

State of Texas Financial Portion of the

Statewide Single Audit Report for the Year Ended August 31, 2004

March 2005

Report No. 05-555



State of Texas Financial Portion of the
**Statewide Single Audit Report for the
Year Ended August 31, 2004**

SAO Report No. 05-555
March 2005

Overall Conclusion

The Comprehensive Annual Financial Report (CAFR) for the State of Texas accurately presents the financial position and activities of the State for the year ended August 31, 2004. The ability to prepare materially correct financial statements represents a significant accomplishment for the State. With the third-largest budget among all 50 states, nearly \$74.2 billion¹ in annual expenditures, and more than 200 state agencies and institutions of higher education, the State must contend with significant complexities in preparing its basic financial statements. The financial statements provide a comprehensive picture of how the State used its resources during the year, as well as the State's remaining assets and obligations at the end of the year.

Background Information

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

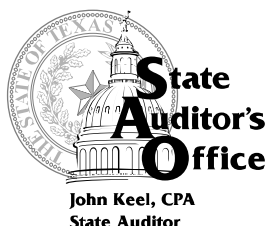
- Government-wide financial statements are designed to present an overall picture of the financial position of the State. These statements do not include retirement system assets, trust funds, or agency funds.
- Fund financial statements present financial information, focus on the most significant funds, and are presented in a form that is more familiar to experienced users of governmental financial statements.

We audited material accounts of major funds at 20 of the State's largest agencies and institutions of higher education.

Auditing financial statements is not limited to reviewing the accuracy of the numbers in those statements. Conducting this audit also requires the State Auditor's Office to audit the underlying systems and processes that agencies and institutions of higher education use to record their financial activities. Through that effort, we identified specific weaknesses that certain agencies need to correct to ensure the accuracy of their financial information.

The State Auditor's Office conducts this audit so that the State can comply with legislation and federal grant requirements that require it to obtain an opinion regarding the material accuracy of the State's basic financial statements and a report on internal controls related to those statements. The results of this audit are used primarily by bond-rating agencies that rate newly issued bonds and by federal agencies that award grants.

¹ The \$74.2 billion in annual expenditures exceeded the \$59.6 billion appropriated for fiscal year 2004 primarily because (1) actual expenditures of federal funds exceeded the amount of estimated federal funds specified in the General Appropriations Act by \$10.1 billion and (2) higher education institutions' expenditures of funds held outside the State Treasury of \$3.9 billion are included in the annual expenditure amount but are not included in the General Appropriations Act.



This audit was conducted in accordance with Texas Government Code, Section 321.0131.

For more information regarding this report, please contact Mike Apperley, Audit Manager, or John Keel at (512) 936-9500.

Key Points

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

Audit work identified control weaknesses at only 4 of the 20 state agencies and institutions of higher education audited. (Appendix 2 of this report lists the agencies and institutions of higher education audited.) This reflects positively on the State's ability to accomplish the complicated task of preparing materially accurate basic financial statements.

Certain agencies need to address specific weaknesses to ensure the accuracy of their financial information.

We identified instances in which agencies did not reconcile their internal accounting systems with the Uniform Statewide Accounting System (USAS) before they issued their annual financial reports. Reconciliations are important because they help ensure that financial information, such as information regarding cash receipts and disbursements, is accurate. We also identified agencies that had weaknesses in access controls for their automated systems. This increases the risk that financial data could be altered without detection.

- Although the Department of Human Services (Department) was facing the difficult and unique challenge of preparing for the transition to the Department of Aging and Disability Services during fiscal year 2004, that does not reduce the importance of maintaining sound financial operations. The line items we audited at the Department were materially accurate; however, the Department did not perform monthly reconciliations of information in its internal accounting system with information in USAS in a timely manner. Additionally, the Department did not provide reasonable assurance that adequate controls were in place to help ensure accurate fiscal year 2004 financial reporting.
- The Department of Health (Department), which was making the transition to the Department of State Health Services during fiscal year 2004, continued to make progress in strengthening its financial reporting. However, the Department was still conducting the fiscal-year-end reconciliation of information in its internal accounting system with information in USAS when it submitted its fiscal year 2004 annual financial report. Additionally, the Department did not remove automated system access for individuals whose employment had been terminated.
- Audit work at the Texas Workforce Commission (Commission) identified information technology weaknesses that could allow unauthorized users to have access to the Commission's automated systems and data. Additionally, the Commission has not yet corrected issues identified in 2001 regarding the absence of (1) a fire suppression system and a secondary method of power supply in its

data center and (2) an uninterruptible power supply system for its mainframe systems.

- The Health and Human Services Commission (Commission) established inappropriate access rights to its primary financial system in several instances. This increases the risk that unauthorized individuals could view, add, change, or delete financial data without detection.

Summary of Managements' Responses

The agencies to which we addressed recommendations agreed with our recommendations.

Summary of Information Technology Review

We reviewed the internal controls over significant accounting and information systems at the agencies and institutions of higher education we audited. To do that, we identified systems that compiled and contained data used to prepare financial statements for agencies and institutions of higher education and then reviewed basic data protection controls such as user access rights, location of data, and back-up processes. As discussed previously, we identified certain information technology control weaknesses that the Department of State Health Services (formerly the Department of Health), the Texas Workforce Commission, and the Health and Human Services Commission need to correct to help ensure the reliability of their financial information.

We also reviewed internal controls within USAS. We did not identify any significant control weaknesses during our reviews of this system.

Summary of Objective, Scope, and Methodology

Our objective was to determine whether the State's basic financial statements accurately reflect the balances and activities for the State of Texas for the fiscal year ended August 31, 2004.

The Statewide Single Audit is an annual audit for the State of Texas. It is conducted so that the State complies with the Single Audit Act Amendments of 1996 and the Office of Management and Budget (OMB) Circular A-133. The State Auditor's Office contracted with KPMG LLP to perform the federal portion of the Statewide Single Audit. The federal portion included a review of compliance and controls over the State's federal awards and an audit of the Schedule of Expenditures of Federal Awards. The State Auditor's Office performed the financial portion of the Statewide Single Audit.

The scope of the financial portion of the Statewide Single Audit included an audit of the State's basic financial statements and a review of significant controls over financial reporting and compliance with applicable requirements. As required by the Single Audit Act, this report also includes our *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

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

Contents

Schedule of Findings and Responses

Chapter 1	
Financial Statement Findings.....	2
Chapter 1-A	
The Department of Aging and Disability Services Should Correct Weaknesses in Financial Reporting that Could Decrease the Reliability of Its Financial Information.....	2
Chapter 1-B	
The Department of State Health Services Should Strengthen Certain Financial and Information Technology Operations It Assumed from the Department of Health ..	4
Chapter 1-C	
The Texas Workforce Commission Should Strengthen Information System Security Monitoring, Security and Password Settings, and Fire Protection and Backup Power Capabilities.....	8
Chapter 1-D	
The Health and Human Services Commission Should Monitor Financial System Access and Security and Take Prompt Action to Maintain Compliance with System Security Policies	13
Chapter 2	
Federal Award Findings and Questioned Costs.....	16

Summary Schedule of Prior Audit Findings

Chapter 3	
Summary Schedule of Prior Audit Findings	18
Chapter 3-A	
Although the Department of Health Strengthened Certain Aspects of Its Financial Reporting, It Continued to Have Weaknesses that Reduced the Reliability of Its Financial Information.....	20

Chapter 3-B
The Texas Education Agency Should Correct Certain Issues
in Information Technology to Ensure that It Continues to
Properly Administer the Foundation School..... 21

Independent Auditor’s Report

Chapter 4
Summary of Auditor’s Results 23

Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards 24

Appendices

Appendix 1
Objective, Scope, and Methodology..... 28

Appendix 2
Agencies and Institutions of Higher Education Audited 31

Schedule of Findings and Responses

*State of Texas Financial Portion of the
Statewide Single Audit Report for the
Year Ended August 31, 2004*

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

Chapter 1-A

The Department of Aging and Disability Services Should Correct Weaknesses in Financial Reporting that Could Decrease the Reliability of Its Financial Information

Reference No. 05-555-01

The line items we audited in the fiscal year 2004 annual financial report of the Department of Human Services (Department) were materially accurate. However, audit work identified weaknesses in financial reporting that could significantly decrease the reliability of the Department's financial information.

At the beginning of fiscal year 2005 (September 1, 2004), the Department ceased to exist, and the fiscal year 2004 operations that we had audited were assumed by the newly formed Department of Aging and Disability Services. Therefore, although the issues discussed below were identified in the Department of Human Services' fiscal year 2004 operations, the corresponding recommendations are addressed to the Department of Aging and Disability Services.

It is critical that the issues described below be corrected to help ensure the reliability of financial information.

The Department did not perform monthly reconciliations of its financial information in a timely manner.

In fiscal year 2004, the Department did not perform in a timely manner monthly reconciliations of information in its internal accounting system, the Health and Human Services Administrative System (HHSAS), with information in the Uniform Statewide Accounting System (USAS). Although the Department was facing the difficult and unique challenge of preparing for the transition to the Department of Aging and Disability Services during fiscal year 2004, that does not reduce the importance of conducting a reconciliation of accounting systems. Reconciling information between accounting systems in a timely manner is important to ensure that:

- Financial information, such as information regarding cash receipts and disbursements, is accurate.
- Federal award reports that specify the amounts of federal funds expended are accurate.

- Internal controls are working properly and staff perform associated reviews.
- Financial discrepancies that could indicate potential fraud are identified and thoroughly investigated.

The Department took at least six months to complete each of the five monthly reconciliations it conducted for the months from September 2003 through January 2004. For example, the monthly reconciliation for September 2003 (the first month of the fiscal year) was not completed until June 2004. The Department improved the timeliness of monthly reconciliations for the next six months. However, the Department was still conducting the reconciliation of August 2004 balances when it submitted its fiscal year 2004 annual financial report on November 20, 2004.

Because the Department did not complete the August 2004 reconciliation before preparing its fiscal year 2004 annual financial report, the Department lacked assurance that errors and irregularities were detected and corrected before it issued that report.

The Department did not provide reasonable assurance that adequate controls were in place to help ensure accurate fiscal year 2004 financial reporting.

The Department did not have documented policies and procedures for the preparation of its annual financial reports. In addition, it was unable to provide adequate information regarding the internal controls that were in effect during fiscal year 2004 that would provide reasonable assurance of the accuracy of financial information. This increases the risk of misstatements in financial reports from errors or fraud that would not be detected and corrected in a timely manner.

It is also important to note that the Department experienced a relatively high level of turnover among its financial staff in fiscal year 2004 due to the ongoing consolidation of health and human services agencies. Therefore, having documented policies and procedures for the preparation of its annual financial report could have helped to ensure the continuity of financial operations during this transition.

Recommendations

The Department of Aging and Disability Services should:

- Perform monthly reconciliations of information in its internal accounting system with information in the State's accounting system in a timely manner.
- Develop, document, and implement policies and procedures for the preparation of annual financial reports.

- Document information regarding internal controls to provide reasonable assurance of the accuracy of financial information.

Management's Response

Management agrees with the recommendations.

It should be noted that during this period, DHS Fiscal Management Services experienced significant workload increase associated with H.B. 2292 implementation, the re-implementation of HHSAS Financials and HHSAS HRMS and was substantially understaffed in all key areas.

A project is underway to review and improve General Ledger processes and automated tools to allow for the monthly timely reconciliation of information in the internal accounting system with information in the State's accounting system. Processes will be documented and will include information regarding internal controls.

Policies and procedures for the preparation of the annual financial reports will be developed and documented and will include information regarding internal controls.

Responsible persons: *Tammy Callaway, Accounting Director*
Claire Jackson, DADS Accounting General
Ledger Supervisor

Implementation Date: *June 30, 2005*

Chapter 1-B

The Department of State Health Services Should Strengthen Certain Financial and Information Technology Operations It Assumed from the Department of Health

Audit work covering the operations of the Department of Health (Department) in fiscal year 2004 identified two issues in financial and information technology operations, which are discussed below. At the beginning of fiscal year 2005 (September 1, 2004), the Department ceased to exist, and its operations were assumed by the newly formed Department of State Health Services. Therefore, although the issues discussed below were identified in the Department's fiscal year 2004 operations, the corresponding recommendations are addressed to the Department of State Health Services.

Issue 1

The Department of State Health Services Should Strengthen Certain Aspects of Its Financial Operations

Reference No. 05-555-02

(Prior Audit Issues 04-555-02, 03-555-01, 02-555-01, and 01-021)

The Department continued to make progress in strengthening its financial reporting during fiscal year 2004, but some weaknesses still existed. In fiscal year 2002, we reported that the Department had a material weakness in its financial reporting. In fiscal year 2003, the Department significantly strengthened certain aspects of its financial reporting, but it continued to have weaknesses that reduced the reliability of its financial information. Two issues from the prior year were not fully resolved in fiscal year 2004:

- In fiscal years 2002 and 2003, we reported that the Department did not completely reconcile the information in its internal accounting system (the Health and Human Services Administrative System, or HHSAS), with information in the Uniform Statewide Accounting System (USAS). In fiscal year 2004, the Department was still conducting the reconciliation of August 2004 balances when it submitted its fiscal year 2004 annual financial report on November 20, 2004, and there were numerous errors in the testing of the reconciliation process. Most of the errors were related to the assignment, documentation, and disposition of the correction requests. Policies and procedures for reconciliation were developed but not always adhered to.
- Although the Department was facing the difficult and unique challenge of preparing for the transition to the Department of State Health Services during the summer of 2004, that does not reduce the importance of conducting a reconciliation of accounting systems. Reconciling the two financial systems is important to ensure that:
 - Financial information, such as information regarding cash receipts and disbursements, is accurate.
 - Federal award reports that specify the amounts of federal funds expended are accurate.
 - Internal controls are working properly and staff perform associated reviews.
 - Financial discrepancies that could indicate potential fraud are identified and thoroughly investigated.
- In fiscal years 2002 and 2003, we noted that the Department had to prepare its annual financial reports using information from USAS (rather than from HHSAS) because it was unable to generate an accurate trial balance from HHSAS. This occurred because HHSAS contained

inaccurate beginning balances. In fiscal year 2004, the Department was able to generate a trial balance, but the trial balance was inaccurate because (1) errors were made in coding the trial balance and (2) the beginning balances in HHSAS continued to be inaccurate. Therefore, the Department again used USAS to prepare its fiscal year 2004 annual financial report.

When the Department of State Health Services assumed the operations of the Department of Health, a new set of accounting information was loaded in the internal accounting system as of September 1, 2004. The new set of information was created based on financial data from USAS, and this should correct the prior problem regarding inaccurate beginning balances.

Recommendations

The Department of State Health Services should:

- Reconcile the internal accounting system with the State's accounting system according to agency procedures and verify that the internal accounting system contains accurate and complete financial and federal award information.
- Ensure that the trial balances generated through the internal accounting system are accurate so that this system can be used as the basis for preparing financial reports.

Management's Response

The Department agrees that reconciliation of the internal accounting systems to the state's accounting system is a vital function. Even with the transformation to DSHS effective September 1, 2004, the Department was able to complete the final month of FY 2004 by December 2004. We agree that the August reconciliation should have been completed prior to the deadline for our Annual Financial Report; however, the Department does not believe this delay in completion of the reconciliation materially impacted the AFR.

The Department agrees that the initial trial balances loaded for TDH were not accurate and has caused some variances that affect our ability to accurately report certain financial information. However, as noted by the auditors, the Department has made great strides in the clean up and reconciliation of this financial information and provided for an accurate initial setup for the new Department of State Health Services.

Responsible Party: Wilson Day, Accounting Director

Implementation Date: December 2004

Issue 2

The Department of State Health Services Should Delete System Access Rights Associated with Individuals Whose Employment Has Been Terminated

Reference No. 05-555-03

During fiscal year 2004, individuals whose employment had been terminated continued to have access to Department information technology systems. This increased the risk that unauthorized changes could be made to financial data without detection. This also contradicted Department policy, which required terminated employees' system access to be identified and deleted on a daily basis. Testing identified the following:

- 33 individuals whose employment had been terminated still had access to the financial portion of HHSAS.
- 9 individuals whose employment had been terminated still had access to the Human Resource Management System.
- 5 individuals whose employment had been terminated still had access to Texas WIN (the system that maintains program and expenditure information for the Women, Infants, and Children program).

In addition, the Department was unable to identify the specific individuals associated with seven user profiles that had access to Texas WIN.

We did not identify any financial discrepancies that resulted from these weaknesses, and none of the user IDs tested were assigned inappropriate levels of access.

Recommendations

The Department of State Health Services should:

- Delete the user profiles associated with individuals whose employment has been terminated and ensure that it maintains a complete list of users and their access.
- Adhere to policies and procedures to delete on a daily basis system access associated with individuals whose employment has been terminated.

Management's Response

The Department had procedures in place to eliminate access to our financial systems by denying access to our local area networks that then provided access to individual accounting software programs. After a review of this process, the Department agrees that to provide optimum security that access

to the individual software programs should also be denied for any terminated employees. Security setups and deletions are now under the Health and Human Services, so the Department staff will work with them to develop new procedures and processes for cancellation of access.

Responsible Party: Wilson Day, Accounting Director; HHSC Security Office

Implementation Date: April 1, 2005

Chapter 1-C

The Texas Workforce Commission Should Strengthen Information System Security Monitoring, Security and Password Settings, and Fire Protection and Backup Power Capabilities

Issue 1

The Commission Should Strengthen Security and Password Settings

Reference No. 05-555-04

The Texas Workforce Commission (Commission) should correct weaknesses in mainframe security settings and password and account settings that increase the risk that unauthorized users could access its automated systems and data.

The Commission should improve baseline mainframe security settings. The following weaknesses in mainframe security settings increase the risk of unauthorized access:

Security Settings

Security settings are critical to the security of automated systems and data because they control functions such as:

- Granting and restricting access to business systems, data, and other resources.
- Password and user account rules.
- Auditing access to resources.

- Certain default settings were active on the Commission's computer system at the time of our audit. These settings are publicly known and, therefore, create a security risk. In addition, too many employees were able to use some of these settings.
 - The Commission has not reviewed its baseline mainframe security settings to ensure that they are still appropriate and adequate. Although these settings are reviewed informally during system upgrades, such reviews may not be sufficiently thorough.
- Too many users have certain default account settings that allow them to grant themselves or other individuals access to systems, data, and security settings. Many of these accounts may no longer need this level of access.

The Commission should improve mainframe password settings. The current mainframe password settings that the Commission uses need improvement to ensure adequate security. However, this risk is somewhat mitigated by the fact that the Commission does appropriately limit the number of invalid access attempts allowed. It also requires that most user passwords be changed with sufficient frequency.

The Commission should ensure that user account passwords expire on a timely basis. Audit tests identified user accounts with passwords that did not expire on a timely basis. Some of these accounts have not been used recently, including some that have not been used since the 1990s. While these accounts have limited access rights, this condition increases the risk that the accounts might be compromised, resulting in unauthorized access. Regularly changing passwords enhances security by making it more difficult to compromise accounts.

Recommendations

The Texas Workforce Commission should:

- Perform a complete review of mainframe security settings. The Commission also should perform this review periodically (for example, each time the security management product is upgraded).
- Remove or change mainframe default settings.
- Review user accounts with certain default account settings and ensure that these settings are available only to those users for whom they are essential in performing job duties. In addition, any accounts that have such settings and are no longer needed should be removed from the system.
- Require password settings to meet current industry standards to the extent practical, as required by the Texas Administrative Code, Chapter 202, and as recommended in the Department of Information Resources' guide, *Practices for Protecting Information Resources Assets* (Appendix H-1) located at <http://www.dir.state.tx.us/IRAPC/practices/index.htm>.
- Ensure that user accounts have passwords that expire frequently, as recommended by the Department of Information Resources' guide, *Practices for Protecting Information Resources Assets* (Appendix H-1). The cycle could be longer for some accounts if a password setting is needed to ensure system operations or if there is a genuine business need for these passwords to expire on a longer cycle. Additionally, the Commission should ensure that it has established procedures to ensure that it takes prompt action relating to changing, updating, suspending, and closing user accounts and access privileges. For example, user accounts that are no longer needed should be removed.

Management's Response

TWC has inactivated certain default settings as recommended by the SAO and created daily reports that will alert the Mainframe Systems Manager whenever there is any activity on this account.

As recommended, TWC has reviewed and reduced the number of personnel who can access certain default security commands.

TWC will increase the complexity of its password requirements. The new password standard will require 8 characters with at least one alpha and one numeric. Implementation date: 6/30/05.

TWC has reviewed the accounts which have passwords that do not expire on a timely basis, and has removed access to all appropriate accounts. These accounts will be deleted by 3/31/05. The remaining accounts are approved system ids.

TWC developed a Security Audit Checklist to ensure that the DP Director and Mainframe Systems Managers review these issues annually and during security system upgrades.

Issue 2

The Commission Should Strengthen Information System Security Monitoring

Reference No. 05-555-05

The Commission does not adequately review security reports that provide information on security events identified by its mainframe computer's security management product (see text box). Therefore, it cannot investigate potential instances of unauthorized access.

Security Management Products

Mainframe security management products are used to restrict access to a computer system to only users who have been authorized to access the system.

These security products identify and authenticate users, determine the information assets to which the user is authorized, and log and report unauthorized users' attempts to access protected assets.

Reviewing security reports is important because this can enable the Commission to detect security events such as unauthorized attempts to access its mainframe and, therefore, its automated systems and data. Although the security reports are comprehensive, they are lengthy and can be difficult to manage and review. While the

Commission distributes the full reports to its central computer security function and portions of the reports to departmental security managers, improvements are needed to ensure an effective review process.

Recommendations

The Commission should:

- Ensure that it sufficiently reviews security reports and investigates significant security events. The Commission also should ensure that its staff report the outcomes of these investigations to management.
- Provide training and/or additional instruction to departmental security managers regarding how to use the security reports and tools.
- Produce a streamlined version of the current security report for the central information technology security staff or implement alternative security monitoring tools to make the monitoring task more manageable. The central information technology security staff should monitor system-level security events, and the departmental security managers should review security events related to the information technology resources of their respective departments.
- Consider whether implementing additional tools could enhance security monitoring.

Management's Response

TWC will develop and require annual security administration training. TWC will implement a system to verify that security administrators are reviewing the security reports. Results will be forwarded to management. Training and verification systems will be implemented by 8/31/05.

TWC has created new reports monitoring activity on extremely sensitive and critical resources. These reports will be reviewed daily by the Mainframe Systems Manager (will be implemented by 1/31/05). Staff will continue to research and budget for tools that could enhance security monitoring.

Issue 3

The Commission Should Strengthen Its Fire Protection and Backup Power Capabilities

Reference No. 05-555-06

In 2001, an external auditor noted that the Commission's data center did not have a fire suppression system (other than hand-held extinguishers), a secondary method of power supply (such as a generator), or an uninterruptible power supply system for its mainframe systems. The Commission has not yet corrected those issues.

Fire suppression systems can help reduce the damage to data and systems in the event of a fire and can reduce the time needed to resume operations.

While the Commission has a processing agreement for an alternative site for backup and recovery, the lack of a fire suppression system in the Commission's data center increases the reliance on this backup site and could result in significant costs to the agency if it needed to rely on the backup center for an extended period of time.

Uninterruptible power supply systems provide backup electrical power so that systems can continue processing or shut down in an orderly fashion. Without an uninterruptible power supply system or generator, there is an increased risk that the Commission would have to (1) revert to its off-site backup and recovery processing facility to continue operations, (2) delay processing until power could be restored to the data center, or (3) lose and have to re-enter data.

Recommendations

The Commission should perform a cost-benefit analysis of the following:

- Installing a central fire suppression system in its data center
- Installing both an uninterruptible power supply system and backup generator for its data center
- Installing a backup generator without an uninterruptible power supply system in its data center

The analysis should consider the costs and anticipated benefits of each option. The analysis also should compare the costs and benefits of performing one or more of the options above with the costs and business risks of relying solely on the backup recovery site for processing. If a fire suppression system and/or generator and an uninterruptible power supply system are to be installed, the installation of the fire suppression system should take precedence so that the Commission can ensure the physical safety of the data center. The backup generator should then be installed to ensure continued operations.

Management's Response

TWC will gather costs for installing a fire suppression system, and a data center UPS and generator. These items will be submitted for consideration in the FY06 budget.

The Health and Human Services Commission Should Monitor Financial System Access and Security and Take Prompt Action to Maintain Compliance with System Security Policies

Reference No. 05-555-07

We identified several instances in which the Health and Human Services Commission (Commission) had established inappropriate access rights to its primary financial system, the Health and Human Services Administrative System (HHSAS). The following issues involving access rights increase the risk that unauthorized individuals could view, add, change, or delete financial data without detection:

- Twenty user accounts had unnecessary access to the Unix operating system for the HHSAS financial system's server. After we inquired about this matter, the Commission deleted these 20 user accounts.
- One master user account had unnecessary access to the HHSAS financial system. After we inquired about this matter, the Commission deleted this user account.
- Eleven user accounts had access rights that allowed them to both enter and approve transactions in the HHSAS financial system during fiscal year 2004. However, the Commission's policy specifies that users are not allowed to approve their own transactions. (A user assigned to one of these accounts entered and approved 121 transactions with the Deputy Chief Financial Officer's approval.) Two of these 11 user accounts had rights to enter and approve purchase vouchers and purchase orders, 5 had rights to enter and approve vouchers, and 4 had rights to enter and approve purchase orders.

After we inquired about this matter, the Commission either deleted or restricted 8 of these 11 user accounts. However, the Commission did not modify the two user accounts that allowed users to enter and approve purchase vouchers and purchase orders.

Recommendations

The Commission should monitor system access and security and take prompt action to maintain compliance with system security policies. Specifically, it should:

- Ensure that it restricts access to HHSAS financial system servers and the Unix operating system to the appropriate personnel.
- Ensure that its procedures provide access control based on an individual's need to view, add, change, or delete HHSAS financial system data.

- Ensure that it has procedures to take prompt action regarding changing, updating, suspending, and closing user accounts and access rights to the HHSAS financial system.
- Monitor users who have access rights that allow them to both enter and approve transactions in the HHSAS financial system to ensure that they are following Commission policies and not approving their own transactions. In cases in which the Commission has authorized users to both enter and approve transactions, management should review these users' transactions periodically to ensure their appropriateness.

Management's Response

- *Management Action Plan: Processes are in place with Northrop Grumman, which hosts the HHSAS financial system at the Texas State Data Center in San Angelo, to ensure that only authorized user accounts can be established in the HHSAS UNIX environments. In addition to these controls, the HHSAS Enterprise Support Center (ESC) and the HHSAS Security Team will partner to develop a process to periodically monitor and review all HHSAS UNIX accounts to determine which user accounts require deletion.*

Responsible Parties: Jefre Schmitz, HHSAS Director, HHSAS ESC, and Jon Newman, Manager of Enterprise IT Security Management, HHSAS Security Team

Implementation Date: March 15, 2005

- *Management Action Plan: HHSC Fiscal-Accounting Operations will partner with the HHSAS Security Team to establish and communicate a policy that HHSC business areas perform periodic reviews of their staff's assigned access levels to HHSAS, ensuring that access is appropriate for each job function. The HHSAS Security Team has delivered tools (reports and system queries) that the business areas can use to facilitate this internal review.*

As part of the internal review effort, the HHSAS Security Team will invoke a procedure that will periodically monitor HHSAS systems to ensure that any unnecessary "system-level" user accounts are identified and deleted, if appropriate, after consultation with the HHSAS ESC Team. The HHSAS Security Team's ongoing protocol also includes conducting a "reasonableness" check of all security access forms received, reviewing forms to determine if any requested access levels for an end user are potentially inappropriate or inconsistent with the end user's job function. If inappropriateness or inconsistency of the requested security access levels are perceived, the HHSAS Security Team alerts the appropriate HHS agency manager before processing the access request.

Finally, as of September 1, 2004, the HHSAS Security Team implemented a process to ensure that the Team is timely notified of all HHS employee terminations. This enables the HHSAS Security Team to promptly remove HHSAS system access for terminated employees.

Responsible Parties: James Barnett, Deputy CFO, HHSC Fiscal-Accounting Operations, and Jon Newman, Manager of Enterprise IT Security Management, HHSAS Security Team

Implementation Date: March 7, 2005

- *Management Action Plan: HHSC Fiscal-Accounting Operations and the HHSAS Security Team will establish a system access review policy that will address instances where HHSC Fiscal-Accounting Operations has authorized users to both enter and approve transactions. Under this policy, business area management will periodically review these users' transactions to ensure their appropriateness.*

HHSC Fiscal-Accounting Operations Unit had approximately 10 non-payroll staff prior to the HB 2292 changes. During that time the limited staffing made it difficult to have the level of duty separation called for in the audit. Staffing levels are changing, and when the Unit is fully staffed, procedures will be established, where possible, to limit the need for having the same individual both enter and approve a payment. However, due to the need to process critical payments on a very tight schedule, the Unit will face circumstances that require both entry and approval by the same individual. In this case, these transactions will be subject to periodic review for appropriateness.

Responsible Parties: James Barnett, Deputy CFO, HHSC Fiscal-Accounting Operations, and Jon Newman, Manager of Enterprise IT Security Management, HHSAS Security Team

Implementation Date: March 7, 2005

Federal Award Findings and Questioned Costs

For fiscal year 2004, federal award information has been issued in a separate report. See *State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2004*, by KPMG LLP, dated February 21, 2005.

Summary Schedule of Prior Audit Findings

*State of Texas Financial Portion of the
Statewide Single Audit Report for the
Year Ended August 31, 2004*

Summary Schedule of Prior Audit Findings

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

- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2001* (SAO Report No. 02-555, May 2002)
- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2002* (SAO Report No. 03-555, April 2003)
- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2003* (SAO Report No. 04-555, March 2004)

The Summary Schedule of Prior Audit Findings (for the year ended August 31, 2004) has been prepared to address these responsibilities. Table 1 describes the findings for which corrective action has been taken.

Table 1

Schedule of Prior Year Findings for which Agencies and Higher Education Institutions Have Taken Corrective Action			
Agency or Higher Education Institution	Finding (Description from the <i>State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2003</i>)	Reference (Number in SAO Report No. 04-555)	Status
Comptroller of Public Accounts	Specific improvements are needed in the Comptroller of Public Accounts' access and security controls over TEXNET.	03-555-06 Initial year written: 2002	Corrective action taken.
Texas Education Agency	The Agency did not reconcile school district payments calculated by the Foundation School Program with school district payments actually made through the Uniform Statewide Accounting System.	03-555-07 and 03-033 Initial year written: 2002	Corrective action was taken.
Texas Education Agency	The Agency needed to further restrict access to data stored on its network server.	03-555-07 and 03-033 Initial year written: 2002	Corrective action was taken.
Texas Education Agency	The Agency needed to strengthen its process for allowing school districts to update student count estimates.	03-555-07 and 03-033 Initial year written: 2002	Corrective action was taken.
Texas Education Agency	The Agency needed to strengthen separation of duties in the processing of key data inputs to the school district funding allocation process.	03-555-07 and 03-033 Initial year written: 2002	Corrective action was taken.
Texas Education Agency	The Agency did not reconcile funding from the Available School Fund and adjustments from the settle-up process as part of its Foundation School Program reconciliation process.	04-555-06 Initial year written: 2003	Corrective action was taken.

**Schedule of Prior Year Findings for which Agencies and Higher Education Institutions
Have Taken Corrective Action**

Agency or Higher Education Institution	Finding (Description from the <i>State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2003</i>)	Reference (Number in SAO Report No. 04-555)	Status
Texas Department of Health ^a	The Department of Health continues to have weaknesses in financial reporting.	03-555, 02-555, and 01-021 Initial year written: 2000	Corrective action was taken.
University of Texas Southwestern Medical Center at Dallas	Programmers at the University of Texas Southwestern Medical Center at Dallas can access accounting system data and applications.	04-555-01 Initial year written: 2003	Corrective action was taken.
Health and Human Services Commission	The Health and Human Services Commission understated its fiscal year 2003 accounts payable by \$617.9 million.	04-555-03 Initial year written: 2003	Corrective action was taken.
Prairie View A&M University	Prairie View A&M University did not exercise proper control over capital assets.	04-555-04 Initial year written: 2003	Corrective action was taken.
Water Development Board	The Water Development Board lacks adequate controls over its automated financial systems.	04-555-05 Initial year written: 2003	Corrective action was taken.
^a At the beginning of fiscal year 2005 (September 1, 2004), the Department of Health ceased to exist and its operations were assumed by the newly formed Department of State Health Services.			

During the audit of fiscal year 2004, we followed up on issues identified at the Department of Health in fiscal years 2001 through 2003, and the results of that work are discussed below. At the beginning of fiscal year 2005 (September 1, 2004), the Department of Health ceased to exist, and its operations were assumed by the newly formed Department of State Health Services.

Chapter 3-A

Although the Department of Health Strengthened Certain Aspects of Its Financial Reporting, It Continued to Have Weaknesses that Reduced the Reliability of Its Financial Information

Reference No. 04-555-02
(Prior Audit Issue 03-555-01, 02-555-01, and 01-021)

Of the four findings identified in prior years, the Department of Health (Department) fully corrected two, partially corrected one, and did not correct one:

- The Department fully corrected a prior finding that caused it to understate accounts payable, and the accounts payable amount it reported on its fiscal year 2004 annual financial report was materially correct.
- The Department fully corrected a prior finding regarding a lack of policies and procedures by developing policies and procedures for reconciling the Health and Human Services Administrative System (HHSAS) with information in the Uniform Statewide Accounting System (USAS).
- The Department partially corrected a prior finding concerning conducting and completing financial reconciliations. Because the Department did not completely reconcile the information in HHSAS, its internal accounting system, with the information in USAS in fiscal year 2004, we reissued this finding as current year finding 05-555-02.
- The Department did not correct a prior finding concerning inaccurate beginning balances in HHSAS for fiscal year 2002. As of January 10, 2005, the Department had made no corrections to those balances, and therefore all subsequent balances are incorrect. The Department was able to generate a trial balance from HHSAS for fiscal year 2004, but the trial balance was inaccurate. Therefore, we reissued this finding as current year finding 05-555-02.
- When the Department of State Health Services assumed the operations of the Department, a new set of accounting information was loaded in the internal accounting system as of September 1, 2004. The new set of information was created based on financial data from USAS.

Initial Year Written:	2000
Status:	Partially Implemented

U.S. Department of Health and
Human Services

Corrective Action and Management's Response

As noted by the auditors the Department continues to make great strides in the providing for accurate accounting information. The Department has used the transformation to DSHS under HB2292 as an opportunity to further this effort through a careful review of the initial financial information that was loaded to the internal system and internal controls to maintain this financial detail. The Department believes that this will provide for accurate reporting under the new DSHS.

Responsible Party: Wilson Day, Accounting Director

Implementation Date: October 1, 2005

Chapter 3-B

The Texas Education Agency Should Correct Certain Issues in Information Technology to Ensure that It Continues to Properly Administer the Foundation School Program

Reference No. 04-555-06, 03-555-07, and 03-033

Of the six findings identified in 2004, the Texas Education Agency (Agency) has partially corrected one and has fully corrected five.

Corrective Action

In March 2004, we reported that the Agency had not properly documented all applications and data used in its Foundation School Program allocation and payment processes. However, the risk associated with the lack of documentation has been reduced because the Agency partially implemented a new online Foundation School Program system in January 2005. The Agency is running the new system parallel with its old system. The new system is scheduled to be fully implemented in June 2005, and the Agency should ensure that this system is properly documented.

Independent Auditor's Report

*State of Texas Financial Portion of the
Statewide Single Audit Report for the
Year Ended August 31, 2004*

Summary of Auditor's Results

Financial Statements

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

Federal Awards

For fiscal year 2004, federal award information has been issued in a separate report. See *State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2004*, by KPMG LLP, dated February 21, 2005.



February 21, 2005

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

The Honorable Rick Perry, Governor
The Honorable Carole Keeton Strayhorn, Comptroller of Public Accounts
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Tom Craddick, Speaker of the House of Representatives
and
Members of the Texas Legislature
State of Texas

Ladies and Gentlemen:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units, and remaining fund information of the State of Texas as of and for the year ended August 31, 2004, and have issued our report thereon dated February 21, 2005. Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters that come to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The accompanying schedule of

findings and responses describes reportable conditions for the Department of Aging and Disability Services, the Department of State Health Services, the Texas Workforce Commission, and the Health and Human Services Commission.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

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

Work Performed by Other Auditors

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

Entities Audited by Other Auditors	Scope of Work Performed
Texas Guaranteed Student Loan Corporation	An audit of the financial statements of each major fund of the Texas Guaranteed Student Loan Corporation, a component of the State of Texas, was conducted as of and for the years ended September 30, 2004, and September 30, 2003.
Texas Local Government Investment Pool	An audit of the statements of fiduciary net assets of the Texas Local Government Investment Pool, an investment trust fund of the State of Texas, was conducted as of August 31, 2004, and August 31, 2003, and the related statements of changes in fiduciary net assets for the years then ended.
Texas Treasury Safekeeping Trust Company	An audit of the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Texas Treasury Safekeeping Trust Company, a component unit of the State of Texas, was conducted as of and for the year ended August 31, 2004.
Texas Prepaid Higher Education Tuition Board	An audit of the financial statements of the business-type activities, the discretely presented component unit, each major fund, and the fiduciary fund information was conducted as of and for the year ended August 31, 2004.
Employees Retirement System	An audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Employees Retirement System of Texas was conducted as of and for the year ended August 31, 2004. An audit was also conducted for the combining statements of fiduciary net assets and changes in fiduciary net assets of the pension plans administered by the Employees Retirement System as of August 31, 2004.

Entities Audited by Other Auditors	Scope of Work Performed
Department of Housing and Community Affairs	An audit of the financial statements of the governmental activities, business-type activities, major funds, remaining fund information and supporting schedules 1A through 1D of the Texas Department of Housing and Community Affairs was conducted as of and for the year ended August 31, 2004.
Texas Lottery Commission	An audit of the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Texas Lottery Commission was conducted as of and for the year ended August 31, 2004.
Permanent University Fund	An audit of the statements of fiduciary net assets, changes in fiduciary net assets, and supplemental schedules of the Permanent University Fund was conducted as of and for the years ended August 31, 2004, and August 31, 2003.
The University of Texas System Long-Term Fund	An audit of the statements of fiduciary net assets, changes in fiduciary net assets, and supplemental schedules of the University of Texas System Long-Term Fund was conducted as of and for the years ended August 31, 2004 and August 31, 2003.
The University of Texas System Short-Intermediate Term Fund	An audit of the statements of fiduciary net assets, changes in fiduciary net assets, and supplemental schedules of the University of Texas System Short-Intermediate Term Fund was conducted as of and for the years ended August 31, 2004, and August 31, 2003.
The University of Texas System Permanent Health Fund	An audit of the statements of fiduciary net assets, changes in fiduciary net assets, and supplemental schedules of Permanent Health Fund was conducted as of and for the years ended August 31, 2004, and August 31, 2003.
The University of Texas System General Endowment Fund	An audit of the statements of fiduciary net assets, changes in fiduciary net assets, and supplemental schedules of the University of Texas System General Endowment Fund was conducted as of and for the years ended August 31, 2004, and August 31, 2003.
Department of Transportation Turnpike Authority	An audit of the statements of net assets of the Central Turnpike System of the Texas Transportation Authority was conducted as of August 31, 2004, and August 31, 2003, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year ended August 31, 2004, and the period from inception to August 31, 2003.
The University of Texas M.D. Anderson Cancer Center	An audit of the consolidated balance sheets as of August 31, 2004, and August 31, 2003, and the related consolidated statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended was conducted.

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

Other Work Performed by the State Auditor's Office

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

- *A Report on the Audit of the Teacher Retirement System's Fiscal Year 2004 Financial Statements* (SAO Report No. 05-022, January 2005)
- *A Report on the Fire Fighters' Pension Commissioner's Texas Statewide Emergency Services Personnel Retirement Fund for Fiscal Year 2004* (SAO Report No. 05-023, January 2005)
- *A Report on the Audit of the Permanent School Fund's Fiscal Year 2004 Financial Statements* (SAO Report No. 05-026, February 2005)

This report is intended solely for the information and use of the Governor, the Legislature, audit committees, boards and commissions, and management. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

John Keel, CPA
State Auditor

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

Our objective was to determine whether the State's basic financial statements accurately reflect the balances and activities for the State of Texas for the fiscal year ended August 31, 2004.

The Statewide Single Audit is an annual audit for the State of Texas. It is conducted so that the State complies with the Single Audit Act Amendments of 1996 and the Office of Management and Budget (OMB) Circular A-133. The State Auditor's Office contracted with KPMG LLP to perform the federal portion of the Statewide Single Audit. The federal portion included a review of compliance and controls over the State's federal awards and an audit of the Schedule of Expenditures of Federal Awards. The State Auditor's Office performed the financial portion of the Statewide Single Audit.

Scope

The scope of the financial portion of the Statewide Single Audit included an audit of the State's basic financial statements for fiscal year 2004 and a review of significant controls over financial reporting and compliance with applicable requirements.

Methodology

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

Information collected included the following:

- Agency and institution of higher education policies and procedures
- Agency and institution of higher education systems documentation
- Agency and institution of higher education accounting data
- Agency and institution of higher education year-end accounting adjustments
- Agency and institution of higher education fiscal year 2004 annual financial reports

Procedures and tests conducted included the following:

- Evaluating automated systems controls
- Performing analytical tests of account balances
- Performing detail tests of vouchers
- Applying computer assisted auditing techniques to accounting data
- Comparing agency and institution of higher education accounting practices with Comptroller of Public Accounts reporting requirements

Information systems reviewed included the following:

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

Criteria used included the following:

- Texas statutes
- Texas Administrative Code
- General Appropriations Act (78th Legislature)
- The Comptroller of Public Accounts' policies and procedures
- The Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*
- Generally accepted accounting principles

Other Information

We conducted fieldwork from May 2004 through March 2005. Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

- William J. Morris, CPA (Project Manager)
- Joe Curtis, CPA, CIA (Assistant Project Manager)
- Kathy Aven, CIA
- Agnes Barnes, CPA
- Brandie Barr
- Beverly Bavousett, CPA
- Robert Bollinger, CPA, CFE
- Paige Buechley, CISA, CIA
- Sharon Carney, CPA, MBA
- Bruce Dempsey, MBA
- David Dowden
- Vickie Durham
- Michelle A. Feller
- Joe Fralin, MBA
- Michael Gieringer, MS.HCA
- Elisabeth Godwin
- Kelton M. Green, CPA, CFE
- Jeff Grymkoski
- Sherri Hartman
- Lorey Helford
- Natasha Kelley
- Carmelita Lacar, Ph.D.
- Angelica Martinez
- Richard Maxwell, CIA
- Veda Mendoza, CIA
- Terry Nickel, CFE, CBA, CFSA, CBM
- Jenay Oliphant
- Ann E. Paul, CPA
- Susan Pennington, MPA
- Walton Persons, CPA
- Andrew Reardon
- Juan R. Sanchez, MPA
- Luis Solis
- Rene Valadez
- Max Viescas, CPA
- Mary Wise, CPA
- Margaret Nicklas, MPA (Federal Coordinator)
- Leslie P. Ashton, CPA (Quality Control Reviewer)
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)
- Worth S. Ferguson, CPA (Quality Control Reviewer)
- Michael C. Apperley, CPA (Audit Manager)
- Susan A. Riley, CPA (Audit Manager)

Agencies and Institutions of Higher Education Audited

We audited certain financial accounts at the following state agencies and institutions of higher education:

- Comptroller of Public Accounts
- Department of Health²
- Department of Human Services³
- Department of Transportation
- General Land Office and Veterans' Land Board
- Health and Human Services Commission
- Prairie View A&M University
- Texas A&M University
- Texas A&M University at Galveston
- Texas A&M University System Administrative and General Offices
- Texas Education Agency
- Texas State University at San Marcos
- Texas Workforce Commission
- The University of Texas at Arlington
- The University of Texas at Austin
- The University of Texas M.D. Anderson Cancer Center
- The University of Texas Medical Branch at Galveston
- The University of Texas Southwestern Medical Center at Dallas
- The University of Texas System Administrative and General Offices
- Water Development Board

² At the beginning of fiscal year 2005 (September 1, 2004), the Department of Health ceased to exist and its operations were assumed by the newly formed Department of State Health Services.

³ At the beginning of fiscal year 2005 (September 1, 2004), the Department of Human Services ceased to exist and the fiscal year 2004 operations that we had audited were assumed by the newly formed Department of Aging and Disability Services.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Tom Craddick, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas “Tommy” Williams, Member, Texas Senate
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Jim Keffer, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Comptroller of Public Accounts

The Honorable Carole Keeton Strayhorn, Comptroller of Public Accounts
Mr. Billy Hamilton, Deputy Comptroller

Department of Aging and Disability Services

Mr. James R. Hine, Commissioner

Department of State Health Services

Dr. Eduardo Sanchez, Commissioner

Health and Human Services Commission

Mr. Albert Hawkins, Executive Commissioner

Prairie View A&M University

Members of the Texas A&M University System Board of Regents
Dr. Robert D. McTeer, Chancellor, Texas A&M University System
Dr. George Wright, President, Prairie View A & M University

Texas Education Agency

Members of the State Board of Education
Dr. Shirley Neeley, Commissioner of Education

Texas Workforce Commission

Members of the Texas Workforce Commission
Mr. Larry Temple, Executive Director

The University of Texas Southwestern Medical Center at Dallas

Members of the University of Texas System Board of Regents
Mr. Mark G. Yudof, Chancellor, The University of Texas System
Mr. Kern Wildenthal, M.D, Ph.D., President, The University of Texas
Southwestern Medical Center at Dallas

Water Development Board

Members of the Water Development Board
Mr. J. Kevin Ward, Executive Administrator



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

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9880 (Voice), (512) 936-9400 (FAX), 1-800-RELAY-TX (TDD), or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

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

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