period is July 1, 1998 through August 31, 2000. The pilot will make daily reimbursements based upon budgets rather than an annual cost report and the current published cost-finding methodology. The budget-based daily reimbursements will form the basis for claiming Title IV-E funds for allowable foster care services delivered in Region 3. At the conclusion of the pilot, the Department will make a decision about implementing statewide competitive procurement for residential childcare services.*

Reference No. 98-318-02

**Establish Appropriate Controls Over Foster Care Income**

**CFDA 93.658 - Foster Care - Title IV-E**

The Department does not have adequate controls in place to ensure that income received on behalf of foster care children is appropriately applied against the cost of the child's care. Current policies and procedures do not include a reconciliation between the income funds

Questioned Costs:	\$0
U.S. Department of Health and Human Services	

distributed to foster care providers and the income recorded in the billing system to offset the cost of the child's foster care.

As a result, there is a risk that foster care providers could receive inaccurate payments for the cost of the child's foster care and that the inaccurate payments would remain undetected and uncorrected. In addition, federal and state funds could be inaccurately claimed. This weakness affects the *Foster Care - Title IV-E* program as well as state-funded foster care. The total income used to offset the cost of *Foster Care - Title IV-E* in fiscal year 1997 was over \$320,000 while the income used to offset the cost of state-funded foster care was over \$7.2 million.

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

Recommendation:

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

Management's Response:

*Procedures will be established for a reconciliation process between the foster care income distributed to providers and the income recorded in the Child and Adult Protective System (CAPS) that is used to offset the cost of care. The Child Protective Services (CPS) Division will work with the Accounting Division to draft policies and procedures for a reconciliation process by August 1, 1998. The reconciliation will be performed at least quarterly and reviewed by the Accounting Division. The Deputy Director for Programs will be responsible for overseeing implementation of the reconciliation procedures by December 30, 1998.*

Reference No. 98-318-03

**Strengthen Controls Over Foster Care Maintenance Payments Made to Child Placing Agencies**

**CFDA 93.658 - Foster Care - Title IV-E**

The Department has not established adequate controls over foster care maintenance payments made to child placing agencies. A prior audit report released by the U.S. Department of Health and Human Services - Office of Inspector General in February 1996 (Report A-06-95-00035) initially

Questioned Costs:	\$0
U.S. Department of Health and Human Services	

identified this weakness. Although the Department has addressed several recommendations made in this report, we have determined that the following issues remain outstanding:

- Administrative costs incurred by child placing agencies are being incorrectly claimed as foster care maintenance costs rather than administrative costs. As a result, the Department is in noncompliance with federal allowable cost requirements under the *Foster Care - Title IV-E* program. The Department has overclaimed *Foster Care - Title IV-E* funds since foster care maintenance costs are reimbursed at a higher federal match rate than administrative costs. While the Department has estimated the federal fiscal year 1997 overclaim at \$3.2 million, this calculation is based on an informal rate methodology, and the amount of overclaim could change depending upon the finalized rate methodology.
- The Department developed an informal rate methodology to separate administrative and foster care maintenance costs for child placing agencies; however, this methodology has not been formally reviewed and approved by management.
- The Department has developed policies and procedures to verify that child-placing agencies are paying their foster family homes the minimum required rates; however, these procedures have not yet been implemented. As a result, there is no assurance that the foster children in the care of these foster family homes are receiving the full benefits of the maintenance payment.

The Department contracts with child placing agencies to recruit qualified foster care homes, place children in their homes, and manage the placements. Section 475(4)(A) of the Social Security Act, which specifies the types of costs considered allowable under foster care maintenance, does not include administrative costs incurred by child placing agencies.

Recommendation:

We recommend that the Department strengthen controls over the foster care maintenance payments made to child placing agencies. To accomplish this the Department should:

- Develop a formalized rate methodology for child placing agencies that has been reviewed and approved by management. The Department should ensure that this rate methodology is based upon allowable cost requirements under the *Foster Care - Title IV-E* program. Once this methodology has been approved, the Department should determine the amount of *Foster Care - Title IV-E* funds that were overclaimed and report this amount to the Federal Government. In addition, the Department should ensure that subsequent claims for administrative costs incurred by child placing agencies are claimed at the appropriate administrative match rate. The Department should coordinate these efforts with the U.S. Department of Health and Human Services.

- Implement the policies and procedures developed to verify that the child placing agencies are paying foster family homes the minimum required rates.

Management's Response:

*The Department will strengthen controls over foster care maintenance payments made to child-placing agencies as suggested. The Deputy Director for Finance will oversee these efforts.*

- *A methodology for reallocating payments made by the Department to child-placing agencies to segregate administrative costs from client services will be developed by a workgroup consisting of staff from Contracts Administration, Budget, and the Federal Funds unit. This process will be performed concurrently with the review of foster care rates identified in Internal Control Issue #1. This methodology will be reviewed and approved by management by December 31, 1998.*

*Based on the methodology adopted, total payments made to child-placing agencies for federal fiscal years 1997 and 1998 will be recalculated, allocating allowable Title IV-E Foster Care Assistance administrative costs at the 50 percent federal financial participation (FFP) rate, and allowable IV-E client services at the prevailing federal medical assistance percentage (FMAP). A prior period decreasing adjustment to Title IV-E Foster Care Assistance will be made no later than the quarter ending June 30, 1999.*

*During the development/review process, staff will determine the feasibility of incorporating the methodology within the Child and Adult Protective System (CAPS) foster care billing environment. If staff determine that incorporating the child placing agency allocation claiming process into CAPS would hinder the on-going evaluation of competitive procurement for substitute care programs; the Department will continue to make year-end cost allocation adjustments for child placing agency payments until the results of competitive procurement are complete and decisions regarding statewide implementation are made.*

- *The Department's contract with child-placing agencies includes a specific term addressing the minimum daily amount to be paid to foster families for each level of care. During November 1997, the Contract Administration Division (CAD) requested foster family payment and contract information from all the child-placing agencies with which the Department contracts. CAD audit staff are currently in the process of reviewing the subcontracts and contacting a sample of the foster families for verification that the amount paid per day per level of care meets the minimum amount required by the Department's contract with the child-placing agency. This project is to be completed by the end of March 1998.*

*The Department's contract with child-placing agencies includes a specific term addressing the minimum daily amount to be paid to foster families for each level of care. Effective April 1998, the on-site contract compliance and*

*programmatic monitoring program performed by the residential contract managers will include a review of each child-placing agency's subcontracts with its foster families. The residential contract managers will sample some of the child-placing agencies' foster families for verification that at least the minimum required daily payments are being made by the child-placing agency. In this manner, the residential contract managers will be able to assess whether or not the child-placing agency is in compliance with the specific contract term.*

Reference No. 98-318-04

**Ensure Compliance With Foster Care Eligibility Requirements**

**CFDA 93.658 - Foster Care - Title IV-E**

The Department did not comply with all eligibility requirements under the *Foster - Care Title IV-E* program. The Department paid \$8,057.02 (federal portion) of *Foster Care - Title IV-E* funds on behalf of a client who did not meet the eligibility requirement for deprivation of parental support.

Questioned Costs:	\$8,057
U.S. Department of Health and Human Services	

Out of 20 *Foster Care - Title IV-E* clients tested, one eligibility error was noted totaling \$226.84. This represented 1.9 percent of the \$11,938.50 tested. The \$8,057.02 in questioned costs represents all related payments made on behalf of the ineligible client from October 1994 through July 1997, at which time the client was adopted and removed from foster care.

The error apparently occurred because the employee performing the eligibility determination was not aware that a child must be deprived of parental support to be eligible for the *Foster Care - Title IV-E* program. Sections 406(a) and 472(a) of the Social Security Act require that the child be deprived of parental support of one parent, both at the time of the child's removal from the home and on a continuing basis.

Recommendation:

We recommend the Department strengthen controls to ensure compliance with all federal eligibility requirements under the *Foster Care - Title IV-E* program. The Department should ensure that staff performing eligibility determinations are adequately trained in relation to the eligibility requirements under the *Foster Care - Title IV-E* program. In addition, the Department should report the related questioned costs to the Federal Government.

Management's Response:

*The particular instance noted was the result of a judgment error by the eligibility specialist, who is otherwise well versed in eligibility determination guidelines. This*

*particular policy has been addressed with the employee by his supervisor and no additional training is deemed necessary at this time. Child Protective Services (CPS) Division staff anticipate that statewide training will be offered by August 31, 1998. The target audience will be eligibility specialists and their immediate supervisors. In general, training of a new eligibility specialist is provided by the immediate supervisor or the region's lead eligibility specialist. In regions in which the vacant eligibility specialist position is the only eligibility position, cross-training is provided by staff with the same responsibilities in other regions. Because of the demand on agency resources related to the Child and Adult Protective System (CAPS) design and implementation, statewide foster care eligibility training was not conducted in fiscal year 1997.*

*The Deputy Director for Field Operations will coordinate with CPS Division to insure that all appropriate staff are trained. Regional directors will be responsible for ensuring compliance with federal requirements.*

*Total foster care maintenance payments for this ineligible client were \$15,723.20 (\$8,057.02 federal share) for the time period 10/27/1994 through 7/14/1997. The Deputy Director for Finance will be responsible for making a decreasing adjustment of \$8,057.02 to Title IV-E Foster Care Assistance in the quarter ending March 31, 1998 federal claim.*

Reference No. 98-318-05

**Ensure Eligibility Redeterminations Are Performed in a Timely Manner**

**CFDA 93.658 - Foster Care - Title IV-E**

The Department is not ensuring that *Foster Care - Title IV-E* eligibility redeterminations are performed in a timely manner. Three of the 25 (12 percent) clients tested under the *Foster Care - Title IV-E* program did not have eligibility redeterminations performed within the required 12-month time frame.

Questioned Costs:	\$0
U.S. Department of Health and Human Services	

Delays in performing timely eligibility redeterminations appear to be a result of the Department's conversion to the new Child and Adult Protective system (CAPS) in fiscal year 1997. According to the Department, adequate eligibility history data was not available to carry forward to the new automated system. As a result, CAPS did not accurately notify Department staff of the dates that eligibility redeterminations were actually due.

Although no questioned costs resulted from the noted errors, there is a risk that claims under *Foster Care Title IV-E* could ultimately be disallowed if a child's eligibility has not been properly established within required time frames. Section 470 of the Social Security Act, 42 United States Code, Section 670, indicates that *Foster Care - Title IV-E* funds are available only for children who continue to meet certain eligibility requirements under the federal program. Additionally, a program instruction (ACYF-PI-89-05) issued by the U.S. Department of Health and Human Services indicates that

eligibility redeterminations should be performed at least every 12 months to ensure the child's continued eligibility.

Recommendation:

We recommend the Department strengthen controls to ensure that *Foster Care - Title IV-E* eligibility redeterminations are performed within the required 12-month time frame. The Department should develop and implement alternative procedures to identify all past-due and upcoming redeterminations until there is assurance that all eligibility redetermination dates are recorded correctly in the CAPS system.

Management's Response:

*The Department has taken steps to address changes to the Child and Adult Protective System (CAPS) regarding eligibility redeterminations. CAPS has not posted "to do" notices to foster care eligibility specialists to provide them with accurate and timely notice of re-determination due dates. This problem has been identified through two System Information Requests (SIR), which are the formal avenue for identifying needed changes to CAPS and allowing these changes to be prioritized for action.*

- *SIR number 14410, entered January 5, 1998 identified the need for changes which will result in the eligibility specialist receiving routine notification of impending due dates.*
- *SIR number 14421, entered January 20, 1998, requested changes which resolve system errors encountered by a child's primary caseworker when they respond to notification of due dates for providing needed information to the eligibility specialist.*

*The SIR Review Committee will prioritize these requests, which will determine when system revisions will be initiated. The Deputy Director for Field Operations will monitor the status of these requests for changes to CAPS to ensure that they are implemented. We anticipate all revisions being completed by May 1, 1998.*

*In the short term, the Forecasting and Program Statistics Division will generate an ad hoc report of all eligibility determination due dates which will be available for dissemination to the regional eligibility specialists in early March, 1998. This will allow workers to schedule the reviews and insure that appropriate information is gathered from primary caseworkers in a timely manner. Field Operations and Child Protective Services Divisions will work with the Forecasting and Statistics Program Division to generate this report on a periodic basis until system revisions are completed.*

◆ Sul Ross State University ◆

Reference No. 98-333-01

### Improve Administrative Controls in the Student Financial Aid Office

(Prior Audit Issue)

CFDA 84.032 - Federal Family Education Loans  
CFDA 84.063 - Federal Pell Grant Program

The administration of the Student Financial Aid Office needs improvement. During our testing of the student financial assistance programs at Sul Ross State University (University), problems were found in 26 of the 128 (20 percent) files tested.

These problems, which primarily deal with documentation and file maintenance, reflect inadequate administrative controls that could prevent the University from participating in any federal student financial aid programs.

Questioned Costs:	\$0
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U.S. Department of Education	
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*Title 34 of the Code of Federal Regulations, Section 668.16*, establishes standards of administrative capability which apply to an institution that participates in any student financial assistance program authorized by Title IV of the Higher Education Act (HEA) of 1965 (Title IV, HEA program). These standards must be maintained in order to continue participation in any Title IV, HEA program.

#### Recommendation:

We recommend the University improve administrative controls in the Student Financial Aid Office. This can be accomplished by:

- Updating policies and procedures to ensure compliance with Title IV, HEA program requirements.
- Developing a quality control or review program to ensure that policies and procedures are consistently followed.
- Providing ongoing training to staff.

#### Management's Response:

##### *Policy and Procedure Updating:*

*The Financial Aid Office has begun a review and update of the current policies and procedures now in place. The primary objective of the process is to prepare a complete Policy and Procedure manual that will ensure that management and administration of all Student Financial Assistance programs is in compliance with all*

*federal and state regulations and requirements. A completion date of March 31, 1998 has been scheduled for this project.*

*Quality Control/Review Program:*

*A detailed plan has been developed to bring all the files into full compliance and is currently being implemented, with a completion of April 1, 1998. Upon completion of the file maintenance compliance program, a quality control program will be implemented to ensure that the files remain in complete compliance.*

*This quality control program will have three components:*

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- *Regular staff meetings with all staff to stress the need for accurate, complete files.*
- *Continued use of a file document check-list.*
- *Monthly sampling of files to check for completeness and accuracy.*
- *This sampling will be conducted by the Director of Financial Assistance/Recruiting. Results will be reported to the Vice President for Academic and Student Affairs.*

*Staff Training:*

*Staff training is an on-going process at the Financial Aid Office. In addition to in-house training that occurs using information and updates provided by the various governing agencies, staff members are required to attend conferences and workshops provided throughout the year.*

*Implementation Date: April 1, 1998*

*Responsible Person: Juan Garcia, Director of Student Financial Aid*

Reference No. 98-333-02

**Report All Enrollment Changes to the Guarantor, Lender, or U.S. Department of Education**

(Prior Audit Issue)

**CFDA 84.032 - Federal Family Education Loans**

The University is not reporting all enrollment changes for the *Federal Family Education Loans* program to the guarantor, lender, or U.S. Department of Education. In 10 of 26 files tested (38 percent), the University did not properly report enrollment changes. Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled.

Noncompliance with this requirement may result in delayed repayment to lenders.

Questioned Costs:	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Sections 682.610(c), requires the institution to report enrollment changes to the guaranty agency or U.S. Department of*

Education within 60 days. If an institution does not expect to report enrollment changes on the Student Status Confirmation Report within the next 60 days, that institution is required to notify the guarantor or lender by letter within 30 days.

Recommendation:

We recommend the Student Financial Aid Office report all enrollment changes to the guaranty agency, lender, or U.S. Department of Education. The notification should be by letter within 30 days if the Student Financial Aid Office does not expect to report the changes on the Student Status Confirmation Report within the next 60 days.

Management's Response:

*The Financial Aid Office has implemented procedures to ensure reporting of enrollment changes within the 30 or 60 day periods by review and reporting of student status from weekly add/drop and withdrawal listings and by providing lists of graduating students. Reports are currently being sent to the National Clearing House per required schedule. Following the National Clearing House schedules covers all requirements except two periods during the year that exceed sixty days. The Financial Assistance Office has developed a mini Student Confirmation Report for these two periods to report directly to guarantors and lenders.*

*Implementation Date: Immediately*

*Responsible Person: Juan Garcia, Director of Student Financial Aid*

Reference No. 98-333-03

**Provide Exit Counseling Information to All Students**

(Prior Audit Issue)

**CFDA 84.032 - Federal Family Education Loans**

The University is not providing exit counseling (loan repayment) information to all recipients of the *Federal Family Education Loans* program. In 16 of 25 files tested (64 percent), exit counseling was not performed as required. In nine of the files tested, there was no document indicating that exit counseling had been performed or that exit counseling materials had been mailed to the borrower. In seven files tested, there was a form indicating that exit counseling materials had been mailed; however, six of the forms were not dated and one form was not dated within 30 days of the enrollment change. Inadequate exit counseling procedures could result in an increased loan default rate.

Questioned Costs:	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 682.604(g), requires that the institution conduct exit counseling with each borrower who ceases to be enrolled at least half-time. If a student does not attend a counseling session, this information*

must be mailed to the student within 30 days. Documentation of this counseling must be maintained in the student's file.

Recommendation:

We recommend that the University provide timely exit counseling information to all students who cease to be enrolled at least half-time and maintain documentation of counseling in the student files.

Management's Response:

*The Financial Assistance Office has implemented procedures to ensure that exit counseling requirements are met for new graduates, students following both the formal withdrawal process and those withdrawing without notification, and students falling below half-time enrollment status. These procedures include maintaining documentation in student files to support exit counseling efforts.*

*Implementation Date:            Fall 1997*

*Responsible Person:            Juan Garcia, Director of Student Financial Aid*

◆ Texas A&M International University ◆

Reference No. 98-331-01

### Strengthen Controls Over Receipt of Loan Proceeds

#### CFDA 84.032 - Federal Family Education Loans

The Student Financial Aid Office (SFA Office) should strengthen controls over the receipt of loan proceeds from the lenders of the *Federal Family Education Loans* program. The SFA Office currently receives loan proceeds from the lenders and processes the loan applications. This increases the risk that SFA Office personnel could process unauthorized loans and retain the proceeds without being detected.

Questioned Costs:	\$0
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U.S. Department of Education
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*Title 34 of Code of Federal Regulations, Section 668.16(c)*, requires an institution to ensure that its procedures for administering the student financial aid programs include an adequate system of internal checks and balances.

#### Recommendation:

We recommend that the University strengthen controls over the receipt of loan proceeds from the lenders. This can be accomplished by segregating the duties of loan processing functions and the receipt and disbursement of loan proceeds. The University should consider having all the loan proceeds delivered directly from the lenders to the Bursar's Office instead of the Student Financial Aid Office.

#### Management's Response:

*The Office of Financial Aid will be going to Electronic Funds Transfer (EFT) in the Spring of 1998. The Office of Financial Aid will no longer receive paper checks. The lenders have already been notified by mail that any paper check produced must be sent directly to the business office. The business office will then make a copy of the check and forward it on to the office of financial aid for entering on SIS/FAM system and the production of a release form.*

*Implementation Date: Spring 1998*

*Responsible Person: Araceli Rangel, Director of Student Financial Aid*

Reference No. 98-331-02

## Report All Enrollment Changes to the Guarantor, Lender, or U.S. Department of Education

### CFDA 84.032 - Federal Family Education Loans

The University is not reporting all enrollment changes to the guarantor, lender, or U.S. Department of Education for the *Federal Family Education Loans* program. Procedures are not sufficient to report enrollment changes as required. Enrollment changes were not reported for 13 of the 20 (65 percent) student files tested.

Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled. Noncompliance with this requirement may result in delayed loan repayment to lenders. In addition, the University did not maintain a copy of the Student Status Confirmation Report (SSCR) filed with the guaranty agency for the Fall semester 1996/1997 academic year.

Questioned Costs:	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 682.610 (c)(d)*, requires the institution to report enrollment changes to the guaranty agency or U.S. Department of Education within 60 days. If an institution does not expect to report enrollment changes on the Student Status Confirmation Report within the next 60 days, that institution must notify the guaranty agency or lender by letter within 30 days. In addition, the federal regulations also state that an institution shall keep copies of the completed SSCRs for five years.

#### Recommendation:

We recommend the Student Financial Aid Office report all enrollment changes to the guaranty agency, lender, or U.S. Department of Education. The notification should be by letter within 30 days, if the Student Financial Aid Office does not expect to report the changes on the Student Status Confirmation Report within the next 60 days. In addition, the institution should maintain copies of the completed reports for five years.

#### Management's Response:

*In this instance the Registrar's Office failed to make a copy of the enrollment verification report for Fall 1996. Therefore, we were unable to provide information regarding enrollment. They are the official enrollment office and they take care of the above-mentioned report. A copy of the report was requested from the Texas Guaranteed Student Loan Corporation (TGSLC). Per TGSLC, the report has been archived and the information must be manually retrieved from their warehouse. The enrollment verification report for Fall of 1996 was requested the week of October 13, 1997 and as of yet, same has not been received.*

*The Office of Financial Aid has signed up with the National Student Loan Clearinghouse (NSLC), which will take care of reporting three times during a long semester and once during each summer session. An acknowledgment of successful file*

*transfer is received from NSLC after each transmission. The transmitted information is also accessible through their web site. A FOCUS report (institutional report) is available.*

*Implementation Date: Fall 1997*

*Responsible Person: Araceli Rangel, Director of Student Financial Aid*

◆ Texas Southern University ◆

Under a settlement agreement between Texas Southern University and the U.S. Department of Education (Department), the status of corrective action for certain financial aid audit issues was under evaluation by the Department during our review. In partnering with the Department, we did not perform follow-up procedures in these areas. The results of the Department's evaluation is scheduled for release in June 1998.

Reference No. 98-337-01

**Strengthen the Control Environment of the Student Financial Aid Office**

(Prior Audit Issue)

**CFDA 84.032 - Federal Family Education Loans**  
**CFDC 84.063 - Federal Pell Grant Program**

The material weakness in the control environment of the Student Financial Aid Office (SFA Office), originally identified during the 1993 audit, still exists. Insufficient staff, ineffective policies and procedures, and a continued lack of communication between departments are all

Questioned Costs:	\$0
U.S. Department of Education	

contributing factors to the control environment weakness. The control environment reflects the overall attitudes, awareness, and actions of management concerning the importance of and its emphasis on controls. A material weakness in the control environment means conditions exist that would allow large errors or irregularities to occur and go undetected during the normal course of operations.

The factors contributing to the material weakness in the control environment are discussed in detail below:

- Insufficient Staff - While both a permanent director and assistant director have been in place since September 1996, the SFA Office had only 13 of its 21 full-time positions filled during our visit. The SFA Office's failure to be fully staffed during Fall registration led to delays in processing student files and making timely reimbursement requests to the U.S. Department of Education.
- Ineffective Policies and Procedures - The SFA Office completed a draft policies and procedures manual in October 1996; however, this manual has not been finalized or distributed to staff.
- Lack of Communication Between Departments - A lack of communication exists between the SFA Office and the University's administrative offices. This lack of communication contributed to the reissuance of two prior audit issues. The SFA and Fiscal Affairs Offices were both aware of the development of an optional authorization form regarding the release of

financial aid proceeds; however, the Bursar's Office (the office that is responsible for releasing financial aid proceeds) was neither aware of nor using this optional authorization form. Secondly, the SFA Office developed a revised Default Management Plan that included additional responsibilities for both the Admissions and Registrar's offices; however, these additional responsibilities were never communicated to either department.

*Title 34 of the Code of Federal Regulations, Section 668.16*, states that for an institutions to continue to participate in any federal financial assistance programs, the institutions must demonstrate that it is capable of administering the federal programs. A strong control environment within the SFA Office is essential to ensure that the financial assistance programs are properly administered. Management is responsible for establishing and maintaining control systems that provide reasonable assurance regarding compliance with state and federal regulations.

Recommendation:

We recommend that the University strengthen the control environment of the Student Financial Aid Office in order to eliminate the material weakness.

- To reduce processing delays and enhance timely reimbursement submissions to the U.S. Department of Education, the University should make every effort to fill the eight vacant positions within the SFA Office.
- To improve the effectiveness of the revised policies and procedures, the manual should be reviewed (and revised if necessary) to ensure that the policies and procedures are accurate. The approved SFA manual should then be distributed to all staff members and consistent implementation of the policies and procedures should be enforced.
- To eliminate the lack of communication between departments, the University should develop written policies and procedures that address the necessary coordination between the SFA Office and other administrative offices. These policies and procedures should clearly designate the responsibilities for each department.

Management's Response:

*In September 1996 management's primary objective was to stabilize the then current 1996/97 financial aid delivery process. This was to be done by evaluating the needs, strengths and weaknesses of the financial aid office staff. Extensive financial aid training was provided to key personnel. On December 2-4, 1996, 13 staff members attended Southwest Association of Student Financial Aid Administrators (SWASFAA) New Aid Officers Bootcamp in Tulsa, OK. In addition, the University contracted with SCT to provide supplemental Banner system training to the SFA Office staff in February '97. Then the entire staff of the OSFA was placed on probation for the remainder of the 1996-97 period. During this period, two employees resigned from their positions.*

*On August 1, 1997, management elected not to renew 5 long term, permanent employees. Due to the amount of accumulated compensation and annual leave that these employees were entitled and to ensure that highly qualified applicants had an opportunity to apply for the vacant positions, management chose to delay the search and screen process until mid-October. All vacancies were filled on December 1, 1997 with qualified individuals.*

*In addition, approximately 50 percent of the Counselors staff time (5 counselors) and 80 percent of the Associate Director's time has been assigned to the reimbursement process.*

*As of September, 1996, the policies and procedures manual (PPM) in place was developed for TSU by an outside consulting firm and was not being used by the staff. After reviewing the manual, TSU management concluded that it was inadequate and not functional in the current setting. Using a draft of an effective PPM and prototype from a peer institution, the SFA office set about developing its own manual to be used during the 1997-98 academic year. By December 1997 the basic components of the manual were complete and ultimately finalized in February 1998. Orientation and dissemination to the staff was completed on March 12, 1998.*

*In August 1997, the offices of Student Financial Assistance, Admissions, Registrar and Placement were re-organized to report to the Assistant Vice-President for Enrollment Management.*

*Prior to September 1997, these offices along with all the academic units and a number of unrelated areas reported to the interim Provost/Vice President for Academic Affairs. This change is designed to address the lack of communication in the various enrollment services areas.*

*Implementation Date: Immediately*

*Responsible Person: Norman Hayes, Director of Student Financial Aid*

Reference No. 98-337-02

**Strengthen Controls Over Receipt of Law Access Loans Proceeds**  
(Prior Audit Issue)

**CFDA 84.032 - Federal Family Education Loans**

The SFA Office should strengthen controls over the receipt of Law Access loan proceeds for the *Federal Family Education Loans* program. Although the central SFA Office loan checks are now received in the Fiscal Office, the Law School SFA Office is currently processing student loan applications and receiving the loan proceeds for law students. Since all functions for the Law School SFA Office are performed by one individual, this increases the risk of unauthorized loans being processed and the proceeds retained without being detected.

Questioned Costs:	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 668.16 ( c ), requires an institution to ensure that its procedures for administering the student financial aid programs include an adequate system of internal checks and balances.*

Recommendation:

We recommend that the University strengthen controls over the receipts of Law Access loan proceeds. This can be accomplished by having these loan proceeds sent directly to the Fiscal Office.

Management's Response:

*Management concurs with the finding and recommendation. The Law Access Program has been informed, by memorandum, of the new procedure that all loan proceeds will be directed to the official address of the institution, 3100 Cleburne Avenue, Houston, Texas 77004. Further, the University Post Office has been instructed, by memorandum, to forward Law Access loan proceeds to the Fiscal Office, and not to the Law School.*

*Implementation Date: Fall 1997*

*Responsible Person: Andrea Williams, Law School Financial Aid Office*

Reference No. 98-337-03

**Provide Entrance Loan Counseling to Students**

(Prior Audit Issue)

**CFDA 84.032 - Federal Family Education Loans**

The University is not providing entrance loan counseling to all recipients of the *Federal Family Education Loans* program. Seven of 40 (17.5 percent) files tested did not contain documentation indicating that the University performed entrance counseling. Inadequate counseling procedures may result in an increased loan default rate.

Questioned Costs:	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 682.604 (f), requires a school to conduct counseling with each borrower prior to the disbursement of funds and maintain documentation of the counseling in the student's file. Counseling should be provided either in person, by audiovisual presentation, or by computer-assisted technology.*

Recommendations:

We recommend that the University provide entrance counseling to all first-time borrowers and that documentation be maintained in the students' file.

Management's Response:

*The University provides both Entrance and Exit counseling to all recipients of the Federal Family Education Loan Program. Documentation of this counseling will be maintained in each student's file.*

*Implementation Date: Fall 1997*

*Responsible Person: Joy Warner, Assistant Director Financial Aid Office*

Reference No. 98-337-04

**Provide Timely Exit Counseling Information**

(Prior Audit Issue)

**CFDA 84.032 - Federal Family Education Loans**

The University is not providing timely exit counseling (loan repayment information) to all recipients of the *Federal Family Education Loans* program. Twenty-eight of the 40 (70 percent) student files tested indicated the student did not receive timely exit counseling. Inadequate exit counseling procedures could result in an increased loan default rate.

Questioned Costs:	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 682.604 (g), requires that the institution conduct exit counseling with each borrower who ceases to be enrolled at least half-time. If a student does not attend a counseling session, this information must be mailed to the student within 30 days. Documentation of this counseling must be maintained in the students' file.*

Recommendation:

We recommend that the University provide timely exit counseling information to all students who cease to be enrolled at least half-time and that documentation be maintained in the student files.

Management's Response:

*Management concurs with this finding and has developed the procedures to insure a more timely process of providing exit counseling (loan repayment) information to all recipients of the FFEL program.*

***Exit Interview Procedures***

*Once a student officially withdraws from the University or applies for graduation, the Registrar Office notifies the Office of Student Financial Aid (OSFA). The OSFA then determines if the student is a loan recipient and forwards an exit interviews packet informing them of their rights and*

*responsibilities. The information will also inform them of the availability of loan counseling provided by the institution. A copy of the documents and cover letter is placed in the student's file.*

*OSFA is currently reviewing the Exit Counseling policy for improvements.*

*Implementation Date: Fall 1997*

*Responsible Person: Joy Warner, Assistant Director Financial Aid Office*

Reference No. 98-337-05

**Maintain Complete and Accurate Student Files**

(Prior Audit Issue)

**CFDA 84.032 - Federal Family Education Loans**

The University is not adequately maintaining complete and accurate student files. Thirty-eight out of 120 files tested (32 percent) either did not contain the necessary student file information or could not be located. Five percent (2 of 38) of the *Federal Family Education Loans* program files selected for testing could not be found, resulting in questioned costs of \$20,490.

Questioned Costs:	\$20,490
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 668.23 (h), requires institutions administering federal financial aid programs to establish and maintain adequate student records. Files should (1) support student eligibility and awards and (2) be systematically organized.*

Recommendation:

We recommend the University maintain complete and accurate student files to support the disbursement of federal financial assistance. The University should develop and implement written procedures to correct the file maintenance weaknesses. A thorough review should be undertaken to locate the missing files and documents, and procedures should be implemented to ensure that items are not misplaced in the future. Furthermore, the questioned costs of \$20,490 should be returned to the federal financial assistance program.

Management's Response:

*Management concurs with this recommendation and has reviewed the General Provisions regulations pertaining to the maintenance of student records and program and fiscal records. The University will develop and implement the following steps to address the file maintenance weaknesses by May 15, 1998:*

- *Review the General Provisions regulations and The Blue Book to document record retention requirements.*

- *Develop file maintenance policies that will incorporate the Banner Student System.*
- *Conduct a file review of all active files (with activity in the last two award years) to apply newly developed file maintenance procedures.*
- *Perform a systematic purge of all inactive files.*

*Implementation Date: May 15, 1998*

*Responsible Person: Norman A. Hayes, Director of Student Financial Aid*

Reference No. 98-337-06

### **Maintain Copies of the Student Status Confirmation Reports**

(Prior Audit Issue)

#### **CFDA 84.032 - Federal Family Education Loans**

The University is not maintaining copies of the Student Status Confirmation Report for five years as required for the *Federal Family Education Loans* program. No testing could be conducted on enrollment changes reporting because the University is not maintaining copies of the Student Status Confirmation Reports (SSCR).

Questioned Costs:	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 682.610, requires the institution to report enrollment changes to the guaranty agency within 60 days on Student Status Confirmation Report (SSCR). If an institution does not expect to report enrollment changes on the SSCR within the next 60 days, that institution must notify the guaranty agency or the lender by letter within 30 days. Copies of the completed reports must be kept for five years.*

#### Recommendation:

We recommend that the University maintain copies of its SSCRs for the required five-year time frame.

#### Management's Response:

*The University Registrar contacted Texas Guaranteed Student Loan Corporation (TGS LC), Loan Guarantee Operations Department on November 22, 1997 and requested the SSRC report for fiscal year 1996-97. The Registrar made a follow up call to TGS LC on December 1, 1997 and was promised copies of the fiscal year 1996-97 SSRC reports by December 5, 1997. The University will ship the fiscal year 1996-97 SSRC reports to the State Auditor's office no later than one business day after receipt from TGS LC.*

*Further, the University has requested SSRC reports for the previous five years from TGSLC, and has established a file in the office of the Registrar to maintain copies of its SSRC reports for the required five-year time frame.*

*Implementation Date: December 1997*

*Responsible Person: Willie Criddle, Registrar*

Reference No. 98-337-07

**Ensure That Annual and Aggregate Loan Limits Are Not Exceeded**  
(Prior Audit Issue)

**CFDA 84.032 - Federal Family Education Loans**

The University is not ensuring that *Federal Family Education Loans* program recipients do not exceed annual and aggregate loan limits set by the U.S. Department of Education. Three of the 40 (7.5 percent) student files we tested indicated students received loans in excess of their annual and aggregate loan limits, resulting in unguaranteed student loans in the amount of \$11,077.

Questioned Costs:	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 682.506 (a) (2), states that the U.S. Department of Education does not guarantee loans in excess of the permissible annual and aggregate loan limits.*

Recommendations:

We recommend the University ensure that annual and aggregate loan limits are not exceeded. The University should implement procedures for tracking loan amounts borrowed by students. Additionally, the lenders should be notified about the unguaranteed loans for these borrowers.

Management's Response:

*The office of Student Financial Assistance has implemented the use of the National Student Loan Data System (NSLDS) as a means of monitoring students aggregate loan limits. Starting with the 1997-98 award year the NSLDS was integrated into the electronic packaging routine via the Banner system. The program is designed to prohibit loans from being processed above the annual loan limits. In addition, the program is designed to ensure those students nearing or at their aggregate loan limits are required to be manually reviewed to ensure that they do not exceed the aggregate loan maximums.*

*Implementation Date: March 1997*

*Responsible Person: Norman Hayes, Director of Student Financial Aid*

Reference No. 98-337-08

## Ensure Payment Authorization for University Obligations Is Optional

(Prior Audit Issue)

CFDA 84.032 - Federal Family Education Loans  
CFDA 84.063 - Federal Pell Grant Program

The University is not providing *Federal Pell Grant Program* or *Federal Family Education Loans* program recipients the option to authorize or disapprove the use of their loan proceeds to cover non-tuition or fee obligations. The Bursar's Office is currently deducting any outstanding university obligations from the students' award proceeds before releasing *Federal Pell Grant Program* and *Federal Family Education Loans* checks. As a result, federal funds are being used to pay for items other than educational expenses.

Questioned Costs:	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Sections 690.78 (a) and 682.604 (d)*, states that institutions may use *Federal Pell Grant Program* and *Federal Family Education Loans* program awards to pay charges other than tuition and fees and room and board (if provided by the institution) only if the student authorizes such payment in writing. The institution may not require the student to authorize such payments.

### Recommendations:

We recommend the University ensure that payment authorization for University obligations is optional for students receiving financial assistance. The University should make students aware that payment of institutional debts is not conditional for *Federal Pell Grant Program* or *Federal Family Education Loans* program disbursement, and should modify the Bursar's procedures to not deduct outstanding debt automatically from federal financial assistance.

### Management's Response:

*Management concurs with finding and recommendations. The Student Authorization Statement Form has been prepared, which gives financial aid recipients the option to authorize or decline to allow the University to deduct outstanding debts from federal financial assistance funds. The Student Authorization Statement Form will be presented to each financial aid recipient for their choice of selection at the beginning of each award year. The Bursar's office has been notified, by memorandum, that outstanding debts must not be deducted from federal financial assistance funds without written authorization from the recipient.*

*Implementation Date: Fall, 1997*

*Responsible Persons: Guy Brooker, Asst. Vice President for Business and  
Financial Services  
Norman A. Hayes, Director of Student Financial Aid*

Reference No. 98-337-09

**Submit a Default Management Plan to the Secretary of the U.S. Department of Education for Approval**

(Prior Audit Issue)

**CFDA 84.032 - Federal Family Education Loans**

The University has not received approval from the Secretary of the U.S. Department of Education for its current default management plan for the *Federal Family Education Loans* program. The University is currently using a default management plan that has not received approval from the Secretary of the U.S. Department of Education.

Questioned Costs:	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 668.17*, requires that if the University's default rate for *Federal Family Education Loans* program loans is greater than 20 percent, a default management plan must be approved and implemented. The institution may adopt Appendix D of the General Provisions regulations or develop its own plan. If the institution elects to develop its own plan, it must justify the rationale for any deviations from Appendix D by explaining why the measures are not appropriate for its situation. Once the institution receives notice that the Secretary has approved the plan, it must be implemented.

Recommendation:

We recommend that the University determine the status of the default management plan submitted to U.S. Department of Education in May 1997.

Management's Response:

*The default management plan currently used by the University was submitted to the Secretary of the U.S. Department of Education on April 15, 1997. The Settlement Agreement between the University and the U.S. Department of Education was executed on August 26, 1997. On December 5, 1997, the University was notified by the U.S. Department of Education that approval of the plan is contingent on the outcome of the Settlement Agreement. The Settlement Agreement is anticipated to be settled in June 1998.*

*Implementation Date: June 1998*

*Responsible Person: Norman A. Hayes, Director of Student Financial Aid*

◆ The University of Texas at Austin ◆

Reference No. 98-338-01

**Provide Exit Counseling Information to All Students**

(Prior Audit Issue)

**CFDA 84.032 - Federal Family Education Loans**

The University of Texas at Austin (University) is not providing exit counseling (loan repayment information) to all recipients of the *Federal Family Education Loans* program. Exit counseling was not provided in a timely manner for 4 of the 30 (13 percent) student files we tested. Inadequate exit counseling procedures could result in an increased loan default rate.

Questioned Costs	\$0
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U.S. Department of Education
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*Title 34 of the Code of Federal Regulations, Section 682.604*, requires that the institution conduct exit counseling with each borrower who ceases to be enrolled at least half time, who has withdrawn, graduated or been expelled. If a student does not attend a counseling session, this information must be mailed to the student within 30 days. Documentation must be maintained in the student's file.

Recommendation:

We recommend that the University provide timely exit counseling information to all students who cease to be enrolled at least half-time and that documentation be maintained in the students' files.

Management's Response:

*The University concurs that the current process can be enhanced to insure 100 percent compliance with the thirty (30) day period allowed for the delivery of exit counseling to students who cease to be enrolled at least half-time. Twenty-six (26) of the students out of the thirty (30) files tested received exit counseling within the thirty (30) day period. Of the four (4) that did not, two (2) cases were medically related withdrawals. Often with medical withdrawals, the date the student ultimately is determined to have stopped attending classes or attending classes successfully is recorded as the withdrawal date and the date the official action was taken and entered is later. In one medical case, the official withdrawal date recorded by the Registrar is September 11, 1997. However, the Registrar also shows that the student's fall 1997 coursework was canceled on September 25, 1997. The Office of Student Financial Services (OSFS) became aware of the student's change in academic standing approximately October 3. The exit notification occurred on October 23. In the second medical case, the official withdrawal recorded by the Registrar is September 30, 1997. However, additional information in the Registrar's records shows that the decision to withdraw the student was made and recorded on*

*November 7, 1997. The OSFS became aware of the withdrawal on November 17. Exit notification took place on November 23.*

*The two cases that were not medical withdrawals had clear records on withdrawal dates. Due more to individual error than the process, the students did not receive exit counseling within the allotted 30-day period.*

*The University will continue to tighten controls to assure timely exit counseling to those who are academically dismissed, withdraw, or drop to less than half-time during a long session semester. The OSFS Associate Director will chair a task force to review current procedures for weaknesses as well as explore a more automated approach to tracking exit counseling obligations. The Task Force will complete the revised procedures prior to the end of the spring semester.*

*The University appreciates the cooperation of the State Auditors during this review.*

*Date of Implementation: May 31, 1998*

*Responsible Party: Dr. Lawrence Burt, Director of Financial Aid*

◆ The University of Texas at Brownsville ◆

Reference No. 98-343-01

**Provide Timely Exit Counseling Information to All Students**

**CFDA 84.032 - Federal Family Education Loans**

The University of Texas at Brownsville (University) is not providing timely exit counseling (loan repayment) information to all recipients of the *Federal Family Education Loans* program. Timely exit counseling was not provided for 18 of 20 (90 percent) files tested. Eighteen files did not contain exit counseling documentation. Inadequate exit counseling procedures could result in an increased loan default rate.

Questioned Costs	\$0
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U.S. Department of Education	
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*Title 34 of the Code of Federal Regulations, Section 682.604*, requires that the institution conduct exit counseling with each borrower who ceases to be enrolled at least half time. If a student does not attend a counseling session, this information must be mailed to the student within 30 days. Documentation of this counseling must be maintained in the student's file.

Recommendation:

We recommend that the University provide timely exit counseling information to all students who cease to be enrolled at least half time and that documentation of the counseling be maintained in the students' files.

Management's Response:

*We have experienced a critical shortage of personnel. We have since hired a person that will concentrate on loan default issues such as exit counseling. This person will follow up on missing documentation and make provisions for this to be corrected.*

*Implementation Date: October 20, 1997*

*Responsible Person: Nancy Ramirez, Default Prevention Officer*

Reference No. 98-343-02

**Obtain Financial Aid Transcripts**

**CFDA 84.032 - Federal Family Education Loans**  
**CFDA 84.063 - Federal Pell Grant Program**

The University is not obtaining financial aid transcripts for all transfer students who receive federal financial assistance. Four of the 50 (8 percent) *Federal Family Education Loans* program and *Federal Pell Grant Program* student files tested did not include a transcript obtained in accordance with federal regulations, resulting in questioned costs of \$3,884.

Questioned Costs:	
CFDA 84.032	\$657
CFDA 84.063	3,227
Total	\$3,884
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 668.19*, requires that a financial aid transcript be obtained before disbursing aid and the second payment of *Federal Pell Grant Program* funds to any student who previously attended another institution. The transcript must be signed by an official authorized by the institution providing the transcript.

Recommendation:

We recommend the University obtain financial aid transcripts for all transfer students before disbursing federal financial assistance. In addition, the questioned costs of \$3,884 should be returned to the federal financial assistance programs.

Management's Response:

*The Financial Aid Office adheres to established procedures and published regulations regarding the need to have a financial aid transcript prior to awarding Title IV assistance. In all four cases, students indicated that they had not attended any other institution previous to ours and therefore there was no expectation of the need for a transcript. We understand that this is a requirement for all transfer students and will recommend procedural changes that will prevent this from happening.*

*Implementation Date: October 20, 1997*

*Responsible Person: Nancy Ramirez, Default Prevention Officer*

Reference No. 98-343-03

**Maintain Complete and Accurate Student Files**

CFDA 84.032 - Federal Family Education Loans

CFDA 84.063 - Federal Pell Grant Program

The University is not adequately maintaining complete and accurate student files. Twenty-four of the 129 (19 percent) student files we tested did not contain complete and accurate documentation. Eighteen of the files did not contain exit counseling forms. Four of the files did not contain a financial aid transcript. Two of the budgets did not incorporate the addition of a loan fee.

Questioned Costs	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 668.23 (h)*, requires institutions administering federal financial aid programs to establish and maintain adequate student records. Student files should (1) support student eligibility and awards, and (2) be systematically organized.

**Recommendation:**

We recommend the University adequately maintain complete and accurate student files to support the disbursement of federal financial assistance. The University should develop and implement written procedures to correct the file maintenance weaknesses.

**Management's Response:**

*We concur with the recommendation made. Filing procedures will be strengthened to ensure appropriate documents are filed in student folders. Two files did not have the \$120 loan fee added to their budget at the time that we processed a loan. We will now include the fee as part of determining average cost.*

*Implementation Date: February 10, 1998*

*Responsible Person: Financial Aid Office*

Reference No. 98-343-04

**Maintain Enrollment Status Information**

**CFDA 84.032 - Federal Family Education Loans**

The University is not maintaining documentation regarding enrollment changes for the required five years for the *Federal Family Education Loans* program. As a result, we were unable to test student files to determine if enrollment changes had been reported to the lender in a timely manner.

Questioned Costs	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 682.610*, states the record retention requirement for maintaining enrollment change data is five years following the last day of the borrower’s attendance at the school.

If the University does not maintain backup tapes or files of the data submitted to the Clearinghouse, there is no way for the University to ensure all students affected by enrollment changes are reported to the lender.

Recommendation:

We recommend the University maintain documentation submitted to the Clearinghouse for the required five years.

Management’s Response:

*The institution has been reporting enrollment data electronically the past two years. The processed transmittal dates are enclosed. While we agree that we should have back up data on what was transmitted, we have been following reporting procedures as established by the Department of Education. The results of data provided by the lenders and the guarantee agencies is what is compiled to produce a student confirmation report which we use to report changes to the appropriate lenders and/or guarantee agencies. We will meet to discuss how we keep backup data in Information Systems.*

*Implementation Date: May 1, 1998*

*Responsible Person: Information Systems*

◆ The University of Texas at Dallas ◆

Reference No. 98-330-01

**Strengthen Controls Over Receipt of Loan Proceeds**

(Prior Audit Issue)

**CFDA 84.032 - Federal Family Education Loans**

The University of Texas at Dallas's (University) Student Financial Aid Office (SFA Office) should strengthen controls over the receipt of Law Access loan proceeds for the *Federal Family Education Loans* program. Currently, the central SFA Office both processes the students loan applications and receives the loan proceeds from the lenders. This increases the risk of unauthorized loans being processed and the proceeds retained without being detected.

Questioned Costs	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 668.16 (c)*, requires an institution to ensure that its procedures for administering the Student Financial Aid programs include an adequate system of internal checks and balances.

Recommendation:

We recommend that the University strengthen controls over the receipts of loan proceeds from the lenders. This can be accomplished by segregating the duties of loan processing functions and the receipt and disbursement of loan proceeds. The University should consider having all the loan proceeds delivered directly from the lenders to the Bursar's Office instead of the Student Financial Aid Office.

Management's Response:

*The Financial Aid Office has taken steps to further separate duties within the student loan process. The procedures put in place mirror those employed by another UT System component school, which also receives student loan checks in the same manner as our office. In addition, the Financial Aid Office has a new position, filled this past February, whose sole responsibility is to receive, process and prepare student loan checks for delivery to the Bursar's Office.*

*Implementation Date: February 1998*

*Responsible Person: Maria Ramos, Director of Student Financial Aid*

Reference No. 98-330-02

**Restrict Access Within the Integrated Student Information System**

(Prior Audit Issue)

**CFDA 84.032 - Federal Family Education Loans**  
**CFDA 84.063 - Federal Pell Grant Program**

Staff access assignments within the Integrated Student Information System (ISIS) should be restricted to only the screens necessary to perform assigned job duties. Unlimited access increases the opportunity for inaccurate information and/or fraudulent activity.

Questioned Costs	\$0
U.S. Department of Education	

Current access assignments provide most staff members within the SFA Office with the ability to modify automated student financial aid information maintained by ISIS. As a result, these employees have the ability to perform all aspects of the financial aid process for any registered student.

The implementation of the PLUS 2000 system will remove this access when the application is implemented in July of this year. However, access is unrestricted in the meantime.

Recommendation:

We recommend the Student Financial Aid Office strengthens access controls over ISIS. This could be accomplished through segregation of duties and access capabilities. Quality control reviews of financial aid awards could also be performed.

Management's Response:

*The ISIS system is a mute point for financial aid and for the University. ISIS will not exist for financial aid after the close of the 1997-98 year. The University is implementing a new student system, which has layers upon layers of security functions built into it. The new system, SIS PLUS 2000, is a completely new program and will go into implementation for Admissions and Records in July. Financial Aid will begin 1998-99 financial aid processing in this new system. We are scheduled to start tracking functions by the end of February, early part of March and awarding in May 1998, if not perhaps earlier. With SIS PLUS 2000, the following functions, now done manually, will be automated.*

- *Document tracking*
- *Financial aid cost of education budget construction*
- *Awarding funds*

*Along with the above, the following loan functions will take place:*

- *The electronic transmission of loan certification data to the TGSC Corporation will result in no person in the Financial Aid Office having to data enter or type up or prepare loan applications.*
- *TGSLC will prepare the loan application and mail it directly to the student.*
- *The student completes their section and mails it directly to the lender.*
- *The office will not even have a loan application in house.*

*We will also pursue electronic funds transfer of loan proceeds from the lender to the University, which will eliminate the handling of individual checks in the Financial Aid Office. We feel that the University has taken the necessary steps and continues to take the necessary steps to streamline and expedite the delivery of funds to students and we are adhering to the federal regulations overseeing the federal financial aid programs.*

*Implementation Date: June/July 1998*

*Responsible Person: Maria Ramos, Director of Student Financial Aid*

◆ The University of Texas Health Science Center at Houston ◆

Reference No. 98-339-01

**Provide Timely Exit Counseling Information to All Students**

**CFDA 84.032 - Federal Family Education Loans**

The University of Texas Health Science Center at Houston (University) is not providing timely exit counseling (loan repayment information) to all recipients of the *Federal Family Education Loans* program. Timely exit counseling was not provided for 3 of the 29 files tested (10 percent). Inadequate exit counseling procedures could result in an increased loan default rate.

Questioned Costs	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 682.604*, requires that the institution conduct exit counseling with each borrower who ceases to be enrolled at least half time. If a student does not attend a counseling session, this information must be mailed to the student within 30 days. Documentation of this counseling must be maintained in the student's file.

Recommendation:

We recommend that the University provide timely exit counseling information to all students who cease to be enrolled at least half time.

Management's Response:

*Meetings were scheduled with key representatives of each component school to discuss the importance of communication of student enrollment changes to both the Registrar's Office and the Student Financial Aid Office. The meetings included representatives from the Registrar's Office, Student Financial Aid, Loan Collections, Auditing, and Student Affairs and/or Academic Affairs personnel at each component School.*

*When the Registrar's Office receives a class withdrawal notice, the student is immediately withdrawn from the class in the Student Information System (SIS), the document is scanned into the student record and the original document is sent to the Student Financial Aid Office. If a student does not process a formal withdrawal, the Registrar's Office e-mailed the information to the Student Financial Aid Office as soon as the Registrar becomes aware of the withdrawal.*

*The Student Financial Aid Office will run a report after the 12th class day of each term to identify students dropping to less than half-time status. Reports are run each semester to identify students scheduled to graduate at the end of the term.*

*Once the Student Financial Aid Office is notified of a student's withdrawal, graduation or drop to less than half-time status, the student's file is pulled, reviewed and any pertinent refund distribution and/or repayment calculation is performed. The date of the enrollment change is recorded and the date by which the exit counseling must be performed is determined. The file, with the exit counseling deadline date noted, is then given to the Loan Collections Office for preparation of the exit interview materials. The Loan Collection Office prepares the exit documents and schedules the student for an exit interview within the required 30 day time frame. If the student is unable or unwilling to come in for an exit interview by the exit deadline date, the exit documents are then mailed to the student. The date the exit materials are mailed to the student is documented in the student's file.*

*Responsible Party: Director of Student Financial Aid and the Accounting Group Supervisor*

*Implementation Date: February 1, 1998*

Reference No. 98-339-02

### **Report All Enrollment Changes to the Guarantor or Lender**

#### **CFDA 84.032 - Federal Family Education Loans**

The University is not reporting all enrollment changes of students participating in the *Federal Family Education Loans* program to the guarantor, the lender, or the U.S. Department of Education. Enrollment changes were not reported within the required time frame for 5 of the 20 (25 percent) student files we tested. Four of the files indicated that enrollment changes were not reported within the required time frame. One file indicated that the enrollment change was not reported at all. Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled. Noncompliance with this requirement may result in delayed loan repayment to lenders.

Questioned Costs	\$0
U.S. Department of Education	

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

#### **Recommendation:**

We recommend that the Registrar's Office report all enrollment changes to the guarantor or lender in a timely manner. The notification should be by letter within 30 days if the Registrar's Office does not expect to submit a Student Status Confirmation Report within the next 60 days.

Management's Response:

*The Registrar's Office has increased the frequency of updates to the Clearinghouse. Reports are sent on the 12<sup>th</sup> class day (official enrollment day and last day to drop without a transcript entry), on the 21<sup>st</sup> class day (after students who have not made payment are dropped), and thereafter on approximately 45 day intervals. Additionally, the Registrar requires graduates' grades to be received within a 1-2 week period following the end of the term. If a graduating student's grades are not received within the two week period, graduation is delayed to the following term to comply with Clearinghouse reporting requirements.*

*Responsible Party: Registrar*

*Date of Implementation: February 1, 1998*

◆ The University of Texas Health Science Center at San Antonio ◆

Reference No. 98-342-01

**Strengthen Controls Over Receipt of Loan Proceeds**

**CFDA 84.032 - Federal Family Education Loans**

The Student Financial Aid Office (SFA Office) at The University of Texas Health Science Center in San Antonio (University) should strengthen controls over the receipt of loan proceeds from the lenders of the *Federal Family Education Loans* program. Currently, the SFA Office both processes the student loan applications and receives the loan proceeds from lenders. The University did set up a task force to address the control issue of both processing the loan applications and receiving the loan proceeds from the lender. However, there is still not a segregation of duties. The SFA Office receiving the checks increases the risk that SFA Office personnel could process unauthorized loans and retain the loan proceeds without being detected.

Questioned Costs	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 668.16*, requires an institution to ensure that its procedures for administering the student financial aid programs include an adequate system of internal checks and balances.

Recommendation:

We recommend that the University revisit the recommendation of the task force to further strengthen controls over the receipt of loan proceeds from the lenders. This can be accomplished by segregating the duties of loan processing functions and the receipt and disbursement of loan proceeds. The University should consider having all the loan proceeds delivered directly from the lenders to the Bursar's or Registrar's office instead of the Student Financial Aid Office.

Management's Response:

*This issue was considered by a special task force in 1996, and additional staff was added to the office of Financial Aid to enable a proper segregation of duties. We will review the recommendation of the State Auditor and revisit our task force report to make sure that all internal control weaknesses have been addressed. In this process, we will examine the alternatives suggested in the recommendation, as well as other potential remedies.*

*Responsible Person:* Interim Executive Director, Student Services

*Implementation Date:* May 31, 1998

Reference No. 98-342-02

### Properly Verify Accuracy of Student Applications

#### CFDA 84.032 - Federal Family Education Loans

The University is not properly verifying application information for *Federal Family Education Loans* program applicants selected by the U.S. Department of Education. In 5 of 20 (25 percent) files tested, the University did not verify information in accordance with federal regulations. Inadequate verifications could cause an incorrect student family contribution, which could result in an incorrect award.

Questioned Costs	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Sections 668.56, 668.57, and 668.59, require that the University verify certain information on selected applications and update the information when errors are discovered.*

Recommendation:

We recommend that the University properly verify required application information for all students selected by the U.S. Department of Education.

Management's Response:

*We have strengthened our verification procedures in order to ensure compliance with Federal Regulations.*

*Responsible Person: Director, Financial Aid*

*Implementation Date: Implemented (10/97)*

Reference No. 98-342-03

### Document Entrance Counseling for All First-Time Borrowers

#### CFDA 84.032 - Federal Family Education Loans

The University needs to maintain documentation to verify that entrance counseling information is provided to all first-time borrowers of the *Federal Family Education Loans* program. In 4 of 20 (20 percent) student files tested, there was no signed documentation indicating that entrance counseling had been performed. Inadequate entrance counseling procedures could result in an increased loan default rate.

Questioned Costs	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 682.604 (f), requires a school to conduct counseling with each borrower prior to the disbursement of funds and*

maintain documentation of the counseling in the student's file. Counseling should be provided either in person, by audiovisual presentation, or by computer-assisted technology.

Recommendation:

We recommend that the University provide entrance counseling to all first-time borrowers and that documentation be maintained in the students' files.

Management's Response:

*All students have been required to attend a mandatory Financial Aid Orientation in the past (page 13 of the UTHSCSA Student Guide). An Entrance Interview Form was used to verify attendance. A "HOLD" was placed on the checks of students who did not attend the orientation. A report will identify those students missing the signed interview form. We will continue to ensure that signed documentation is in every student's file.*

*Responsible Person: Director, Financial Aid*

*Implementation Date: Implemented (For 1997/98 students)*

Reference No. 98-342-04

**Maintain Complete and Accurate Student Files**

**CFDA 84.032 - Federal Family Education Loans**  
**CFDA 84.063 - Federal Pell Grant Program**

The University is not adequately maintaining complete and accurate student files to support the disbursement of federal financial assistance. During our review of 144 student files, we had difficulty locating information in the student files due to inconsistencies and some student files containing records that belonged in other students' files. If incomplete and inaccurate student files cause the University to erroneously disburse financial aid, the University could be held financially responsible.

Questioned Costs	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 668.23 (h), requires institutions administering federal financial aid programs to establish and maintain adequate student records. Student files should be complete and accurate to support student eligibility and awards*

Recommendation:

We recommend the University maintain complete and accurate student files to support disbursement of federal financial assistance. The University should develop and implement written procedures to correct file maintenance weaknesses.

Management's Response:

*The 1996-97 award year was a transition year for the Financial Aid Office due to the hiring of a new Director and staff and the implementation of a new Student Information System (SIS+). We are in the process of becoming a more "paperless" office and implementing new policies for better tracking of student documents and information to continue to ensure complete and accurate student files, consisting of both electronic and manual records.*

*Responsible Person: Director, Financial Aid*

*Implementation Date: March 1, 1998*

Reference No. 98-342-05

**Maintain Enrollment Status Information**

**CFDA 84.032 - Federal Family Education Loans**

The University is not maintaining documentation regarding enrollment changes for *Federal Family Education Loans* program for the required five years. As a result, we were unable to test student files to determine if enrollment changes had been reported to the lender in a timely manner.

Questioned Costs	\$0
U.S. Department of Education	

If the University does not maintain backup tapes or files of the data submitted to the Clearinghouse, it cannot ensure that all students affected by enrollment changes are reported to the lender.

*Title 34 of the Code of Federal Regulations, Section 682.610, states the record retention requirement for maintaining enrollment change data is five years following the last day of the borrower's attendance at the school.*

Recommendation:

We recommend the University maintain centralized documentation for all enrollment changes submitted to the Clearinghouse for the required five years.

Management's Response:

*The University has begun to maintain all documentation related to the reporting of enrollment changes in a centralized location in the Registrar's Office. This includes*

*manual Student Status Confirmation Reports processed before going to the Clearinghouse (pre-Fall '96) and all Clearinghouse Reports for at least five years.*

*Responsible Person: Registrar*

*Implementation Date: Implemented (10/97)*

Reference No. 98-342-06

**Comply With All Subrecipient Monitoring Requirements**

(See table below for CFDA numbers and program names.)

The University did not request or review the annual audited financial reports from subrecipients during fiscal year 1997. Noncompliance with this requirement could result in the misuse of federal awards by the subrecipient. The delinquent reports result in questioned cost of \$4,811,976 (22 percent) of \$21.8 million for the following programs:

Questioned Costs \$4,811,976  
U.S. Department of Health  
And Human Services

CFDA No.	Program Name	Questioned Cost
93.103	Food and Drug Administration - Research	\$ 157,440
93.110	Maternal and Child Health Federal and Consolidated programs	65,592
93.172	Human Genome Research	169,652
93.189	Health Education and Training Centers	475,023
93.298	Nurse Practitioner and Nurse - Midwifery Education Programs	77,215
93.393	Cancer Cause and Prevention Research	93,753
93.395	Cancer Treatment Research	472,873
93.399	Cancer Control	632,174
93.837	Heart and Vascular Diseases Research	331,139
93.839	Blood Diseases and Resources Research	40,654
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	59,642
93.847	Diabetes, Endocrinology and Metabolism Research	146,756
93.853	Clinical Research Related to Neurological Disorders	2,038,672
93.867	Vision Research	51,391
<b>Total</b>		<b>\$ 4,811,976</b>

The University's internal auditor first identified the noncompliance in September 1997. The Grants Management Department began requesting audited annual reports from subrecipients and developing related procedures after the noncompliance was identified.

The *Office of Management and Budget Circulars A-128 and A-133* require that the University ensure that subrecipients receiving certain levels of federal financial assistance are in compliance with federal single audit requirements.

Recommendation:

We recommend that the University obtain and review the audited financial reports for all subrecipients. The receipt and review of these audit reports will help ensure that proper spending of federal funds by subrecipients. The University should also continue its efforts to formalize subrecipient monitoring procedures.

Management's Response:

*The University has implemented procedures and policies for subrecipient monitoring in accordance with Federal regulations. Beginning in fiscal year 1997, audit reports have been collected and reviewed in accordance with the requirements of OMB Circulars A-110 and A-133. We agree to request, receive, and review the appropriate FY 1996 audit reports. Because the subrecipient group stays relatively stable from year to year and most of the subrecipients are other colleges and universities who have prime responsibilities under the OMB Circulars, we believe that the review will not find subrecipient material deficiencies, thus eliminating the questioned cost. Such review for the fiscal year 1996 will be completed by June 30, 1998.*

*Responsible Person: Director, Grant Management*

*Implementation Date: May 31, 1998*

◆ The University of Texas at Tyler ◆

Reference No. 98-344-01

**Strengthen the Control Environment of the Student  
Financial Aid Office**

CFDA 84.032 - Federal Family Education Loans  
CFDA 84.063 - Federal Pell Grant Program  
CFDA 84.268 - Federal Direct Student Loan

A material weakness exists in the control environment of The University of Texas at Tyler's (University) Student Financial Aid Office (SFA Office) during fiscal year 1997. The material weakness was a result of ineffective policies and procedures and significant limitations and deficiencies with the automated financial aid information system. The control environment reflects the overall attitudes, awareness, and actions of management concerning the importance of and its emphasis on controls. A material weakness in the control environment means that conditions exist which could allow unintentional mistakes and intentional improprieties to occur and go undetected.

Questioned Costs	\$0
U.S. Department of Education	

The factors contributing to the material weakness in the control environment are discussed in detail below:

- The SFA Office does not have current, comprehensive written policies and procedures for the administration of its Title IV Student Financial Assistance Programs. The most recent set of policies and procedures are dated 1990 and are incomplete. The University has not placed due emphasis on the development and maintenance of policies and procedures to help ensure compliance with federal laws and regulations governing the Title IV programs. The University does not use formal policies and procedures as mechanisms to establish individual responsibility and accountability for compliance with Title IV laws and regulations.
- The automated financial aid information system in place during fiscal year 1997 had several limitations and deficiencies. The system was not integrated with other essential systems. This prevented the SFA Office from properly administering the financial aid programs. Further, the system was not adaptable to changing needs. The University is currently in the process of addressing the development or acquisition of a modern, integrated financial aid information system.

These conditions contributed to a control structure that was not adequate to detect or prevent errors or irregularities as evidenced by the instances of noncompliance noted in this report. The University received \$9.1 million in Title IV funds (99.5 percent of total federal financial assistance) for the year ended August 31, 1997.

*Title 34 of the Code of Federal Regulations, Section 668.16, establishes standards of administrative capability which apply to an institution that participates in any student financial assistance program authorized by Title IV of the Higher Education Act (HEA) of 1965. These standards must be maintained in order to continue participation in any Title IV, HEA program. A strong control environment within the SFA Office is essential to ensure that the financial assistance programs are properly administered.*

Recommendations:

We recommend that the University strengthen the control environment of the Student Financial Aid Office in order to eliminate the material weakness. The University should:

- Develop and implement a plan to revise or update all existing policies and procedures related to the Title IV programs. New policies and procedures should be established for any areas not formerly covered and for laws and regulations that have recently come into existence.
- Continue to address development or acquisition of a modern, integrated financial aid information system.

Management's Response:

*We agree that internal controls in the Financial Aid Office needed to be improved during the time period audited. In fact, prior to the audit, U.T. Tyler had already taken aggressive steps to correct financial aid deficiencies. In September of 1996, U.T. Tyler contracted with USA Group Financial Aid Services to review financial aid operations. Shortly thereafter, U.T. Tyler contracted with USA Group Financial Aid Services to provide third party processing of financial aid. In July 1997, U.T. Tyler hired a new Director of Financial Aid and four new financial aid counselors (over forty years of financial aid experience). In October 1997, U.T. Tyler installed a new financial aid computer system and resumed in-house processing of financial aid. Finally, in November 1997, the Director distributed written financial aid procedures (three ring binders) to staff as a supplement to The Federal Student Financial Aid Handbook. These are the initial steps that have been taken to write a tailored departmental policies and procedures manual for U.T. Tyler. The department recently purchased an electronic version of a financial aid policies and procedures manual as an additional resource. The Director estimates that a comprehensive policies and procedures manual for U.T. Tyler will be completed by June 30, 1998. In short, we believe that the basic elements are now in place—leadership, staff, and systems- to correct past deficiencies.*

*Implementation Date: June 30, 1998*

*Responsible Person: Scott Scarbrough, Chief Fiscal Officer*

Reference No. 98-344-02

## Obtain a Current Program Participation Agreement for Title IV Programs

CFDA 84.032 - Federal Family Education Loans

CFDA 84.063 - Federal Pell Grant Program

CFDA 84.268 - Federal Direct Student Loan

The University did not have a properly executed, current Program Participation Agreement (Agreement) on file. The U.S. Department of Education formally notified the University in March 1996 that the current Agreement would expire in September 1996. The notification indicated that a properly completed application (for the Agreement) should be submitted to the Department by June 30, 1996. During our audit, the University was not able to produce evidence showing that an application was ever completed and submitted to the Department, nor was the University able to provide us the most recent executed copy. The University's inability to provide us these copies was due, in part, to insufficient policies and procedures for the financial aid programs. After completion of the audit, the University received a current Program Participation Agreement from the U.S. Department of Education.

Questioned Costs	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 668.14*, requires the University to enter into a written Agreement with the Secretary of Education as a prerequisite for participation. The Agreement sets conditions for the continued participation of the University in Title IV programs, including the *Federal Pell Grant Program*, the *Federal Family Education Loans* program, the *Federal Direct Student Loans* program, and others. Without a properly executed copy of the Agreement on file, risk increases that the University will unknowingly violate terms of the Agreement which may threaten continued participation in the Title IV programs.

### Recommendation:

We recommend the University maintain a copy of the current Program Participation Agreement on file for the Title IV programs. The University should ensure the agreement is accessible in a timely manner.

### Management's Response:

*We agree that U.T. Tyler was unable to provide auditors a signed copy of the Program Participation Agreement. According to our discussions with the U.S. Department of Education, U.T. Tyler was approved to participate in Title IV funding during 1996-1997. After the audit was completed, U.T. Tyler received a current Program Participation Agreement from the Department of Education.*

*Implementation Date: Immediately*

*Responsible Person: Candace Garner, Director of Student Financial Aid*

Reference No. 98-344-03

**Ensure Financial Aid Award Is Properly Determined**

CFDA 84.063 - Federal Pell Grant Program  
CFDA 84.268 - Federal Direct Student Loan

The University did not ensure that all financial aid awards were properly determined for *Federal Direct Student Loan* program and *Federal Pell Grant Program* recipients. Four of 30 (13 percent) student files tested contained errors in the determination of financial need for the *Federal Direct Student Loan* program. One of the errors resulted in questioned costs of \$4,085. We also noted 2 errors in 30 (6.7 percent) of the files tested for the *Federal Pell Grant Program*. Errors in the calculation of awards could cause erroneous disbursements of financial aid and a financial liability for disbursements in excess of actual student need.

Questioned Costs	\$4,085
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(Questioned Costs are related only to CFDA 84.268)

U.S. Department of Education

*Title 34 of the Code of Federal Regulations, Section 685.301*, states that a school must ensure that any information it provides in connection with a loan application, including eligibility and loan amounts, is complete and accurate. *Title 34 of the Code of Federal Regulations, Section 690.61-66*, requires the University to use appropriate information in the calculation of the grant award and in the determination of the final disbursement. Inaccurate or incomplete information may lead to over-awards and ultimately subject the University to liabilities for the disbursement of excess grant amounts.

**Recommendation:**

We recommend the University develop procedures to ensure that financial assistance awarded to students is properly determined and appropriate information is used to support the awards.

**Management's Response:**

*We agree that \$4,085 is a questioned cost as a result of incorrectly awarding a subsidized federal loan to a student. On the other hand, it should be noted that the student would have been eligible to receive an unsubsidized loan for the same amount. In October 1997, the Financial Aid department installed a new financial aid computer system that performs these calculations electronically. The new system greatly reduces the risk of this type of error.*

*We agree that two of the student files tested contained errors in the calculation of financial need. In one file, the estimated cost to attend U.T. Tyler was incorrect. In the other file, childcare expenses were allowed in the calculation of financial need without adequate support. In both cases, no over-award occurred. As of November 3, 1997 (shortly after the hiring of a new financial aid director and staff), U.T. Tyler installed a new financial aid system that performs these calculations electronically.*

*Implementation Date:* October 1997 (FFELP), November 3, 1997 (Pell Grant Program)

*Responsible Person:* Candace Garner, Director of Student Financial Aid

Reference No. 98-344-04

## Ensure That All Recipients Are Maintaining Satisfactory Academic Progress

CFDA 84.032 - Federal Family Education Loans

CFDA 84.063 - Federal Pell Grant Program

CFDA 84.268 - Federal Direct Student Loan

The University is not ensuring that all recipients of the *Federal Pell Grant Program*, *Federal Family Education Loans* program, the *Federal Direct Student Loan* program, and other federal financial assistance programs are maintaining satisfactory academic progress in order to continue to receive aid. For 6 of 30 (20 percent) files tested, information in the files indicated the students were not maintaining satisfactory academic progress. However, there were no indications of monitoring by the SFA Office, such as copies of financial aid probation letters or any other correspondence to the student. One instance of noncompliance resulted in questioned costs of \$4,320.

Questioned Costs	\$4,320
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(Questioned Costs are related only to CFDA 84.268)

U.S. Department of Education

Failure to monitor satisfactory academic progress enables students to continue receiving financial aid even though they have not completed the required number of hours or have failed to maintain a minimum grade point average (GPA).

*Title 34 of the Code of Federal Regulations, Section 668.16 (e)* states that an institution must determine at the end of each semester whether the student has successfully completed, both quantitatively and qualitatively, the appropriate amount of work according to its established satisfactory progress policy.

### Recommendation:

We recommend the University ensure that all recipients of the *Federal Pell Grant Program*, *Federal Family Education Loan* program, *Federal Direct Student Loan* program, and other financial assistance programs are maintaining satisfactory progress. In addition, total questioned costs of \$4,320 should be returned to the federal financial assistance programs.

### Management's Response:

*We agree that \$4,320 is a questioned cost as a result of awarding financial aid to a student who had not maintained satisfactory academic progress. In September of*

1997, U.T. Tyler formed a committee to recommend the purchase of an integrated student system (combined student records and financial aid system). The purchase of this system will greatly facilitate the monitoring of satisfactory academic progress. U.T. Tyler plans to purchase an integrated student system during the Spring of 1998. In the meantime, the new financial aid system that was installed in October 1997 has been interfaced with the institution's current student records system to collect information which is necessary to monitor satisfactory academic progress. The financial aid system also produces the necessary notifications of progress deficiencies to the students. A copy of these notifications will be retained in student financial files.

*Implementation Date:* Spring 1998

*Responsible Person:* Candace Garner, Director of Student Financial Aid

Reference No. 98-344-05

**Provide Entrance Counseling to Students**

**CFDA 84.032 - Federal Family Education Loans  
CFDA 84.268 - Federal Direct Student Loan**

The University is not providing entrance counseling to all recipients of the *Federal Family Education Loans* program and *Federal Direct Student Loan* program. In 12 of 20 (60 percent) files tested, entrance counseling was not performed as required. Ten of the files contained entrance counseling forms signed after the funds were disbursed to students, and 2 files did not contain documentation of entrance counseling. Inadequate counseling could result in an increased loan default rate.

Questioned Costs	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 682.604(f)* requires a school to conduct entrance counseling prior to the disbursement of funds and maintain documentation of the counseling in the student files.

Recommendation:

We recommend the University provide loan counseling to recipients of the *Federal Family Education Loans* program and *Federal Direct Student Loan* program. Documentation of entrance counseling should be maintained in the student files.

Management's Response:

*We agree that entrance counseling did not occur prior to the disbursement of financial aid funds to these students. All of these students, however, have now received the required entrance counseling. Entrance counseling is now being provided to students prior to the disbursement of funds.*

*Implementation Date: Immediately*

*Responsible Person: Candace Garner, Director of Student Financial Aid*

Reference No. 98-344-06

## Provide Exit Counseling Information to All Students

### CFDA 84.032 - Federal Family Education Loans

The University is not providing exit counseling (loan repayment) information to all recipients of the *Federal Family Education Loans* program. Exit counseling was not provided for 7 of the 20 files tested (35 percent). Inadequate exit counseling procedures could result in an increased loan default rate.

Questioned Costs	\$0
U.S. Department of Education	

*Title 34 of the Code of Federal Regulations, Section 682.604*, requires that the institution conduct exit counseling with each borrower who ceases to be enrolled at least half time. If a student does not attend a counseling session, this information must be mailed to the student within 30 days. Documentation of this counseling must be maintained in the student files.

#### Recommendation:

We recommend that the University provide exit counseling information to all students who cease to be enrolled at least halftime and that documentation be maintained in the student files.

#### Management's Response:

*We agree that documentation of exit counseling was not present in 7 of the student files tested. All these students have now received exit counseling and it has been documented in the student files. Exit counseling is now being provided to all students who graduate, withdraw or drop below half-time status.*

*Implementation Date: Immediately*

*Responsible Person: Candace Garner, Director of Student Financial Aid*

Reference No. 98-344-07

**Report All Enrollment Changes to the Guarantor, the Lender, or the U.S. Department of Education****CFDA 84.032 - Federal Family Education Loans**

The University is not reporting enrollment changes of students participating in the *Federal Family Education Loans* program to the guarantor, the lender, or the U.S. Department of Education as required. The University does not have adequate procedures to ensure the guarantor or lender is notified of enrollment changes.

Questioned Costs	\$0
U.S. Department of Education	

Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled. Noncompliance with this requirement may result in delayed loan repayment to lenders. The lack of procedures resulted in the submission of only one of two required Student Status Confirmation Reports (SSCR) to the guarantor. During our review of student files for other tests, we noted students whose enrollment had changed but whose files did not contain correspondence to the guarantor.

*Title 34 of the Code of Federal Regulations, Section 682.610*, requires the institution to report enrollment changes to the guaranty agency or U.S. Department of Education within 60 days. If an institution does not expect to report enrollment changes on the SSCR within the next 60 days, that institution must notify the guaranty agency or lender by letter within 30 days.

**Recommendation:**

We recommend the University report enrollment changes to the lenders within the required time frames. In addition, the University should improve management controls through the development and implementation of comprehensive written policies and procedures over this area.

**Management's Response:**

*We agree that U.T. Tyler did not consistently report financial aid information to the National Student Loan Data Services (NSLDS). On December 1, 1997, U.T. Tyler contracted with National Student Loan Clearinghouse to submit the requisite information to NSLDS. A reporting schedule has been established with the Clearinghouse to submit enrollment information electronically six times per year. All NSLDS and SSCR requests are now being submitted directly to the Clearinghouse for processing.*

*Implementation Date: December 1, 1997*

*Responsible Person: Candace Garner, Director of Student Financial Aid*

◆ Workforce Commission, Texas ◆

Reference No. 98-319-01

**Continue Efforts to Strengthen Cost Allocation System Controls**

- CFDA 17.207 - Employment Services
- CFDA 17.225 - Unemployment Insurance
- CFDA 17.246 - Employment and Training Assistance - Dislocated Workers
- CFDA 17.250 - Job Training Partnership Act
- CFDA 93.575 - Child Care and Development Block Grant\*
- CFDA 93.596 - Child Care and Mandatory and Matching Funds of the Child Care and Development Fund\*

The Texas Workforce Commission's (Commission) Internal Audit Department found control weaknesses in the cost allocation system during a fiscal year 1997 audit (Report #97-018-20). The cost allocation system's purpose is to fairly allocate indirect costs to federal programs. The Commission received \$18.9 million in indirect cost reimbursements from the Federal Government during fiscal year 1997.

Questioned Costs	\$0
U.S. Department of Labor *U.S. Department of Health and Human Services	

The internal audit report noted the following weaknesses in the cost allocation system:

- Eighty percent of the employees tested were not recording their time properly. *Federal Office of Management and Budget Circular A-87* and Commission policy require the reporting of actual time spent working on programs. Instead, employees were reporting their time based on budgeted percentages for their positions. Because of this, the indirect costs cannot be allocated relative to the actual benefits received by the federal programs.
- Twenty-three percent of a test sample of time sheets contained mathematical errors. Commission instructions were also not followed for 12 percent of the tested time sheets. Lack of adequate supervisory review helped allow these errors to go undetected. Finally, 36 percent of the tested time sheets had keying errors or incomplete keying into the time keeping system. Inaccurate time sheet preparation and keying hinder the appropriate allocation of indirect costs.

The cost allocation system relies on employee time sheets to properly allocate indirect costs. Employees are supposed to record the actual time worked on each program. If they cannot allocate their time directly to a program, it is recorded as an indirect cost. Inaccurate allocations of indirect costs would result if the time sheets are not completed and entered into the system correctly.

The Commission agreed with the internal audit findings and has taken the following steps to improve its cost allocation system:

- The Commission has contracted with a consultant to revise its cost allocation plan. Upon U.S. Department of Labor approval, the revised plan will be adopted by the Commission.
- Since the current plan will be used until the new plan is adopted, training is being developed to help ensure proper time sheet preparation, review, and keying.

Recommendation:

The Commission should continue its efforts to strengthen controls over its cost allocation system to ensure compliance with federal requirements.

Management's Response:

*Our Internal Audit Department noted the need for an effective cost allocation system. We have begun aggressively developing and implementing corrective action measures to address the identified weaknesses:*

- *A comprehensive training program is being developed to help ensure proper time sheet preparation, review, and data entry. This training will be conducted by March 31, 1998.*
- *The Commission has contracted with a firm specializing in cost allocations. This firm has already reviewed and documented our current methodologies, reviewed all program and administrative activities, and is developing recommendations to improve our processes and procedures. They will also assist in negotiating the cost allocation plan with the Department of Labor, our federal cognizant agency. We anticipate these activities to be completed by May 31, 1998.*

*Recent reviews by the Department of Labor indicate their happiness with the progress we are making in ensuring proper allocation of costs to the programs administered by the Commission. We will continue efforts to strengthen the controls over our cost allocation system.*

*Mr. Greg D. Lee, our Deputy Director of Financial and Monitoring Services, will serve as the contact person responsible for corrective action.*

Reference No. 98-319-02

**Ensure Program Monitoring of Subrecipients**

**CFDA 17.246 - Employment and Training Assistance - Dislocated Workers**  
**CFDA 17.250 - Job Training Partnership Act**

The Commission did not perform annual program monitoring visits for all *Job Training Partnership Act* and *Employment and Training Assistance - Dislocated Workers* subrecipients. Nine of the 33 subrecipients (27 percent) did not receive program monitoring visits. *Title 20 of the Code of Federal Regulations, Chapter V, Section 627.475*, requires that all areas of subrecipient operations be monitored at least annually. All subrecipients received fiscal monitoring visits.

Questioned Costs	\$0
U.S. Department of Labor	

The Commission has inadequate assurance that the program is being operated in accordance with federal requirements without program monitoring visits.

The Commission has taken steps to improve the monitoring function. During fiscal year 1997 the Commission said it lacked enough program monitoring staff members to complete all visits. The Commission is now in the process of fully staffing the program monitoring section. In addition, the Commission has combined the program and fiscal monitoring sections to increase the efficiency and effectiveness of the monitoring function.

Recommendation:

The Commission should continue its efforts to ensure all *Job Training Partnership Act* and *Employment and Training Assistance - Dislocated Workers* subrecipients receive annual on-site program monitoring visits.

Management's Response:

*We understand the importance of program monitoring, and the role it plays in assuring that programs are operated in accordance with federal requirements. We also recognize that federal regulations require annual monitoring of our subrecipients. Accordingly, we have taken steps to ensure that the required monitoring activities are conducted:*

- *Effective October 1, 1997, the program and fiscal monitoring functions were merged into a centralized monitoring function. The current year monitoring plan (developed in September 1997) includes planned reviews of all JTPA programs in addition to the Employment and Training Assistance programs administered by the Commission. Our reviews include additional procedures to examine the prior year program activities.*
- *Our monitoring program staff (consisting of one (1) Director, four (4) Program Specialists, and six (6) Program Monitors) have developed*

*monitoring guidelines, prepared specific program monitoring instruments, and have begun conducting the required monitoring reviews. As a result, we anticipate conducting all of the required monitoring reviews for fiscal year 1998.*

*Mr. Greg D. Lee, our Deputy Director of Financial and Monitoring Services, will serve as the contact person responsible for corrective action.*

**Summary  
Schedule of Prior  
Audit Findings**

Federal regulations (*Office of Management and Budget Circular A-133*) require auditees to follow-up and take corrective action for all audit findings. As part of this responsibility, the auditee reports corrective actions in relation to each prior year finding. This Summary Schedule of Prior Audit Findings has been prepared to address these responsibilities.

◆ Alcohol and Drug Abuse, Commission on ◆

Reference No. 97-339-01

**Improve Administrative Controls Over Federal Requirements**

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

The Commission on Alcohol and Drug Abuse (Commission) lacks sufficient accounting procedures and fiscal controls to determine if it is meeting required spending thresholds in the *Block Grants for Prevention and Treatment of Substance Abuse*.

Initial Year Written:	1994
Status:	Partially Implemented

U.S. Department of Health and Human Services
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Corrective Action:

*In fiscal year 1997, the Commission prepared a monthly analysis for the 5 percent administrative cap, the Primary Prevention, HIV Early Intervention, and Female set-aside requirements and included them in the monthly variance reports.*

*A procedure will be developed by June 1, 1998, to ensure that the narrative as well as the financial data and data tables included in the Block Grant application receive proper review. The Commission will document decisions made regarding qualifying expenditures for the maintenance of effort calculation. The Commission will develop and document procedures for the calculation of set-aside requirements for Block Grants for Prevention and Treatment of Substance Abuse by August 1, 1998. Additionally, the Commission will ensure that Fiscal Staff will be cross-trained to compile the financial data required by the Block Grant application process.*

Reference No. 97-339-02

**Conduct Timely Reviews for All Subrecipient Audit Reports**

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

The Commission has not materially complied with subrecipient audit requirements for the *Block Grants for Prevention and Treatment of Substance Abuse*.

Corrective Action:

Corrective action was taken.

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

Reference No. 97-339-03

**Limit Subrecipient Cash Advances to Cash Needs**

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

The Commission does not limit subrecipient cash advances to immediate cash needs for the *Block Grants for Prevention and Treatment of Substance Abuse*.

Corrective Action:

*To ensure all Commission funds are being accounted for and expended in accordance with applicable federal requirements and Commission guidelines, the Commission's Compliance Division has incorporated into its audit program a review of Revenues to monitor subrecipient cash.*

Initial Year Written:	1996
Status:	Partially Implemented
U.S. Department of Health and Human Services	

*The Program Services Division uses federally required "Requests for Advance or Reimbursement" forms to monitor monthly cash advance requests against self-reported outlays. The monthly requests for advances are reviewed, and no advances are given when previous advances exceed outlays. Subrecipients do not receive advances for more than the predetermined amount for monthly recurring costs without written justification.*

*The required quarterly "Financial Status Report," where subrecipients self-report expenditures, are not requested more frequently than quarterly in accordance with federal regulations. Therefore, current procedures require a quarterly review of expenditures versus payments of all contracts.*

◆ Attorney General, Office of the ◆

Reference No. 97-306-01

## Ensure Accuracy of Child Support Arrearage Balances

### CFDA 93.563 - Child Support Enforcement

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

Corrective Action:

*The corrective action taken includes:*

*The Office has developed a Standard Arrears Calculation handbook, Support Orders and Arrears Calculation handbook, and an Interest Calculations handbook. These handbooks provide caseworkers with general policy information and detailed case examples.*

*Information memos have been distributed communicating to employees policies and procedures relating to the conversion from the old automated system to the new Texas Child Support Enforcement System (TXCSES). These memos include information about determining arrearage balances in TXCSES and procedures for error correction and disputed arrears amounts.*

*The Child Support Training Section provides periodic training to maintain, reinforce, and develop proficiency in computing accurate child support balances to unit staff by request. This section has developed training on the calculation and accrual of interest on child support arrearage balances based upon established policy and procedures of the Office.*

*Internal Audit noted that it appears that experienced and trained Child Support staff have been assigned in each unit office to calculate and maintain child support balances.*

*The performance evaluation form for Area Managers has been modified to include an expectation that the arrearage error rate for the area is not to exceed 15 percent. Also, the evaluation form includes an expectation for the manager to develop a monitoring plan which ensures accurate arrears calculation and past-due child support balances.*

*In addition to the corrective action taken, the Office's Internal Audit and Program Monitoring sections continue to review the accuracy of child support arrearage balances and the following:*

Initial Year Written:	1989
Status:	Partially Implemented

U.S. Department of Health  
and Human Services

**Quality Control:** *Continued efforts will be made at the field offices and area management levels to monitor and adjust, as appropriate, the current quality control processes in the respective area field offices.*

**Quarterly Review:** *Area management will continue to ensure that quarterly reviews are conducted in their respective area field offices and shall continue to ensure corrective action plans are prepared and implemented accordingly.*

**Visitation Of Reviews:** *Division level management, with assistance of the Office's Program Monitoring Section, will conduct quarterly reviews by area to ensure and validate the area level reviews.*

Reference No. 97-306-02

**Ensure Compliance With State Requirement to Accrue Interest on Delinquent Child Support**

**CFDA 93.563 - Child Support Enforcement**

The Office of the Attorney General did not comply with state requirements to accrue interest on delinquent child support.

Corrective Action:

Corrective action was taken.

Initial Year Written:	1995
Status:	Implemented

U.S. Department of Health and Human Services
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## ◆ Comptroller of Public Accounts ◆

Reference No. 97-349-01

**Improve Accuracy of Budget Statement Information**

Continued improvements are needed to strengthen the policies and procedures used in preparing the Budget Statement.

Initial Year Written:	1995
Status:	Implemented

Corrective Action:

Corrective action was taken.

◆ Education Agency, Texas ◆

Reference No. 97-348-01

**Improve Accuracy of Annual Financial Report**

The Education Agency's Annual Financial Report for the 1996 fiscal year contained significant errors.

Corrective Action:

Initial Year Written:	1996
Status:	Other

*In management's response to the fiscal year 1996 Statewide Audit findings, the Texas Education Agency (Agency) committed to take three major steps to ensure an overall accuracy of the Agency's Annual Financial Report (AFR). One, all personnel involved in the preparation of the AFR will receive additional training. Two, a consolidated review process of the AFR will be implemented to include the Internal Audit Division as well as operating and oversight divisions. Three, improved reporting and integration are major features coming with the implementation of the Agency's new administrative system in partnership with the Comptroller's Office.*

1. *The Division Director and Assistant Director of Agency Accounting attended the AFR eight-hour training session that is offered by the Comptroller's Office. All of the accounting supervisors attended this training and brought along other staff members that would be assisting in the AFR. Copies of the AFR Guidelines were made available to all accounting staff involved in the preparation of the AFR. Staff from the Permanent School Fund also had appropriate representation at this training.*
2. *A Quality Assurance Review Committee (Committee) was formed and met to review a draft of the 1997 AFR. The Committee was made up of the Chief of Operations, Director of Internal Audit, the Administrator of the Permanent School Fund, and the Director of Accounting. A management plan for the accurate and timely completion of the AFR was reviewed to ensure the integrity of the report.*
3. *The Agency implemented its new administrative system, Integrated Statewide Administrative System (ISAS) in partnership with the Comptroller's Office in November of 1997. ISAS is a truly integrated system that includes on-line management approval of documents through the workflow component of ISAS. One of ISAS's attractive features is the flexibility for extracting and retrieving data. Agency personnel continue to be actively involved in the design and implementation of ISAS reports that will facilitate the financial reporting requirements of the Agency. Specifically, the Comptroller's Office has worked hand in hand with the Agency and Arthur Andersen as the consultant to define the specs for the automatic generation of the AFR from ISAS that would be in compliance with the Comptroller's directives for preparation of the AFR.*

*In addition to complying with the three major steps noted above, the Agency contracted with Rupert & Penhall, P.C., a firm known for preparing quality reports for various state agencies, to assist with the preparation of the 1997 AFR. A new trial balance software program was also used to compile financial data from the Agency's internal accounting system. This software allowed for a more automated process of rolling up financial detail to the GAAP Fund Level as required by the AFR Guidelines issued by the Comptroller's Office. Historically, Agency accounting personnel prepared the AFR manually keying FMS source of fund detail into a financial spreadsheet. Formulas built into the spreadsheet would then roll up the FAM data to the required GAAP Fund Level.*

*In summary, the Agency not only implemented those steps to which it had committed itself, but assumed a proactive approach to ensure the quality of reports prepared beyond the end of the 1996 fiscal year.*

**Note:** *ISAS was not placed into production until November 1997. Therefore, there was no impact on the procedures for preparing the fiscal year 1997 AFR. Although this was not specifically recommended in the prior year finding, the Agency committed to implementing this system.*

◆ Hospital Equipment Financing Council ◆

Reference No. 97-338-01

**Institute Monitoring Procedures Over Bond-Related Transactions**

The Hospital Equipment Financing Council (Council) does not have procedures to monitor transactions related to its bonds.

Corrective Action:

Initial Year Written:	1996
Status:	No Action Taken

*The Council has no employees, and all finances are maintained by the trustee. As a result, the Council must rely on the Comptroller's Office to assist in resolving this issue.*

◆ Human Services, Department of ◆

Reference No. 97-310-01

**Internal Control Issues**

**CFDA 10.550 - Food Distribution**

The frequency and unrelated nature of material internal control weaknesses associated with the *Food Distribution* program for the past three years represent a material weakness in the control environment over the administration of this federal program.

Corrective Action:

Corrective action was taken.

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

Reference No. 97-310-02

**Develop Controls to Identify and Report Commodities Exceeding a Six-Month Supply**

**CFDA 10.550 - Food Distribution**

Controls at the Department of Human Services (Department) do not exist to ensure that commodities exceeding a six-month supply are accurately identified and reported to the United States Department of Agriculture.

Corrective Action:

Corrective action was taken.

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

Reference No. 97-310-03

**Ensure Timely Preparation of Reconciliations and Correction of Reconciling Items**

- CFDA 10.550 - Food Distribution
- CFDA 10.551 - Food Stamps
- CFDA 10.558 - Child and Adult Food Care Program
- CFDA 10.561 - State Administrative Matching Grants for Food Stamps Program
- CFDA 98.778 - Medical Assistance Program\*

The Department has not ensured that reconciliations between the quarterly federal reports and the accounting records are prepared in a timely manner.

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

Corrective Action:

Corrective action was taken.

Reference No. 97-310-04

**Ensure Interagency Support Services Costs Are Correctly Charged to Federal Programs**

- CFDA 10.561 - State Administrative Matching Grants for Food Stamps Program

The Department incorrectly charged federal programs for funds received for certain support services provided to the Texas Department of Protective and Regulatory Services.

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

Corrective Action:

Corrective action was taken.

Reference No. 97-310-05

**Improve the Subrecipient Audit Tracking System**

**CFDA 10.550 - Food Distribution**

The Department's subrecipient single audit tracking system is not capturing all relevant federal financial assistance data.

Corrective Action:

Corrective action was taken.

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

Reference No. 97-310-06

**Do Not Charge Federal Programs for Settlements of Lawsuits**

- CFDA 10.561 - State Administrative Matching Grants for Food Stamps Program\*
- CFDA 93.560 - Family Support Payments to States - Assistance Payments
- CFDA 93.777 - State Survey and Certification of Health Care Providers and Suppliers
- CFDA 93.778 - Medical Assistance Program

The Department used federal funds to pay for settlements of lawsuits in which the Department allegedly violated federal and state laws and regulations.

Corrective Action:

Corrective action was taken.

Initial Year Written:	1995
Status:	Implemented
*U.S. Department of Agriculture U.S. Department of Health and Human Services	

Reference No. 97-310-07

**Revise Cash Management Policies**

**CFDA 10.558 - Child and Adult Food Care Program**

Current cash management policies at the Department do not reflect actual practices followed by employees and do not ensure compliance with federal requirements.

Corrective Action:

Corrective action was taken.

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

◆ **Protective and Regulatory Services, Department of** ◆

Reference No. 97-309-01

**Ensure Controls Are Adequate to Prevent Duplicate Payments**

CFDA 93.645 - Child Welfare Services - State Grants  
CFDA 93.658 - Foster Care - Title IV-E

The Department of Protective and Regulatory Services (Department) did not have adequate controls in place to prevent duplicate payments from being charged against certain federal programs.

Initial Year Written:	1996
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 97-309-02

**Ensure Timely Preparation of Reconciliations and Corrections of Reconciling Items**

CFDA 93.645 - Child Welfare Services - State Grants  
CFDA 93.658 - Foster Care - Title IV-E

The Department has not ensured that reconciliations between the quarterly federal reports and the accounting records are prepared in a timely manner.

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

Corrective Action:

Corrective action was taken.

Reference No. 97-309-03

**Ensure That Payments Are Made for Appropriately Documented Clients and Costs**

**CFDA 93.645 - Child Welfare Services - State Grants**

The Department is in material noncompliance with the federal eligibility and allowable cost requirements for the *Child Welfare Services - State Grants* program.

Corrective Action:

Corrective action was taken.

Initial Year Written:	1993
Status:	Implemented
U.S. Department of Health and Human Services	

Reference No. 97-309-04

**Develop Controls to Identify and Monitor Subrecipients**

**CFDA 93.556 - Family Preservation and Support Services  
CFDA 93.658 - Foster Care - Title IV-E  
CFDA 93.667 - Social Services Block Grant**

The Department has not developed controls to identify and monitor subrecipients as required by federal regulations.

Corrective Action:

Corrective action was taken.

Initial Year Written:	1996
Status:	Implemented
U.S. Department of Health and Human Services	

Reference No. 97-309-05

**Ensure Interagency Support Services Costs Are Correctly Charged to Federal Programs**

**CFDA 93.645 - Child Welfare Services - State Grants  
CFDA 93.658 - Foster Care - Title IV-E**

The Department incorrectly charged federal programs for costs incurred for certain support services provided by the Texas Department of Human Services.

Corrective Action:

Corrective action was taken.

Initial Year Written:	1995
Status:	Implemented
U.S. Department of Health and Human Services	

Reference No. 97-309-06

### **Correct Erroneous Charges Identified in Title IV-A Funding**

#### **CFDA 93.560 - Family Support Payments to States - Assistance Payments**

The Title IV-A *Family Support Payments to States - Assistance Payments* program was incorrectly charged for certain costs that were not allowable under the program.

*Corrective Action:*

Corrective action was taken.

Initial Year Written:	1996
Status:	Implemented

U.S. Department of Health  
and Human Services

◆ Sul Ross State University ◆

Reference No. 97-332-01

**Improve Administrative Controls in the Student Financial Aid Office**

CFDA 84.032 - Federal Family Education Loans  
CFDA 84.063 - Federal Pell Grant Program

The administration of the Student Financial Aid Office (SFA Office) needs to be improved.

Corrective Action:

*The SFA Office is in the process of reviewing and updating the current policies and procedures now in place that will ensure compliance with all federal and state regulations and requirements. A quality control review program is in the process of being implemented to ensure that all files remain in compliance with applicable requirements. In addition, the SFA Office is addressing training needs for staff on an ongoing basis.*

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

Reference No. 97-332-02

**Ensure All Recipients Submit a Completed Student Aid Report**

CFDA 84.032 - Federal Family Education Loans  
CFDA 84.063 - Federal Pell Grant Program

Sul Ross State University (University) is not ensuring that all recipients of the *Federal Pell Grant Program* and the *Federal Family Education Loans* program submit a completed Student Aid Report. Not obtaining complete information could result in disbursing aid to ineligible students.

Corrective Action:

*This finding is no longer valid because the Federal Student Financial Aid Handbook, 1996-1997, Chapter 1, General Program Information, Introduction 2-2, published by the U.S. Department of Education states that since students must sign the certification statements on the Free Application for Federal Student Aid, schools no longer must separately collect and keep these certification statements.*

Initial Year Written:	1996
Status:	Other
U.S. Department of Education	

Reference No. 97-332-03

**Maintain Complete and Accurate Student Files**

**CFDA 84.032 - Federal Family Education Loans**

The University is not adequately maintaining complete and accurate student files to support the disbursement of federal financial assistance.

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

Corrective Action:

Corrective action was taken.

Reference No. 97-332-04

**Ensure Financial Aid Given to Students Does Not Exceed Their Needs**

**CFDA 84.032 - Federal Family Education Loans**

The University is not ensuring that financial aid given to *Federal Family Education Loans* program recipients does not exceed their needs.

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

Corrective Action:

Corrective action was taken.

Reference No. 97-332-05

**Provide Exit Counseling Information to All Students**

**CFDA 84.032 - Federal Family Education Loans**

The University is not providing exit counseling (loan repayment) information to all recipients of the *Federal Family Education Loans* program.

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

Corrective Action:

*The University has strengthened its policies and procedures with regard to file maintenance to ensure that exit counseling is conducted and documentation maintained for all recipients of the Federal Family Education Loans program. Procedures will be enhanced with the implementation of a file checklist during the Spring 1998 semester to ensure compliance with this federal requirement.*

Reference No. 97-332-06

**Report All Enrollment Changes to the Guarantor or Lender****CFDA 84.032 - Federal Family Education Loans**

The University is not reporting all enrollment changes for the *Federal Family Education Loans* program to the guarantor or lender.

Initial Year Written:	1996
Status:	Partially Implemented

U.S. Department of Education
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Corrective Action:

*The University has made progress in strengthening its policies on reporting enrollment changes in a timely and accurate manner. Under the new procedures, the University reviews weekly add/drop listings and information on graduating students to be certain that all affected students are tracked.*

Reference No. 97-332-07

**Obtain Financial Aid Transcripts****CFDA 84.032 - Federal Family Education Loans****CFDA 84.063 - Federal Pell Grant Program**

The University is not obtaining financial aid transcripts for all transfer students who receive federal financial assistance.

Initial Year Written:	1996
Status:	Implemented

U.S. Department of Education
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Corrective Action:

Corrective action was taken.

Reference No. 97-332-08

**Properly Verify All Application Information for Students Selected by the U.S. Department of Education****CFDA 84.032 - Federal Family Education Loans****CFDA 84.063 - Federal Pell Grant Program**

The University is not properly verifying application information for all *Federal Family Education Loans* program and *Federal Pell Grant Program* applications selected by the U.S. Department of Education.

Initial Year Written:	1996
Status:	Implemented

U.S. Department of Education
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Corrective Action:

Corrective action was taken.

◆ Texas Southern University ◆

Reference No 96-042-01

### Strengthen the Control Environment of the Student Financial Assistance Office

CFDA 84.032 - Federal Family Education Loans

CFDA 84.063 - Federal Pell Grant Program

The material weakness in the control environment of the Student Financial Assistance Office (SFA Office), originally identified during the 1993 student financial assistance audit, still exists.

Corrective Action:

*In September 1996 a permanent Director and Assistant Director were hired within the SFA Office, and staff training was provided. In September of 1996 all job descriptions were revised and all staff members were given performance appraisals. During the performance appraisals, all staff members were given their exact position titles and position descriptions. In November of 1996 a draft policies and procedures manual was developed. This manual is expected to be finalized and distributed to all staff in February 1998. Finally, lack of communication between the departments has been addressed through the restructuring of several departments under the new Vice President for Enrollment Management. By placing all interrelated departments under the control of the Vice President for Enrollment Changes, the lack of communication has been addressed.*

Initial Year Written:	1993
Status:	Partially Implemented

U.S. Department of Education
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Reference No. 96-042-02

### Strengthen Controls Over Receipt of Law Access Loans Proceeds

CFDA 84.032 - Federal Family Education Loans

Texas Southern University's (University) SFA Office should strengthen controls over the receipt of Law Access loan proceeds for the *Federal Family Education Loans* program.

Corrective Action:

*Some Law Access loans are still being received by the Law School SFA Office; however, effective immediately, all lenders will be notified to forward these checks to the Fiscal Office at 3100 Cleburne Avenue.*

Initial Year Written:	1993
Status:	No Action Taken

U.S. Department of Education
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Reference No. 96-042-03

**Ensure That All Students Are Maintaining Satisfactory Academic Progress**

**CFDA 84.032 - Federal Family Education Loans**

The University is not ensuring that all recipients of the *Federal Pell Grant Program*, *Federal Family Education Loans* program, and other federal financial assistance programs are maintaining satisfactory academic progress.

Initial Year Written:	1993
Status:	Other
U.S. Department of Education	

Corrective Action:

*The status of corrective action is currently being evaluated by the U.S. Department of Education. The results of its testing will be reported in June 1998.*

Reference No. 96-042-04

**Ensure That All Recipients Submit a Completed Student Aid Report**

**CFDA 84.032 - Federal Family Education Loans  
CFDA 84.063 - Federal Pell Grant Program**

The University is not ensuring that all recipients of the *Federal Pell Grant Program* and the *Federal Family Education Loans* program submit a completed Student Aid Report (SAR).

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

Corrective Action:

*Federal regulations no longer require schools to collect and keep certification statements. This finding is no longer valid.*

Reference No. 96-042-05

**Obtain Financial Aid Transcripts**

**CFDA 84.032 - Federal Family Education Loans**

The University is not obtaining financial aid transcripts for all transfer students who receive federal financial assistance.

Initial Year Written:	1993
Status:	Other
U.S. Department of Education	

Corrective Action:

*The status of corrective action is currently being evaluated by the U.S. Department of Education. The results of its testing will be reported in June 1998.*

Reference No. 96-042-06

**Ensure That Financial Aid Given to Students Does Not Exceed Their Needs**

CFDA 84.032 - Federal Family Education Loans  
 CFDA 84.063 - Federal Pell Grant Program

The University is not ensuring that financial aid given to *Federal Pell Grant Program* and *Federal Family Education Loans* program recipients does not exceed their needs.

Initial Year Written:	1993
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 96-042-07

**Maintain Complete and Accurate Student Files**

CFDA 84.032 - Federal Family Education Loans

The University is not adequately maintaining complete and accurate student files to support the disbursement of federal financial assistance.

Initial Year Written:	1993
Status:	Partially Implemented
U.S. Department of Education	

Corrective Action:

*As a result of the University being placed on the reimbursement system by the U.S. Department of Education in May 1996, policies and procedures have been strengthened to ensure that all student files contain all necessary documentation. In addition, the University will perform the following procedures to maintain complete and accurate student files:*

- *Review the General Provisions regulations and The Blue Book to document record retention requirements.*
- *Develop file maintenance policies that will incorporate the Banner Student System.*
- *Conduct a file review of all active files (with activity in the last two award years) to apply newly developed file maintenance procedures.*
- *Perform a systematic purge of all inactive files.*

Reference No. 96-042-08

**Ensure That Annual Loan Limits Are Not Exceeded****CFDA 84.032 - Federal Family Education Loans**

The University is not ensuring that *Federal Family Education Loans* program recipients do not exceed annual loan limits set by the U.S. Department of Education.

Initial Year Written:	1993
Status:	Partially Implemented

U.S. Department of Education
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Corrective Action:

*The University has implemented a new computer system, SCT-Banner, which helps to ensure that annual and aggregate loan limits are not exceeded. In addition, the SFA Office has implemented the use of the National Student Loan Data System (NSLDS) as a means of monitoring student aggregate loan limits. Starting with the 1997-1998 award year the NSLDS was integrated into the electronic packaging system via the Banner system. The program is designed to prohibit loans from being processed above the annual loan limits.*

Reference No. 96-042-09

**Submit a Default Management Plan to Secretary for Approval****CFDA 84.032 - Federal Family Education Loans**

The University has not submitted its current default management plan to the Secretary of the U.S. Department of Education for approval for the *Federal Family Education Loans*.

Initial Year Written:	1995
Status:	Factors Delay Implementation

U.S. Department of Education
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Corrective Action:

*A settlement agreement between the University and the U.S. Department of Education was executed on August 26, 1997. On December 5, 1997, the U.S. Department of Education notified the University that approval of the plan is contingent on the outcome of the settlement agreement. The settlement agreement is anticipated to be settled in June 1998.*

Reference No. 96-042-10

### Comply With Regulations for Awarding Athletically-Related Financial Aid

CFDA 84.032 - Federal Family Education Loans  
CFDA 84.063 - Federal Pell Grant Program

The University is not complying with regulations for awarding athletically related financial aid for the *Federal Pell Grant Program* and *Federal Family Education Loans* program.

Corrective Action:

Corrective action was taken.

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

Reference No. 96-042-11

### Report Enrollment Changes

CFDA 84.032 - Federal Family Education Loans

The University is not reporting enrollment changes for the *Federal Family Education Loans* program within the required time frames.

Corrective Action:

*The University Registrar contacted Texas Guaranteed Student Loan Corporation's (TGSLC) Loan Guarantee Operations Department on November 22, 1997, and requested the Student Status Confirmation Reports (SSRC) report for the 1996 - 1997 academic year. The Registrar made a follow-up call to TGSLC on December 1, 1997, and was promised copies of the academic year 1996 - 1997 SSRC reports by December 5, 1997. The University will ship the academic year 1996 - 1997 SSRC reports to the State Auditor's Office no later than one business day after receipt from TGSLC. Further, the University has requested SSRC reports for the previous five years from TGSLC, and has established a file in the office of the Registrar to maintain copies of its SSRC reports for the required five-year time frame.*

Initial Year Written:	1993
Status:	Partially Implemented
U.S. Department of Education	

Reference No. 96-042-12

**Provide Loan Counseling to Students****CFDA 84.032 - Federal Family Education Loans**

The University is not providing loan counseling to all recipients of the *Federal Family Education Loans* program.

Corrective Action:

*Management has strengthened procedures to ensure all new applicants are required to attend a counseling session prior to the release of loan checks. Returning students who did not have entrance counseling are required to attend a counseling session. Management is strengthening procedures to ensure that documentation of entrance counseling is maintained in each student's file. Management has developed procedures to ensure a more timely process of providing exit counseling (loan repayment) information to all recipients of the Federal Family Education Loans program.*

Initial Year Written:	1993
Status:	Partially Implemented

U.S. Department of Education
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Reference No. 96-042-13

**Ensure Payment Authorization for University Obligations is Optional****CFDA 84.032 - Federal Family Education Loans  
CFDA 84.063 - Federal Pell Grant Program**

The University is not ensuring that payment authorization for university obligations for the *Federal Pell Grant Program* and *Federal Family Education Loans* program recipients is optional.

Corrective Action:

*The Student Authorization Statement Form has been prepared, which gives financial aid recipients the option to authorize or decline to allow the University to deduct outstanding debts from federal financial assistance funds. The Student Authorization Statement Form will be presented to each financial aid recipient for his or her choice of selection at the beginning of each award year. The Bursar's Office has been notified, by memorandum, that outstanding debts must not be deducted from federal financial assistance funds without written authorization from the recipient.*

Initial Year Written:	1995
Status:	Partially Implemented

U.S. Department of Education
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Reference No. 96-042-14

**Use Standardized Budget for Law School**

The Thurgood Marshall School of Law Student Financial Assistance Office is not using the standardized student budget approved by the Texas Higher Education Coordinating Board.

Initial Year Written:	1995
Status:	Implemented

Corrective Action:

Corrective action was taken.

## ◆ Transportation, Department of ◆

Reference No. 97-311-01

**Strengthen the Control Environment Over the Construction Payment Process****CFDA 20.205 - Highway Planning and Construction**

A weakness exists in the control environment over the Department of Transportation's (Department) construction payment process.

Initial Year Written:	1996
Status:	Implemented

U.S. Department of  
Transportation

Corrective Action:

Corrective action was taken.

Reference No. 97-311-02

**Ensure Timely Detection and Correction of Errors in Contractors' Payments****CFDA 20.205 - Highway Planning and Construction**

The Houston District is not ensuring accurate accounting records that support contractor payments. Inaccurate payments to contractors resulted from mathematical and entry errors.

Initial Year Written:	1996
Status:	Implemented

U.S. Department of  
Transportation

Corrective Action:

Corrective action was taken.

Reference No. 97-311-03

**Ensure Accounting Records Support Contractor Payments****CFDA 20.205 - Highway Planning and Construction**

The Department's procedures do not ensure that contractor payments are adequately supported by accounting records.

Initial Year Written:	1995
Status:	Implemented

U.S. Department of  
Transportation

Corrective Action:

Corrective action was taken.

◆ University of Houston - Victoria ◆

Reference No. 97-340-01

**Strengthen Controls Over Receipt of Loan Proceeds**

**CFDA 84.032 - Federal Family Education Loans**

The Student Financial Aid Office should strengthen controls over the receipt of loan proceeds from the lenders of the *Federal Family Education Loans* program.

Corrective Action:

Corrective action was taken.

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

Reference No. 97-340-02

**Ensure Students Are Eligible Prior to the Disbursement of Loan Proceeds**

**CFDA 84.032 - Federal Family Education Loans**

The University of Houston-Victoria (University) is not ensuring that all students continue to be eligible to receive loan proceeds prior to disbursement for the *Federal Family Education Loans* program.

Corrective Action:

Corrective action was taken.

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

Reference No. 97-340-03

**Provide Exit Counseling Information to All Students**

**CFDA 84.032 - Federal Family Education Loans**

The University is not providing exit counseling (loan repayment information) to all recipients of the *Federal Family Education Loans* program.

Corrective Action:

Corrective action was taken.

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

Reference No. 97-340-04

**Report Enrollment Changes in a Timely Manner****CFDA 84.032 - Federal Family Education Loans**

The University is not reporting all enrollment changes for the *Federal Family Education Loans* program.

Corrective Action:

Corrective action was taken.

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

Reference No. 97-340-05

**Properly Verify All Application Information for Students Selected by the U.S. Department of Education****CFDA 84.032 - Federal Family Education Loans  
CFDA 84.063 - Federal Pell Grant Program**

The University is not properly reviewing and correcting financial information for all *Federal Family Education Loans* program and *Federal Pell Grant Program* applications selected by the U.S. Department of Education for verification.

Corrective Action:

Corrective action was taken.

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

◆ The University of Texas at Austin ◆

Reference No. 97-341-01

**Strengthen Controls Over Data Processing**

CFDA 84.032 - Federal Family Education Loans

CFDA 84.063 - Federal Pell Grant Program

The Office of Student Financial Services has allowed programmers to modify computer programs, place the programs into production, and run the programs against production data.

Corrective Action:

Corrective action was taken.

Initial Year Written:	1994
Status:	Implemented
U.S. Department of Education	

Reference No. 97-341-02

**Provide Exit Counseling Information to All Students**

CFDA 84.032 - Federal Family Education Loans

The University of Texas at Austin (University) is not providing exit counseling (loan repayment information) to all recipients of the Federal Family Education Loans program.

Corrective Action:

*Policies and procedures have not been implemented. The Office of Student Financial Services (OSFS) has initiated tighter controls to ensure that exit counseling is provided to those who are academically dismissed, withdraw, or drop to less than half-time during a long semester. The OSFS Associate Director will chair a task force to review current procedures for weaknesses as well as explore a more automated approach to tracking exit counseling obligations. The task force will complete the revised procedures prior to the end of the Spring semester.*

Initial Year Written:	1994
Status:	Partially Implemented
U.S. Department of Education	

Reference No. 97-341-03

### **Accurately Report Students' Enrollment Status**

The University is not accurately reporting the enrollment status of all students for the *Federal Family Education Loans* program to the guarantors or lenders.

*Corrective Action:*

Corrective action was taken.

Initial Year Written:	1994
Status:	Implemented

U.S. Department of Education

◆ The University of Texas at Dallas ◆

Reference No. 97-342-01

### Strengthen Controls Over Receipt of Loan Proceeds

#### CFDA 84.032 - Federal Family Education Loans

The Student Financial Assistance Office (SFA Office) at The University of Texas at Dallas (University) should strengthen controls over the receipt of loan proceeds from the lenders of the *Federal Family Education Loans* program.

Corrective Action:

*The University created a new position within the SFA Office to address the internal control concerns regarding the receipt of loan check proceeds. This position has not been filled, but we are certain that once filled it will address the concerns raised by the State Auditor's Office.*

*The SFA Office has taken steps to further separate duties within the student loan process. The procedures put in place mirror those employed by another component school of The University of Texas System, which also receives student loan checks in the same manner as our office. In addition, the SFA Office has a new position, filled this past February, whose sole responsibility is to receive, process, and prepare student loan checks for delivery to the Bursar's Office.*

**Note:** *This University was selected for pilot project by the U.S. Department of Education for this requirement in fiscal year 1996 - 1997 academic school year. Therefore, the U.S. Department of Education will monitor the University's compliance with the pilot project's condition.*

Initial Year Written:	1996
Status:	Partially Implemented

U.S. Department of Education

Reference No. 97-342-02

## Strengthen Access Controls Over the Integrated Student Information System

CFDA 84.032 - Federal Family Education Loans

CFDA 84.063 - Federal Pell Grant Program

The SFA Office needs to strengthen access controls over the Integrated Student Information System (ISIS).

### Corrective Action:

Initial Year Written:	1996
Status:	Partially Implemented

U.S. Department of Education

*ISIS is a mute point for financial aid and for the University. ISIS will not exist for financial aid after the close of the 1997 - 1998 academic year.*

*The University is implementing a new student system, which has layer upon layer of security functions built into it. The new system, SIS PLUS 2000, is a completely new program and will go into implementation for Admission and Records in July. The SFA Office will begin academic 1998 - 1999 financial aid processing in this new system. We are scheduled to start tracking functions by the end of February, early part of March and awarding in May 1998, if not perhaps earlier. With SIS PLUS 2000, the following functions, now done manually, will be automated:*

- *Document tracking*
- *Financial aid cost of education budget construction*
- *Awarding funds*

*Along with the above, the following loan functions will take place:*

- *The electronic transmission of loan certification data to the Texas Guaranteed Student Loan Corporation (TGSLC) will result in no one in the SFA Office having to enter data or type or prepare loan applications.*
- *TGSLC will prepare the loan application and mail it directly to the student.*
- *The students complete their sections and mail them directly to the lender.*
- *The SFA Office will not even have a loan application in house.*

*We will also pursue electronic funds transfer of loan proceeds from the lender to the University, which will eliminate the handling of individual checks in the SFA Office. We feel that the University has taken the necessary steps and continues to take the necessary steps to streamline and expedite the delivery of funds to students, and we are adhering to the federal regulations overseeing the federal financial aid programs.*

Reference No. 97-342-03

**Ensure All Integrated Student Information System (ISIS) Users Periodically Change Personal Passwords**

CFDA 84.032 - Federal Family Education Loans  
 CFDA 84.063 - Federal Pell Grant Program

The University is not ensuring that all ISIS users periodically change personal passwords.

Corrective Action:

Corrective action was taken.

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

Reference No. 97-342-04

**Maintain Complete and Accurate Student Files**

CFDA 84.032 - Federal Family Education Loans

The University is not adequately maintaining complete and accurate student files to support the disbursement of federal financial assistance.

Corrective Action:

Corrective action was taken.

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

Reference No. 97-342-05

**Provide Exit Counseling Information to All Students**

CFDA 84.032 - Federal Family Education Loans

The University is not providing exit counseling (loan repayment information) to all recipients of the *Federal Family Education Loans* program.

Corrective Action:

*Students are required to submit withdrawal forms to the Records Office, which are then turned over to the SFA Office. Copies of this form are used to identify financial aid loan borrowers. However, The University of Texas at Dallas was selected by the U.S. Department of Education for a pilot program for exit counseling. Therefore, exit counseling was not tested.*

Initial Year Written:	1996
Status:	Other
U.S. Department of Education	

Reference No. 97-342-06

**Report All Enrollment Changes to the Guarantor or Lender****CFDA 84.032 - Federal Family Education Loans**

The University is not reporting all enrollment changes for the *Federal Family Education Loans* program to the guarantor or lender.

Corrective Action:

Corrective action was taken.

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

Reference No. 97-342-07

**Improve Federal Cash Management Procedures****CFDA 84.063 - Federal Pell Grant Program**

The University should improve current cash management procedures to accurately determine cash need for the *Federal Pell Grant Program*.

Corrective Action:

Corrective action was taken

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

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# Appendices

Appendix 1:

## Related Reports and Audits

### Reports and Audits By the State Auditor's Office

#### Attorney General, Office of the

##### *An Audit Report Responding to Questions from the Senate Interim Committee on Juvenile Justice and Child Support*

A State Auditor's Office report related to the Child Support Enforcement program was released in January 1997 (*An Audit Report Responding to Questions from the Senate Interim Committee on Juvenile Justice and Child Support*, SAO Report 97-013). This report responds to questions from the Senate Interim Committee on Juvenile Justice and Child Support related to the cost, status, and implementation time frames for the new automated Texas Child Support Enforcement System. This information relates to the Statewide Management Letter for the Office of Attorney General.

#### Education Agency, Texas

##### *1997 Statewide Management Letter - Texas Education Agency*

The Texas Education Agency (Agency) has established systems to ensure compliance with federal regulations for its six largest federal programs, and these systems are working (SAO Report No. 98-328, April 1998). Additional procedures were performed to express an opinion on the Permanent School Fund. The Permanent School Fund, a Texas Education Agency perpetual endowment fund, is used to supplement the cost of public education in Texas. A separate management letter will be issued for the Permanent School Fund. This letter, scheduled to be released in June 1998, will include issues related to financial statement presentation, the reconciliation of investment transactions, and the reporting of investment payables.

#### General Services Commission

##### *An Operational Review of the Contract Administration at the State Energy Conservation Office of the General Services Commission*

The State Auditor's Office performed *An Operational Review of the Contract Administration at the State Energy Conservation Office of the General Services Commission*, (SAO Report 98-014, January 1998). Although this work goes beyond the scope of the Statewide audit of federal compliance requirements, the review relates to the Petroleum Violation Escrow Fund.

The audit reports a weakness in the Energy Office's ability to track, forecast, and analyze the financial operations of the LoanSTAR Revolving Loan Program. This weakness has resulted in the loans not generating enough interest income to cover the

administrative costs of the LoanSTAR Program as required by statute. This has required operating costs to be expended from funds intended for other energy savings programs. For fiscal years 1996 and 1997, these amounts were \$1.6 million and \$795,586 respectively.

The audit also reported weaknesses in the contract administration practices within the Energy Office. There was no indication of inappropriate uses of contract and grant funds.

#### **Health, Department of**

##### *An Audit Report on Medicaid Managed Health Care*

In addition to the coverage provided by the statewide compliance audit, the State Auditor's Office has performed work related specifically to the Managed Care part of the U.S. Department of Health and Human Services' *Medical Assistance Program* (CFDA 93.778). The scope of this work included a review of the overall management systems of Medicaid managed care, the relationships between the Department of Health and its managed care providers, the appropriations of the managed care strategy, and the expenditures and cost allocation systems related to managed care. The results of this work, found in *An Audit Report on Medicaid Managed Health Care* (SAO Report 98-028, February 1998), includes recommendations to help improve management of the managed care operations.

#### **Health, Department of Health and Human Services Commission Human Services, Department of Protective and Regulatory Services, Department of Workforce Commission, Texas**

##### *A Review of Welfare Reform Implementation*

The State Auditor's Office performed a review of the State's planning and managing of the implementation of Federal Welfare Reform (*A Review of Welfare Reform Implementation*, SAO Report 97-076, August 1997). Although this work goes beyond the scope of the Statewide audit of federal compliance requirements, the review relates to the *Temporary Assistance for Needy Families* (CFDA 93.558).

The report mentions that a comprehensive statewide implementation plan of Federal Welfare Reform does not exist. The report also commends the Department of Human Services and the Texas Workforce Commission for their coordination of policy changes and program design. Their continued efforts in this area and coordination by a state oversight agency will greatly enhance the State's administration and design of the TANF program.

**Health and Human Services Commission  
Human Services, Department of**

*An Audit Report on the Long-Term Care Regulatory Program at the Department of Human Services*

The State Auditor's Office has performed work specifically related to the long-term care regulatory process. Additional information is provided by this work, which goes beyond the federal compliance requirements covered by the statewide audit. The results of this work include a recommendation to define and document procedures for the identification and referral of cases of suspected Medicaid fraud to the Health and Human Services Commission. The results are included in *An Audit Report on the Long-Term Care Regulatory Program at the Department of Human Services* (SAO Report 97-066, June 1997).

**Human Services, Department of**

*An Audit Report of the Electronic Benefits Transfer System*

The State Auditor's Office has performed work related to the Electronic Benefits Transfer (EBT) System. This system is a significant operating component of the *Food Stamps* program. The work concluded that the State's EBT system is effectively providing government benefits to the recipients of the *Food Stamps - Non-Monetary* (CFDA 10.551) and the *Family Support Payments to States - Assistance Payments* (CFDA 93.560) programs. However, the report identified opportunities to improve controls over retailers, access, automated program changes, disruptions to the system, and the replacement of cards and personal identification numbers. The results of this work were included in *An Audit Report of the Electronic Benefits Transfer System* (SAO Report 97-020, November 1996). A follow-up review is currently being performed by the Department of Human Services' Internal Auditor, and control weaknesses related to disruptions to the system and automated program changes are considered resolved.

**Lamar University - Beaumont**

*An Audit Report on the Management Controls at Lamar University – Beaumont*

The State Auditor's Office performed *An Audit of Management Controls at Lamar University – Beaumont*, (SAO Report 98-029, February 1998). Although this work goes beyond the scope of the Statewide audit of federal compliance requirements, the review relates to the *Federal Family Education Loan Program* (CFDA 84.032) and the *Federal Pell Grant Program* (CFDA 84.063).

The audit reports that inadequate management of the financial aid processing function, along with violations of federal requirements, place the University's future federal student financial aid program funding, and the resulting revenues to the University, at risk. The University reported \$12,963,598 in federal student financial assistance for fiscal year 1997.

The audit also reported a material weakness in fiscal management, weaknesses in information and resource management, and significant problems in several University operations.

### **Protective and Regulatory Services, Department of**

#### *Contract Administration at Selected State Agencies - Phase Four*

In addition to the coverage provided by the statewide compliance audit, the State Auditor's Office has performed work specifically related to contract administration. Additional information is provided by this work, which goes beyond the federal compliance requirements covered by the statewide audit. This contract administration report includes various recommendations to improve the State's ability to protect public funds in areas such as fraud, waste, or inefficient use by contractors. The results for the Department are included in *Contract Administration at Selected State Agencies - Phase Four* (SAO Report 97-002, September 1996).

#### *A Review of the Child and Adult Protective System at the Department of Protective and Regulatory Services*

The State Auditor's Office has performed an application and general controls review of the Department's new automated system, Child and Adult Protective System (CAPS), which was implemented in September 1996 (SAO Report No. 98-039, April 1998). CAPS is designed to provide a basic office automation infrastructure, manage several complex social service functions, and capture program data required by state decision-makers and the Federal Government. The review revealed some weaknesses; however, overall the financial data and related reports used to manage the programs can be relied upon for decision making.

### **Sul Ross State University**

#### *An Audit Report on Management Controls at Sul Ross State University*

The State Auditor's Office performed *An Audit Report on Management Controls at Sul Ross State University* (SAO Report 98-031, February 1998). Although this work goes beyond the scope of the statewide audit of federal compliance requirements, the review relates to the *Federal Family Education Loans* program (CFDA 84.032), the *Federal Pell Grant Program* (CFDA 84.063), and the *Federal Perkins Loan Program - Federal Capital Contributions* (CFDA 84.268).

The audit reports that significant progress needs to be made to resolve long-standing critical problems with student financial assistance. Inadequate monitoring and oversight by Sul Ross State University and the Texas State University System have contributed to the lack of progress on financial assistance problems. Over 65 percent of the students at the University receive and aggregate of over \$8 million in financial assistance.

The audit also reported opportunities to improve its management of policy development, human resources, and construction.

## Reports and Audits By Other Entities

### Health, Department of

#### *Title XIX Medicaid Contract Administered by National Heritage Insurance Company From September 1, 1993, through August 31, 1994*

The Department's Internal Audit Division recently issued a report on its examination of selected activities of the National Heritage Insurance Company (NHIC) that are related to the U.S. Department of Health and Human Services' *Medical Assistance Program*. This work included an examination of financial and statistical records supporting NHIC's billings and reimbursements to determine if the services provided, billings submitted, and reimbursements received were in accordance with the terms of its contract with the Department. The detailed findings and recommendations are included in the Department's internal audit report entitled *Title XIX Medicaid Contract Administered by National Heritage Insurance Company From September 1, 1993, through August 31, 1994*.

### Health and Human Services Commission

#### *Internal Audit of the Medicaid Provider Sanctions Section*

In addition to the coverage provided by the statewide compliance audit, the Commission's Internal Auditor has performed work specifically related to the investigation and sanctions function. The report includes various recommendations to improve the effectiveness of the system used to identify, investigate, and collect money paid providers who abused or defrauded the Medicaid system. The results are included in the *Internal Audit of the Medicaid Provider Sanctions Section* (June 30, 1997).

### Hospital Equipment Financing Council

#### *Report on Bond Compliance*

Deloitte and Touche performed an audit on the State of Texas to express an opinion on the Supplementary Bond Schedules for the year ended August 31, 1997. This opinion and the Supplementary Bond Schedules can be found in the *Texas Comprehensive Annual Financial Report for the Year Ended August 31, 1997*. Individual management letters were issued for each agency and university audited. Only the Hospital Equipment Financing Council management letter contained a finding which related to oversight controls over preparation of its Supplementary Bond Schedules. Other agencies and universities audited for bond compliance are included in "Our Compliments."

**Protective and Regulatory Services, Department of**

The U.S. Department of Health and Human Services - Office of Inspector General issued a report in October 1997 (Report A-06-97-00025), indicating that the Department's contractor, Youth for Tomorrow, was following established criteria in making level-of-care determinations for children in foster care. The report also concluded that the Department was making foster care payments at the appropriate level of care.

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Appendix 2:

## Schedule of Federal Programs Examined for the Year Ended August 31, 1997

The information presented in this schedule identifies the agencies and universities at which federal programs were examined by the State Auditor's Office. It is organized by Catalog of Federal Domestic Assistance (CFDA) number.

Consistent with the revised *Office of Management and Budget Circular A-133* (issued June 24, 1997), a new risk-based approach has been employed. The mix of federal awards covered by audits will be rotated over time. This new risk assessment categorizes all programs as either Type A or Type B programs then identifies them as either high or low risk.

In Texas, Type A programs are those programs exceeding \$30 million in federal awards expended. Type B programs are those expending less than \$30 million but more than \$4.7 million.

All high-risk Type A programs are to be audited as major programs. Low-risk Type A programs are not audited but are replaced by an equal number of high-risk Type B programs which are then audited as major programs.

Schedule of Federal Programs Examined For the Year Ended August 31, 1997				
CFDA	Program Title	State Agency or University	Expenditures (in Millions)	Percentage of State's Total Federal Expenditures
10.550	Food Distribution	Human Services, Department of	\$ 55.99	0.35%
10.557	Special Supplemental Food Program	Health, Department of	299.11	1.86
17.207	Employment Service	Workforce Commission, Texas	57.27	0.36
17.225	Unemployment Insurance	Workforce Commission, Texas	139.94	0.87
17.246	Employment & Training Assistance	Workforce Commission, Texas	64.99	0.40
17.250	Job Training Partnership Act	Workforce Commission, Texas	148.26	0.92
20.205	Highway Planning & Construction	Transportation, Department of	1,048.05	6.51
66.458	Capitalization Grant for State Revolving Funds	Water Development Board	68.99	0.43
84.010	Title I Grants - Local Education Agencies	Education Agency, Texas	578.45	3.59
84.011	Migrant Education - Basic State Formula Grant Program	Education Agency, Texas	39.48	0.25
84.027	Special Education State Grant	Education Agency, Texas	190.85	1.19
84.048	Vocational Education - Basic Grants to States	Education Agency, Texas	29.56	0.18
93.558	Temporary Assistance for Needy Families	Human Services, Department of <sup>10</sup>	247.99	2.05
		Protective and Regulatory Services, Department of <sup>10</sup>	57.12	
		Workforce Commission, Texas <sup>10</sup>	25.34	
93.563	Child Support Enforcement	Attorney General, Office of the	110.58	0.69
93.575	Child Care & Development Block Grant	Workforce Commission, Texas	88.93	0.55
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Workforce Commission, Texas	53.0	0.33
93.645	Child Welfare Service	Protective and Regulatory Services, Department of	23.32	0.14
93.658	Foster Care - Title IV-E	Protective and Regulatory Services, Department of	56.61	0.35
93.959	Block Grant for Prevention & Treatment of Substance Abuse	Alcohol and Drug Abuse, Commission on	71.46	0.44

<sup>10</sup> Audited as other SAO projects.

Schedule of Federal Programs Examined For the Year Ended August 31, 1997				
CFDA	Program Title	State Agency or University	Expenditures (in Millions)	Percentage of State's Total Federal Expenditures
N/A	Research & Development Cluster <sup>11</sup>	The University of Texas at Austin	67.8	1.75
		The University of Texas Health Science Center at Houston	68.5	
		The University of Texas Health Science Center at San Antonio	53.4	
		The University of Texas Southwestern Medical Center at Dallas	91.2	
N/A	Student Financial Aid Cluster <sup>11</sup>	Lamar University – Beaumont <sup>10</sup>	12.9	0.59
		Sul Ross State University <sup>10</sup>	11.2	
		Texas A&M International University	6.3	
		The University of Texas at Brownsville	15.4	
		The University of Texas at Tyler	8.9	
		The University of Texas Health Science Center at Houston	18.7	
		The University of Health Science Center at San Antonio	22.3	
N/A	Food Stamp Cluster <sup>11</sup>	Human Services, Department of	1,930.98	12.0
N/A	Medicaid Cluster <sup>11</sup>	Health, Department of	5,550.04	34.49
		Health and Human Services Commission		
		Human Services, Department of		
N/A	Nutrition Cluster <sup>11</sup>	Human Services, Department of	720	4.47
		Education Agency, Texas		
N/A	Petroleum Violation Escrow <sup>10, 12</sup>	General Services Commission	23.86	0.15

<sup>11</sup> Clusters of programs are groupings of closely-related programs that share common compliance requirements. The *Office of Management and Budget Circular A-133 Compliance Supplement* identifies the federal programs grouped into clusters.

<sup>12</sup> Petroleum Violation Escrow Funds received by the State as restitution relative to litigation involving violation of federal price controls are not federal funds but are subject to *Office of Management and Budget Circular A-133*.

Schedule of Federal Programs Examined For the Year Ended August 31, 1997				
CFDA	Program Title	State Agency or University	Expenditures (in Millions)	Percentage of State's Total Federal Expenditures
<b>Follow Up on Fiscal Year 1996 Student Financial Aid Management Letters</b>				
84.032	Federal Family Education Loans	Sul Ross State University	N/A <sup>13</sup>	
		Texas Southern University		
		The University of Texas at Austin		
		University of Houston - Victoria		
		The University of Texas at Dallas		
84.063	Federal Pell Grant Program	Sul Ross State University		
		Texas Southern University		
		University of Houston - Victoria		
		The University of Texas at Dallas		
<b>Subtotal: Federal Programs Examined by the SAO</b>			<b>\$ 12,056.77</b>	<b>74.91%</b>
<b>Federal Programs Audited by External Entities</b>				
14.228	Community Development Block Grant	Housing and Community Affairs, Department of	\$ 94.67	0.59%
14.239	Home Investment Partnership Program	Housing and Community Affairs, Department of	34.67	0.22
93.568	Low-Income Home Energy Assistance	Housing and Community Affairs, Department of	21.25	0.13
93.569	Community Service Block Grant	Housing and Community Affairs, Department of	19.73	0.12
84.032	Federal Family Education Loans	Texas Guaranteed Student Loan Corporation	15.47	0.10
Cluster	Research and Development	Texas A&M University Research Foundation	60.56	0.38
<b>Subtotal: Federal Programs Audited by External Entities</b>			<b>\$ 246.35</b>	<b>1.54%</b>
<b>Total Federal Programs Examined</b>			<b>\$ 12,303.12</b>	<b>76.45%</b>

<sup>13</sup> These expenditures were accounted for in *A Report on the 1996 Financial and Compliance Audit* (SAO Report 97-056, May 1997) and therefore are not shown on this schedule.

Appendix 3:

## Summary of Annual Financial Report Issues

### Description of Annual Financial Report Issue Categories

In a joint effort to improve timely reporting and enhance accountability to the State, the Comptroller of Public Accounts (Comptroller) and the State Auditor's Office identified agencies that did not comply with reporting requirements issued by the Comptroller.

For fiscal year 1997, 194 out of 232 agencies (84 percent) complied with the Comptroller reporting requirements. This is a 27 percent increase in compliance with the reporting requirements over fiscal year 1996.

The following information describes the nature of the categories used in the "Summary of Annual Financial Report Issues by Agency and University" table presented on the following pages.

<b>Internal Inconsistencies</b>	<p>These agencies and universities had significant problems in their fiscal year 1997 Annual Financial Report (AFR). This included problems such as:</p> <ul style="list-style-type: none"> <li>• Assets did not equal liabilities and fund balance on the balance sheet.</li> <li>• Fund balance reported on the balance sheet differed from the balance reported in the operating statement.</li> <li>• Other internal inconsistencies</li> </ul>
<b>Late Reports</b>	These agencies and universities submitted AFRs after the November 29 due date.
<b>Revised Reports</b>	These agencies and universities needed revisions after the November 29 due date.
<b>No Reconciliation of USAS or General Revenue</b>	These agencies and universities did not reconcile the balances for their General Revenue Fund and/or their Uniform Statewide Accounting System (USAS) data.
<b>Certified But Did Not Reconcile</b>	These agencies submitted signed certification forms for either General Revenue Fund or USAS, but reconciliation was insufficient or not performed.
<b>Incorrect Cash Flow Methods</b>	These agencies and universities did not use the Comptroller-prescribed reporting methods for the cash flow statements.
<b>Interagency Inconsistency</b>	These agencies and universities did not sufficiently coordinate interagency transactions to ensure the internal consistency of <i>Texas' 1997 Comprehensive Annual Financial (CAFR)</i> .

Source: Comptroller of Public Accounts

Summary of Annual Financial Report Issues by Agency and University									
Agency or University No.	Agency or University	Internal Inconsistencies	Late Reports	Revised Reports	No Reconciliation of USAS	No Reconciliation of General Revenue	Certified But Did Not Reconcile	Incorrect Cash Flow Methods	Interagency Inconsistency
201	Supreme Court of Texas		✓*						
204	Court Reporters Certification Board	✓					✓		
212	Texas Judicial Council Office of Court Administration								✓
231	Eleventh Court of Appeals District, Eastland				✓	✓			
306	Texas State Library - Archives Commission								✓
318	Commission for the Blind	✓		✓	✓				
320	Workforce Commission, Texas								✓
323	Teacher Retirement System and Optional Retirement Program			✓		✓	✓		✓
324	Department of Human Services								✓
325	Fire Fighters' Pension Commissioner				✓	✓			
327	Employees' Retirement System						✓		
335	Commission for the Deaf and Hearing Impaired	✓			✓				
340	Texas Department on Aging			✓					
346	Council on Sex Offender Treatment		✓	✓	✓	✓			
347	Texas Public Finance Authority				✓				✓
355	Children's Trust Fund of Texas Council	✓			✓				
467	Board of Private Investigators and Private Security Agencies		✓*		✓	✓			
473	Public Utility Commission				✓		✓		✓
528	State Anatomical Board		✓						
555	Texas Agricultural Extension Service			✓	✓				

\* These agencies informed the Comptroller's Office prior to the November 29 AFR deadline that their agency's report would be submitted late due to extenuating circumstances.

Source: Comptroller of Public Accounts

Summary of Annual Financial Report Issues by Agency and University									
Agency or University No.	Agency or University	Internal Inconsistencies	Late Reports	Revised Reports	No Reconciliation of USAS	No Reconciliation of General Revenue	Certified But Did Not Reconcile	Incorrect Cash Flow Methods	Interagency Inconsistency
556	Texas Agricultural Experiment Station			✓					
701	Education Agency, Texas								✓
711	Texas A&M University								✓
715	Prairie View A&M University			✓					
718	Texas A&M University at Galveston			✓					
732	Texas A&M University at Kingsville								✓
742	The University of Texas at the Permian Basin						✓		
751	Texas A&M University at Commerce			✓					
752	University of North Texas								✓
754	Southwest Texas State University								✓
755	Stephen F. Austin State University				✓				
758	Texas State University System Central Office, Board of Regents				✓				
761	Texas A&M International University			✓					
763	University of North Texas Health Science Center at Fort Worth				✓				
764	Texas A&M University at Texarkana			✓					
781	Higher Education Coordinating Board								✓
787	Lamar University at Orange				✓				
789	Lamar University Institute of Technology				✓				✓

\* These agencies informed the Comptroller's Office prior to the November 29th AFR deadline that their agency's report would be submitted late due to extenuating circumstances.

Source: Comptroller of Public Accounts

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