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State of Texas Financial Portion of the  
**Statewide Single Audit Report**  
**For the Year Ended**  
**August 31, 2007**

April 2008  
Report No. 08-555

*State of Texas Financial Portion of the  
Statewide Single Audit Report for the  
Year Ended August 31, 2007*

SAO Report No. 08-555  
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## *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, 2007.

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 \$90.5 billion<sup>1</sup> in annual expenses, and more than 200 state agencies and higher education institutions, 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.

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 higher education institutions use to record their financial activities. Through that effort, auditors identified specific weaknesses that six agencies and one higher education institution should 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 to obtain an opinion regarding the material accuracy of its basic financial statements and a report on internal

### **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.

The State Auditor's Office audited material line items of major funds at 13 of the State's largest agencies and higher education institutions.

<sup>1</sup> The \$90.5 billion in annual expenditures exceeded the \$72.4 billion appropriated for fiscal year 2007 primarily because:

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

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.

## ***Key Points***

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

Although the financial systems and controls were adequate, audit work identified control weaknesses at 7 of the 13 state agencies and higher education institutions audited. (Appendix 2 of this report lists all agencies and higher education institutions audited.) Specifically:

- The Office of the Comptroller of Public Accounts (Comptroller's Office) should strengthen certain aspects of its financial and information technology operations. The Treasury Division within the Comptroller's Office should strengthen access controls and financial reconciliations. The Comptroller's Office also should strengthen procedures regarding central profile change requests. In addition, the Comptroller's Office should strengthen its review of the consolidation process for the CAFR.
- The Department of Transportation (Department) should strengthen certain aspects of its information technology. The Department did not regularly update access rights for the Uniform Statewide Accounting System (USAS) and SiteManager (the automated system it uses to monitor construction projects). In addition, the Department should strengthen password settings for its network and internal accounting system.
- The Health and Human Services Commission (Commission) should strengthen the design and operation of its internal controls over validating payments for public assistance programs. Auditors previously identified this same issue during the audit of fiscal year 2006. The Commission should make improvements in its payment monitoring system for the Vendor Drug program, Medicaid, Children's Medicaid, the Food Stamp program, and the Temporary Assistance to Needy Families (TANF) program. In addition, the Commission's Office of Inspector General did not fully implement its audit plan for fiscal year 2007. The Commission also does not reconcile its internal accounting system with USAS in a timely manner.

Further, the Commission has not fully documented policies and procedures for two key accounting functions. Auditors previously identified this same issue during the audits of fiscal years 2005 and 2006. The Commission also does not adequately track and monitor the open investigations of its Office of Inspector General and the Office of the Attorney General.

The Commission did not regularly update user access to USAS. Auditors previously identified this same issue during the audit of fiscal year 2006.

- The Department of State Health Services (Department) should strengthen certain aspects of its financial and information technology operations. The Department did not clear, adjust, or correct certain reconciling differences between its internal accounting system and USAS in a timely manner as required by the Comptroller's Office and statute. Auditors previously identified this same issue at the Department or its predecessor agency (the Department of Health) in fiscal years 2000 through 2006. In addition, the Department should regularly update user access rights for the Texas WIC Information Network, which is the system that maintains program and expenditure information for the Women, Infants, and Children nutrition program. Auditors previously identified this same issue during the audits of fiscal years 2004 through 2006.
- The Texas Workforce Commission (Commission) should strengthen certain aspects of its information system security, fire protection, and backup power capabilities. The Commission has not adequately reviewed security reports. It also should correct issues 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. Auditors previously identified these same issues during the audits of fiscal years 2004 through 2006.
- The University of Texas at Austin (University) should strengthen its capital assets records and update those records in a timely manner. In addition, the University should properly account for incidental charges associated with capital assets.
- The Water Development Board (Board) should strengthen certain aspects of its information technology. The Board should restrict access to its network and the Financial Information System, which is a database the Board uses to track all information associated with the Board's debt and financial assistance. In addition, the Board should ensure employees have a current authorized access form on file. That form documents all authorized access to the internal accounting system and a group of systems managed by the Comptroller's Office.

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

The agencies and higher education institution to which auditors addressed recommendations agreed with the recommendations.

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

Auditors reviewed the internal controls over significant accounting and information systems at the agencies and higher education institutions audited. To do that, auditors identified systems that compiled and contained data used to prepare financial statements and then reviewed basic data protection controls such as user

access rights, location of data, and backup processes. As discussed previously, auditors identified certain user access control weaknesses at the Comptroller's Office, the Department of Transportation, the Health and Human Services Commission, the Department of State Health Services, and the Water Development Board. Correcting these weaknesses will help to ensure the reliability of those agencies' financial information. In addition, auditors noted weaknesses in the backup processes at the Texas Workforce Commission.

Auditors also reviewed the internal controls over USAS, the State's accounting system. As previously discussed, the Comptroller's Office does not ensure that the proper segregation of duties exists for the central profile change request process. The central profile change management process should be designed to ensure that all proposed system modifications are appropriately approved and tested before they are placed into production.

Auditors also reviewed internal controls within the State Property Accounting system and did not identify any significant control weaknesses in that system.

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

The audit 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, 2007.

The Statewide Single Audit is an annual audit for the State of Texas. It is conducted so that the State complies with the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133. The State Auditor's Office performed the financial portion of the Statewide Single Audit and audited the fiscal year 2007 Schedule of Expenditures of Federal Awards. The State Auditor's Office contracted with KPMG LLP to perform part of the federal portion of the Statewide Single Audit. The federal portion included a review of compliance and controls over the State's federal awards.

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*.

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

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# Schedule of Findings and Responses

*State of Texas Financial Portion of the  
Statewide Single Audit Report for the  
Year Ended August 31, 2007*



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

Chapter 1-A

**The Office of the Comptroller of Public Accounts Should Strengthen Certain Aspects of Its Financial and Information Technology Operations**

**Issue 1**

**The Treasury Division within the Office of the Comptroller of Public Accounts Should Strengthen Access Controls and Financial Reconciliations**

Reference No. 08-555-01

Auditors identified weaknesses in access to automated systems and in financial reconciliations within the Treasury Division (Division) at the Office of the Comptroller of Public Accounts (Comptroller's Office).

The Division should improve how it grants access to automated systems.

The Division grants inappropriate access to its automated systems. Auditors reviewed access rights for automated systems that processed and reconciled \$47.2 billion in fiscal year 2007 and identified the following:

- Twenty-three developers had access rights that allowed them to modify and delete data in all eight automated systems.
- Thirteen staff, including executive assistants, could modify and delete data in all eight automated systems.
- For all eight automated systems, the Division assigned access rights to staff regardless of whether staff's job duties required this level of access. For three of the automated systems reviewed, more than 40 users could modify and delete data.
- Fifteen developers who were contracting with the Comptroller's Office were erroneously granted access to the Division's systems.

After auditors brought these matters to the Division's attention, the Division began to review the access levels for individuals and accounts and remove inappropriate access levels.

**Title 1, Texas Administrative Code, Section 202.20 (1)**

Information resources residing in the various state agencies of state government are strategic and vital assets belonging to the people of Texas. These assets must be available and protected commensurate with the value of the assets. Measures shall be taken to protect these assets against unauthorized access, disclosure, modification or destruction, whether accidental or deliberate, as well as to assure the availability, integrity, utility, authenticity, and confidentiality of information. Access to state information resources must be appropriately managed.

The Texas Administrative Code requires agencies to take measures to protect data from unauthorized access, disclosure, modification, or destruction, whether accidental or deliberate (see text box). Granting excessive access and not providing for proper segregation of duties increases the risk of fraud and potential service disruption.

Because the Division is responsible for processing billions of dollars in revenue, loss of interest on even a single day's interest due to data manipulation or destruction would affect state revenues. It is important to note, however, that nothing came to auditors' attention to indicate that automated systems had been compromised. Although compensating manual controls could reduce the risk of undetected errors or fraud in

the Division's financial system, auditors identified weaknesses in those controls, which are discussed below.

**Treasury Accounting should consistently review reconciliations.**

Performing financial reconciliations could mitigate the risks associated with the access weaknesses described above. However, Treasury Accounting, a unit within the Division, consistently reviews financial reconciliations that are completed on the same day every week. Therefore, it did not review 142 of 176 (80.7 percent) financial reconciliations tested.

Treasury Accounting staff perform more than 600 financial reconciliations per month. Reviewing these reconciliations helps to ensure that all cash paid to the State is accounted for and helps to maintain the integrity of accounting data. Auditors identified no errors in the reconciliations reviewed.

## **Recommendations**

The Comptroller's Office should ensure that the Treasury Division:

- Does not grant access to developers that allows them to modify and delete production data.
- Properly establishes and manages user access accounts for its automated systems.
- Grants access to automated systems based upon job duties, and grants only the minimum access necessary to perform those duties.
- Grants access to automated systems in a manner that provides for proper segregation of duties.

The Comptroller's Office should ensure that Treasury Accounting staff consistently review a sufficient percentage of all financial reconciliations performed to ensure that errors are detected and corrected on a timely basis. Management should review these reconciliations on randomly selected days of the week.

#### Management's Response

*1) The Treasury Operations Division agrees that access rights to its automated systems should not be excessive, should be granted to proper individuals, and should provide proper segregation of duties in order to reduce the risk of fraud and potential loss of data. Accordingly, the Division will work with the Information Technology Division to develop procedures that will strengthen access controls to ensure that:*

- *Access is granted to only appropriate developers or division staff;*
- *Developers do not have access to modify and delete production data to the extent allowed by our technology;*
- *Staff access is granted to automated systems based on the minimum need to perform their duties; and*
- *Staff access is granted in a manner that provides for proper segregation of duties.*

*Responsible Person: Director of Treasury Operations*

*Implementation Date: July 1, 2008*

*2) The Treasury Operations Division agrees that the need for consistent reviews of financial reconciliations helps to ensure the cash of the State is correct and the account detail errors are resolved on a timely basis. To this end, Treasury Accounting management will review the reconciliations of the operating bank accounts weekly, on a random date basis and will review a sufficient percentage of the reconciliations of the field office bank accounts monthly.*

*Responsible Person: Manager of Treasury Accounting*

*Implementation Date: May 1, 2008*

## Issue 2

### The Office of the Comptroller of Public Accounts Should Strengthen Procedures Regarding Central Profile Change Requests

Reference No. 08-555-02

The Application Security Section at the Comptroller's Office does not ensure that the proper segregation of duties exists for the central profile change request process. Of the 27 central profile change request forms auditors tested, 7 (26 percent) were initiated and approved by the same individual. The central profile change management process should be designed to ensure that all proposed system modifications are appropriately approved and that changes are tested and approved before they are placed into production.

In addition, not all of the 27 change request forms auditors tested contained all of the approvals required by the Comptroller's Office's policies and procedures. Specifically, 23 change request forms tested (85 percent) lacked the approvals that are required to facilitate the change request. The Uniform Statewide Accounting System security administrator review approval also was not obtained or documented on four (15 percent) of the change request forms tested.

Changes to state data should be managed appropriately. Improper or unauthorized changes could be made if the same individual requests and approves a change. In addition, the risk of inaccurate financial data decreases when the required levels of approvals are obtained. Title 1, Texas Administrative Code, Section 202.20 (5), states "The integrity of data, its source, its destination, and processes applied to it must be assured. Changes to data must be made only in an authorized manner." Additionally, Title 1, Texas Administrative Code, Section 202.20 (8), states "State agencies must ensure adequate controls and separation of duties for tasks that are susceptible to fraudulent or other unauthorized activity."

## Recommendations

The Comptroller's Office should:

- Enforce its policies and procedures and ensure that staff obtain the proper authorization on the change request forms prior to processing those requests.
- Ensure that the Applications Security Section carefully reviews central profile change request forms for the authorized approvals to ensure that all of the required signatures and initials are present before finalizing the change and filing the documentation.

## Management's Response

*We agree that enforcement of internal policies and procedures is an important element in ensuring the integrity of data in automated systems. Since the completion of the review of USAS processes and controls, the Comptroller has completed an extensive reorganization of the Fiscal Management Division. We believe the current division structure will allow stronger management review of the central profile change process and help ensure compliance with Comptroller policies and procedures.*

*Responsible Person: Fund Accounting Manager*

*Implementation Date: January 2008*

*Since the completion of the review of USAS processes and controls, the Comptroller has revised and updated procedures and approval requirements for USAS central profile changes. The necessary approvals for each type of profile change have been identified and profile changes are being entered only when the necessary approvals are present.*

*Responsible Person: Fund Accounting Manager*

*Implementation Date: January 2008*

## Issue 3

### **The Office of the Comptroller of Public Accounts Should Strengthen Its Review of the Consolidation Process for the Comprehensive Annual Financial Report**

Reference No. 08-555-03

The Comptroller's Office's Financial Reporting Section does not consistently perform a thorough review of documentation that supports the process for consolidating financial data for the Comprehensive Annual Financial Report (CAFR). Auditors identified errors in consolidation adjustments, CAFR note disclosures, and calculations, as well as instances in which the CAFR did not agree with supporting documentation. Based on the audit, the Comptroller's Office corrected these errors before finalizing the CAFR.

Performing a thorough review of the documentation that supports the process for consolidating financial data helps to ensure that all financial data is correct and helps to maintain internal consistency within the CAFR.

## Recommendation

The Comptroller's Office's Financial Reporting Section should strengthen its review of the CAFR consolidation process.

## Management's Response

*The Comptroller agrees that a thorough and complete review of all supporting documentation is an important control in the process of consolidating financial data for the Comprehensive Annual Financial Report (CAFR). During the past year the post of assistant section supervisor was created within the Financial Reporting Section in order to free senior analyst time for the work paper review process. We will also continue to take steps to attract and retain the types of professional resources needed to make these reviews effective.*

*Responsible Person: Fund Accounting Manager*

*Implementation Date: August 2008*

Chapter 1-B

### The Department of Transportation Should Strengthen Certain Aspects of Its Information Technology

Reference No. 08-555-04

To protect the integrity of its information resources, the Department of Transportation (Department) should ensure that it properly restricts access to certain automated systems and that user passwords are sufficiently complex.

#### Title 1, Texas Administrative Code, Section 202.20(1)

Information resources residing in the various state agencies of state government are strategic and vital assets belonging to the people of Texas. These assets must be available and protected commensurate with the value of the assets. Measures shall be taken to protect these assets against unauthorized access, disclosure, modification or destruction, whether accidental or deliberate, as well as assure the availability, integrity, authenticity, and confidentiality of information. Access to state information resources must be appropriately managed.

#### Title 1, Texas Administrative Code, Section 202.25(3)(B)

A user's access authorization shall be appropriately modified or removed when the user's employment or job responsibilities within the state agency change.

The Department should restrict access to the Uniform Statewide Accounting System.

In fiscal year 2007, nine users at the Department had inappropriate access rights to the Uniform Statewide Accounting System (USAS). These users could access one to four agencies outside of the Department, and this access was not necessary for their job duties. The agency has since taken action to remove users' improper access. The Comptroller's Office uses the information in USAS to create the State's Comprehensive Annual Financial Report. Restricting the level of access to USAS to only what is necessary for a user's job functions helps to ensure that information resources, including the State's accounting system, are protected against unauthorized access, disclosure, modification, or destruction. It also helps to ensure the availability, integrity, authenticity, and confidentiality of information.

The Department should restrict access to SiteManager.

The Department uses the automated SiteManager system to monitor construction projects, generate daily work reports, and process contractor payment estimates for projects funded through the federal Highway

Planning and Construction cluster of programs. Access to SiteManager is controlled by security administrators at each district and division within the Department. However, the Department does not ensure that its districts and divisions restrict SiteManager access to current, active employees. Furthermore, the Department does not ensure that access to SiteManager is removed immediately upon termination of employment or a change in employee job functions. As a result, 2 of 61 (3 percent) employees tested had access to SiteManager after their employment had been terminated. Auditors also identified 30 additional employees who had access to SiteManager after their employment had been terminated or after their job functions changed and they no longer required the use of SiteManager. After auditors brought this matter to the Department's attention, the Department inactivated access for all of the employees involved in the circumstances described above.

Removing access to SiteManager immediately upon termination of an employee or a change in job functions helps to ensure that information resources, including SiteManager, are protected against unauthorized access, disclosure, modification, or destruction. It also helps to ensure the availability, integrity, authenticity, and confidentiality of information.

Auditors did not identify any issues that resulted from the deficiencies discussed above.

**The Department should strengthen network and Financial Information Management System password settings.**

Employees and users of the Department's automated systems must have access to the Department's network to access those systems. The Financial Information Management System (FIMS) is the Department's internal accounting system used to create and process vouchers for payment. To access the network and FIMS, users must enter a password. According to the Department of Information Resources, state agencies should use unique passwords that contain both alphanumeric characters and special characters. However, the Department does not require this for users of its network and FIMS. Instead, the Department requires only that passwords be eight characters in length. The Department's network and FIMS password settings give users the option to use alphanumeric or special characters in their passwords; however, they do not require this.

Requiring the use of passwords that include both alphanumeric and special characters helps to ensure that information resources, including financial systems, are protected against unauthorized access, disclosure, modification, or destruction. It also helps to ensure the availability, integrity, authenticity, and confidentiality of information.

## Recommendations

The Department should:

- Restrict access to USAS to the level necessary for each user's job functions.
- Restrict access to SiteManager to current and active employees whose job functions require the use of SiteManager.
- Implement a uniform process to remove an individual's SiteManager access immediately upon termination of employment or a change in job functions that no longer requires the use of SiteManager. This process should include verification by management that access rights have been removed.
- Revise its password settings to require users to create unique passwords that include both alphanumeric characters and special characters.

## Management's Response

### **USAS**

*The department conducts a semi-annual USAS security review and a part of that review includes reviewing the level of access necessary for each user to perform his or her job duties. In the future, special attention will be paid to whether a user needs access to USAS for agencies other than the department.*

*Responsible Person: Technology Services Division Director*

### **Site Manager**

*Our Information Security Manual currently requires that we restrict access to SiteManager to current and active employees whose job functions require the use of SiteManager; contains a uniform process to remove an individual's SiteManager access immediately upon termination of employment or a change in job functions that no longer requires the use of SiteManager; and contains requirements for verification by management that access rights have been removed.*

*In order to insure we are in compliance with department policy TxDOT will implement a compliance monitoring system specifically for SiteManager. The monitoring process will verify the SiteManager user table against the department's active employee file and highlight all mis-matches. The local Security Administrators will be provided this report each month to validate*



*that all terminated employees have been properly removed. The additional compliance monitoring reports will be implemented by May 1, 2008.*

*Responsible Person: Construction Division Director*

### ***Network and FIMS Password Settings***

*TxDOT currently uses a strong multi-layer access security design. TxDOT policy requires an eight character password. A new password must be created at least every 90 days. This password cannot be re-used for the next 10 password changes over a 30 day period. TxDOT also enforces a three password retry intruder lockout on our systems. If an account is accessed with the wrong password three times in a 15 minute period, the account is locked for 30 minutes. This multi-layer password security policy limits TxDOT's exposure to unauthorized access and password re-use/abuse.*

*TxDOT will implement the following password enhancements:*

- All mainframe and LAN passwords will require both alpha and numeric characters. This requirement will be implemented in production in mid-April 2008.*
- Special characters can be used in passwords; however, they will not be required due to technical issues encountered when special characters are used within TxDOT legacy systems (e.g., the use of a special character within a mainframe TSO password will disable the re-connect feature).*

*Responsible Person: Technology Services Division Director*

## The Health and Human Services Commission Should Strengthen the Design and Operation of Its Internal Control Structure over Validating Payments for Public Assistance Programs

Public assistance program payments that the Health and Human Services Commission (Commission) reported in its fiscal year 2007 financial statements were materially accurate and fairly stated. The Commission relies on an internal control structure, including pre- and post-payment controls, to help ensure that public assistance program payments for eligible clients are allowable and accurate. These internal controls exist at both the Commission

and its contractors. However, there are weaknesses in the design and operation of these internal controls that limit the assurances it can make regarding the validity of payments made for public assistance programs in fiscal year 2007. The programs affected by these weaknesses spent \$12.1 billion in federal funds in fiscal year 2007.

Several of the internal control weaknesses auditors identified during the audit of fiscal year 2007 had also been identified in prior audits and not been fully corrected or mitigated. For example, the Commission's lack of documented policies and procedures for certain functions has been identified as a weakness in three consecutive years. Weaknesses in the Commission's payment monitoring system have been identified for two consecutive years. Weaknesses in user access have been identified for four consecutive years.

In addition, the Commission does not adequately monitor the specific areas in which auditors identified internal control weaknesses in the Vendor Drug program, Medicaid, Children's Medicaid, Food Stamps program, and Temporary Assistance for Needy Families (TANF). The Commission also does not adequately monitor its Office of Inspector General's post-payment audit, review, and investigative activities, which significantly increases the risk of intentional or unintentional overpayment for public assistance services.

The Commission cannot provide full assurance that all of these expenditures were allowable and paid to eligible clients because:

- The Commission has not fully implemented all components of its payment monitoring process.
- The Commission's Office of Inspector General has not conducted a significant portion of the audits and reviews it planned to conduct.
- The Commission has not regularly reconciled its internal accounting system to the cash in the State's accounting system.

### Fiscal Year 2007 Federal Expenditures from Public Assistance Programs

**Medicaid:** 43 million claims paid, payments totaled \$8.9 billion.

**Children's Health Insurance Program (CHIP):** 3.7 million member months, payments totaled \$0.4 billion.

**Food Stamp Program:** Average of 1 million households served per month, payments totaled \$2.9 billion.

**Temporary Assistance to Needy Families:** Average of 59,500 households served per month, payments totaled \$0.1 billion.

**Vendor Drug Program:** More than 28 million prescriptions filled. Total payments are included within the Medicaid and CHIP payments.

Sources: *Summary of Federal Expenditures by State Agencies* prepared by the Comptroller of Public Accounts and Health and Human Services Commission self-reported service levels for fiscal year 2007.

- The Commission has not fully documented policies and procedures for two key accounting functions.
- The Commission does not adequately track and monitor the open investigations of its Office of Inspector General and the Office of the Attorney General to determine the related dollar amounts paid to providers for these cases.
- The Commission does not regularly update user access to the Uniform Statewide Accounting System.

#### Issue 1

### The Health and Human Services Commission Should Implement All Components of Its Payment Monitoring System

Reference No. 08-555-05  
(Prior Audit Issue 07-555-01)

The Commission relies on an internal control structure, including pre- and post-payment controls, to help ensure that public assistance program payments for eligible clients are allowable and accurate. However, it should make improvements in its payment monitoring system for the Vendor Drug program, Medicaid, Children's Medicaid, the Food Stamp program, and the Temporary Assistance to Needy Families (TANF) program.

#### Vendor Drug Program

During fiscal year 2007, the Commission did not fully staff its regional pharmacists in nine highly populated regions: Houston, Dallas, Beaumont, Austin, San Antonio, Midland, El Paso, Longview, and Abilene. The Commission uses 14 regional and sub-regional pharmacist positions to review expenditure claims submitted by the approximately 4,125 pharmacies participating in the Vendor Drug program. However, it has not maintained a full complement of regional pharmacists to perform these reviews since prior to 2000. In September 2007, the Commission approved an optimization plan to address the regional pharmacist vacancies. However, as of December 2007, the Commission had not posted any of these positions.

Additionally, the Commission did not maintain adequate monitoring records of the regional pharmacists' activities during fiscal year 2007. The monthly tracking reports the Commission provided to the auditors for fiscal year 2007 were incomplete.

The Commission's Office of Inspector General completed only one Vendor Drug program review in fiscal year 2007. The Office of Inspector General asserted that it used available audit and review resources to address the backlog of desk reviews and field audits of the cost reports that providers submit.

### Medicaid and Children's Medicaid

During fiscal years 2006 and 2007, the Commission's Office of Inspector General initiated reviews at six hospitals and started reviewing outpatient costs for Medicaid from fiscal year 2001 through fiscal year 2005. As of October 2007, however, it had not completed those reviews.

During fiscal year 2007, the Commission's Office of Inspector General did not pursue fraud investigations or recovery of overpayments to Medicaid clients whose eligibility was determined through the Texas Integrated Eligibility Redesign System (TIERS). In August 2007, the Office of Inspector General reviewed the standards it used to determine support for fraud (criminal) cases and determined that it could rely on TIERS data as evidence for these cases.

The Office of Inspector General began investigating TIERS administrative cases in September 2007. Administrative cases are non-fraud cases related to overpayments resulting from Commission errors, client errors, or intentional program violations of less than \$1,500 per client

### Food Stamp Program and TANF

During fiscal year 2007, the Office of Inspector General did not pursue fraud investigations or recoupment of overpayments to Food Stamp and TANF clients whose eligibility was determined through TIERS. As discussed above, the Office of Inspector General began investigating TIERS administrative cases in September 2007.

### **Recommendation**

The Commission should enhance its monitoring to ensure that expenditures from public assistance programs are allowable and paid to eligible clients. Monitoring could encompass activities within the Commission, as well as the Office of Inspector General. Monitoring should include, but not be limited to, the following programs: the Vendor Drug program, Medicaid, Children's Medicaid, the Food Stamp program, and TANF.

### **Management's Response**

*Responsibility for monitoring public assistance program payments rests with management within various HHSC departments who perform complementary functions which, when combined, result in a comprehensive monitoring function. Control structures are maintained in Eligibility Determination, Medicaid Claims Processing, Medicaid/CHIP Managed Care, Medicaid/CHIP Vendor Drug Program, and Temporary Assistance to Needy Families (TANF) and Food Stamp programs. Management's control structure is augmented by oversight activities performed by the HHSC Office*

*of Inspector General (OIG), HHSC Internal Audit, other state and federal audit entities, and external audit firms.*

*While most components of HHSC's monitoring function were in place and working as intended during fiscal year 2007, the following actions have subsequently been completed or are underway to provide additional controls over public assistance program expenditures.*

### ***Vendor Drug Program***

#### ***Regional Pharmacists***

*In September 2007, the HHSC Executive Commissioner approved a plan for the optimization of the Vendor Drug Program Field Administration section. Implementation of the plan will provide additional education to pharmacy providers, which is expected to result in increased compliance. The plan includes (1) hiring four administrative staff to perform desk reviews of claims, (2) hiring a Pharmacist II to manage staff, and (3) hiring five pharmacists to perform on-site educational visits to pharmacies. The four administrative staff were hired. The hiring of the pharmacist manager and five regional pharmacists is in process.*

*Title of Responsible Person: Deputy Director, Medicaid/CHIP Vendor Drug Program*

*Estimated Completion Date: September 2008*

#### ***Vendor Drug Program Audits***

*HHSC OIG has made significant progress in developing its Vendor Drug Program (Vendor Drug) audit function. Four auditors have been assigned to perform Vendor Drug audits, and the OIG has received three new positions which will be assigned to perform Vendor Drug audits when filled. In anticipation of the new hires, the OIG has developed a Vendor Drug audit training program. Also, the Vendor Drug audit fieldwork procedures were streamlined to expedite the completion of the audits.*

*The fiscal year 2008 audit plan includes 15 Vendor Drug Audits, 5 of which were carried forward from the fiscal year 2007 audit plan. One audit, which identified a significant amount of questioned costs, has been completed. Two audits are in the final reporting phase, seven audits are in the fieldwork phase, and five audits are in the planning phase.*

*Title of Responsible Person: Inspector General, HHSC Office of Inspector General*

*Estimated Completion Date: August 2008*

## ***Medicaid and Children's Medicaid***

### ***Hospital Audits***

*The OIG completed a pilot project of six hospital reviews during fiscal year 2007, and issued the reports subsequent to the end of the fiscal year. In addition, 8 field audits and 16 desk reviews of outpatient costs that were in progress during fiscal year 2007 have been completed and final reports have been issued.*

*A team leader and four additional auditors have been hired in the unit that performs these reviews, and the OIG has implemented a project tracking system which management uses to help ensure timely completion of audit work and submission of audit reports.*

*Title of Responsible Person: Inspector General, HHSC Office of Inspector General*

*Estimated Completion Date: Implemented*

## ***Medicaid, Food Stamp Program, and TANF***

### ***Fraud Investigations and Recovery of Overpayments***

*HHSC OIG was delayed in pursuing fraud investigations or recovery of overpayments to clients whose eligibility was determined through TIERS until the TIERS Historical Case Report system was fully operational in September 2007. At that time, the OIG began pursuing non-fraud investigations and recovery of overpayments for the TANF and Food Stamp programs and began pursuing fraud (administrative and prosecution) investigations and recovery of overpayments for Medicaid, TANF, and Food Stamp clients in October 2007.*

*Title of Responsible Person: Director, General Investigation, HHSC Office of Inspector General*

*Estimated Completion Date: Implemented*

### **Issue 2**

#### **The Commission's Office of Inspector General Did Not Fully Implement Its Audit Plan for Fiscal Year 2007**

Reference No. 08-555-06

The Commission's Office of Inspector General did not fully implement its plan for fiscal year 2007 to audit the state's Medicaid, Vendor Drug, Food Stamps, and TANF programs. The Commission has assigned certain audit responsibility for the State's public assistance programs to the Office of Inspector General.

The Office of Inspector General did not complete significant portions of its fiscal year 2007 audit plan. Specifically, it did not complete the following planned audits or reviews:

- 14 of 14 planned audits of Commission contracts. The purpose of those audits was to ensure that contractors (1) complied with contractual requirements; (2) used funds properly to provide contracted services to eligible recipients; (3) adequately managed funds; and (4) prevented and detected fraud, waste, and abuse. The types of contracts that could have been selected for audit included contracts for nursing care, community care services, nutrition assistance, child care, foster care, outpatient pharmaceutical services, and various consulting and professional services.
- 34 of 35 planned audits of Vendor Drug program providers.
- 5,045 of 5,046 planned audits of provider cost reports for fiscal years 2006 and 2007 (the initial audit plan called for conducting 6,523 of these reviews or audits for fiscal years 2006 and 2007).
- A planned audit of the National Heritage Insurance Company's risk stabilization reserve. The purpose of that audit was to review the settlement of the risk stabilization reserve outstanding balance from the Commission's contract with the National Heritage Insurance Company. (The National Heritage Insurance Company was the Commission's former Medicaid claims administrator, and its contract with the Commission ended on December 31, 2003.)
- A planned audit of Medicaid hospice drug costs for long-term care facilities.
- A planned audit of the information system of First Health (a Vendor Drug program service organization).
- A planned audit of the information system of a Texas Medicaid Administrative Services (TMAS) contractor, McKesson Health Systems (a disease management contractor).
- A planned attestation review of the implementation of amendment 15 to the Texas Medicaid and Healthcare Partnership (TMHP) contract. That amendment authorized TMHP to perform additional months of service and authorized payment for those additional months of service, primarily to support the Commission's Vendor Drug Program help desk function.
- 6 planned audits of Medicaid outpatient hospital cost reports for fiscal years 2006 and 2007.

The Office of Inspector General also did not complete any of an unspecified number of planned reviews of audits of Medicaid contractors. Additionally,

neither the Office of Inspector General's fiscal year 2007 activities nor its audit plan included audits of subrecipients of federal funds.

The Office of Inspector General did complete or initiate portions of its fiscal year 2007 audit plan. Specifically, it completed or initiated the following planned audits or reviews:

- 66 agreed-upon procedure attestation engagements of intermediate care facilities covering fiscal years 2004 through 2007.
- 4,685 reviews or audits of cost reports submitted by providers covering fiscal years 2002, 2004, 2005, and 2006.
- 2,412 reviews or audits of attendant compensation reports submitted by providers covering fiscal years 2005 and 2006.

The Commission relies on the activities of the Office of Inspector General to serve as a portion of its internal control structure over public assistance programs. Therefore, the lack of audit coverage by the Office of Inspector General is a weakness in the Commission's internal control structure and increases the risk that intentional or unintentional errors go undetected.

### Recommendations

The Commission's Office of Inspector General should:

- Develop an internal control structure to ensure that its audits and reviews adequately cover expenditures from public assistance programs.
- Work with the Commission to ensure that its audit processes align with the Commission's internal control structure.
- Review its audit plan, monitor the achievement of that plan, and coordinate periodically with the Commission to ensure that the Commission is obtaining the desired level of audit coverage.

The Commission should monitor the Office of Inspector General's achievement of its audit plan to ensure adequate review of expenditures from public assistance programs.

### Management's Response

*While many of the audits planned for fiscal year 2007 were not completed due to resource constraints and changing priorities, a significant amount of audit work was accomplished. During fiscal year 2007, HHSC OIG's audit section completed 130 audits and 5,170 reviews.*



*The OIG audit section is undergoing extensive transformation that includes: (1) developing procedures to monitor the status of the annual audit plan and revising the plan as needed, (2) streamlining of audit fieldwork procedures, and (3) training of staff to ensure the audit section meets its planned goals and objectives.*

*To further improve the effectiveness of the audit function, the OIG has developed an improved risk assessment methodology which it used to prepare the fiscal year 2008 audit plan. This methodology includes obtaining input from all HHS agencies. Consequently, the comprehensiveness of the annual audit plan has been improved to better align with HHS agency program needs, and includes audits and reviews prescribed by statute as well as those identified through the risk assessment process. Additionally, the annual audit plan is designed to accommodate audits which may be undertaken at the request of HHSC Executive Management or as referrals from other sources.*

*The OIG will implement management controls intended to provide assurance that the audit plan is consistently followed, including:*

- *Tracking completion of the annual audit plan using monthly performance measures*
- *Comparing the actual hours per project to the budgeted hours per project*
- *Monitoring a section-wide audit project tracking system based on the annual audit plan*
- *Implementing a system to recognize and identify “red flags” or indicators of unforeseen events that could impact the audit plan*
- *Holding monthly meetings with audit managers to assess progress in achieving the annual audit plan*
- *Updating the audit plan each quarter, as necessary*

*Title of Responsible Person: Inspector General, HHSC Office of Inspector General*

*Estimated Completion Date: August 2008*

*HHSC will coordinate with HHSC OIG in an effort to ensure that the OIG audit plan includes adequate audit and investigative coverage of expenditures from public assistance programs.*

*In addition, HHSC will request that the OIG (1) submit its draft audit plan to HHSC program areas for review and comment and (2) consider this feedback in developing its final audit plan.*

*Title of Responsible Person: HHSC Chief of Staff*

*Estimated Completion Date: August 2008*

### Issue 3

#### **The Health and Human Services Commission Does Not Reconcile Its Internal Accounting System with the Uniform Statewide Accounting System in a Timely Manner**

Reference No. 08-555-07

#### **Reconciliation Requirements**

Texas Government Code, Section 2101.012, specifies that the Comptroller of Public Accounts shall prescribe uniform accounting and financial reporting procedures that each state agency shall use in the preparation of its annual financial reports.

The Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports of State Agencies and Universities* (July 2007) and its *USAS User Manual* (Volume 1, December 1995) require state agencies to reconcile their USAS cash in the State Treasury to their internal accounting systems on a monthly basis.

The Commission does not reconcile cash recorded in the Health and Human Services Administrative System (HHSAS, the Commission's internal accounting system) with the Uniform Statewide Accounting System (USAS, the State's accounting system) in a timely manner as required by the Comptroller of Public Accounts and statute (see text box for additional details). From September 2006 to December 2006, the Commission identified cash variances between these two systems, but it did not begin investigating or researching these differences until January 2007. Auditors identified 74 cash variances with an absolute value of \$76,602,238.54 (or 22.9 percent of the USAS year-end cash balance) that the Commission did not correct in a timely manner.

#### **Recommendation**

The Commission should develop and implement procedures to comply with requirements to reconcile cash in USAS with HHSAS on a monthly basis.

#### **Management's Response**

*The Commission agrees that all of the correcting entries from the monthly reconciliations for September 2006, October 2006, and November 2006 were not completely resolved until January 2007. The reconciliation process is normally completed before the end of the following month, and every effort is made to ensure that reconciliations are completed on a timely basis. However, there have been occasions when competing priorities have hindered timely completion. HHSC has procedures in place to reconcile cash monthly.*

*Title of Responsible Person: Director, HHSC Fiscal Management Services*

*Estimated Completion Date: Implemented*

#### Issue 4

### The Health and Human Services Commission Has Not Fully Documented Policies and Procedures for Two Key Accounting Functions

Reference No. 08-555-08  
(Prior Audit Issues 07-555-04 and 06-555-09)

The Commission has continued to operate two key accounting functions since fiscal year 2005 without documented policies and procedures. These key accounting functions are related to the recording of public assistance payments. Specifically, the Commission does not have documented policies and procedures for:

- Recording and approving Medicaid and CHIP expenditures.
- Recording and approving Vendor Drug program expenditures.

The Commission began developing draft policies and procedures for these two functions during fiscal year 2008. It also has documented many of its other key accounting functions and has trained backup personnel to perform these functions.

It is important to note that the accounts payable department responsible for these two key accounting functions experienced turnover rates of 48.5 percent and 5.9 percent in fiscal years 2006 and 2007, respectively. The Commission attributes the high turnover rate for fiscal year 2006 to the effects of the consolidation of the state's health and human service agencies required by House Bill 2292 (78th Legislature, Regular Session), which became effective on September 1, 2003.

Having documented policies and procedures is a key control over the Commission's financial reporting. It is important for management to communicate and monitor, through policies and procedures, staff members' responsibilities and expectations related to their job functions. In addition, policies and procedures are beneficial for new employees and backup personnel.

#### Recommendation

The Commission should document policies and procedures for the key accounting functions for which policies and procedures are not documented.

#### Management's Response

*The Commission has completed revisions of the policies and procedures for the identified key accounting functions.*

*Title of Responsible Person: Director, HHSC Fiscal Management Services*

*Estimated Completion Date: Implemented*

#### Issue 5

### **The Health and Human Services Commission Does Not Adequately Track and Monitor the Open Investigations of the Office of Inspector General and the Office of the Attorney General**

Reference No. 08-555-09

The Commission does not adequately track and monitor its Office of Inspector General's open investigations to determine related dollar amounts paid to providers for these cases. The Commission's open investigation list includes both Office of Inspector General investigation cases and Office of the Attorney General Medicaid investigation cases. These cases represent potential overpayments of federal and state funds for public assistance programs. Without adequate tracking and monitoring of these cases, the Commission cannot reasonably determine whether the related dollar amounts paid to providers for these cases are material to its financial statements.

The Office of Inspector General tracks the questioned costs associated with these cases after the cases are closed and settled. However, this information is limited, and each case must be reviewed individually to identify the questioned costs related to a specific fiscal year. Additionally, this information does not take into account the possible questioned payments made to the providers during the investigation period.

#### **Contingent Liability**

A loss contingency arising from a claim must be disclosed when it is reasonably possible that a loss will eventually be incurred and if it is either not probable or not subject to reasonable estimation. The disclosure should indicate the nature of the contingency and give an estimate of the possible loss or range of loss. However, if an estimate of the loss cannot be made, the disclosure must state this fact.

A loss contingency arising from a claim is accrued as of the balance sheet date when both of the following conditions are true:

- Information available before the financial statements are issued indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements. It must be probable that one or more future events will also occur confirming the fact of the loss.
- The amount of the loss can be reasonably estimated.

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Comptroller of Public Accounts, July 2007.

The Commission's list of active open investigation cases during fiscal year 2007 included more than 7,000 cases. Due to their complexity, it takes more than one year to investigate the majority of those cases. As a result, with some exceptions, the providers under investigation continue to submit claims for public assistance services provided to the clients. These claims may be related to the cases under investigation. Therefore, a portion of the \$12.1 billion in federally-funded public assistance payments reported in the Commission's fiscal year 2007 annual financial report could be identified as questioned costs that will later be recovered through various processes the Commission has established. However, the Commission has not analyzed these possible questioned costs to determine if they should be reported in the Commission's annual financial report as contingent liabilities. The Comptroller of Public Accounts requires that notes to the financial statements communicate information that is necessary for a fair presentation of the financial position and the results of operations, but not readily apparent from, or not included in, the financial statements themselves (see text box for additional details).

## Recommendations

The Commission should:

- Develop and implement procedures to adequately track the questioned costs associated with the open investigations of its Office of Inspector General and the Office of the Attorney General.
- Use questioned cost information to comply with the Comptroller of Public Accounts' requirement to prepare financial statements that are presented fairly and that include all required notes.

## Management's Response

*Questioned costs associated with open investigations are uninvestigated amounts. These questioned cost are not overpayments and are sometimes based upon mere allegations, with no evidence to support them.*

*The recommendation raises questions that will require input and coordination with the OAG, the State's claims administrator, HHSC, CMS, and major healthcare providers and their trade associations. The recommended changes could affect HHSC's obligations to CMS and its fiscal agent.*

*The OIG will consult with the foregoing entities regarding inherent risks and cost-benefit analysis of proposed action items. The OIG expects to complete a follow-up analysis by July 2008. The OIG cannot determine whether further action items would be warranted or advisable until such study and analysis is completed.*

*Title of Responsible Person: Inspector General, HHSC Office of Inspector General*

*Estimated Completion Date: July 2008*

## Issue 6

### The Health and Human Services Commission Does Not Regularly Update User Access to the Uniform Statewide Accounting System

Reference No. 08-555-10  
(Prior Audit Issue 07-555-05)

In fiscal year 2007, the Commission did not regularly update user access to the Uniform Statewide Accounting System (USAS, the State's accounting system). Specifically:

- 4 users whose employment with the Commission had been terminated still had access rights to USAS.

- 11 users had inappropriate access rights to USAS because their access rights included access to agencies that no longer exist (the Department of Human Services, the Texas Low-Level Radioactive Waste Disposal Authority, and the Department of Mental Health and Mental Retardation).

After auditors brought these issues to the Commission's attention, it deleted the access rights for each of the instances noted above.

Additionally, two Commission employees had voucher payment edit and release capabilities and duties in USAS, but the Commission has not documented the policies and procedures addressing these duties. In fiscal year 2007, there were 232 instances totaling \$5,562,304.28 in which these two employees edited and released USAS transactions after addressing USAS transaction errors. Without documented procedures or mitigating controls, these activities increase the risk that intentional or unintentional errors could go undetected.

### Recommendations

The Commission should:

- Continue to implement its process to identify individuals for whom USAS access should be terminated or adjusted.
- Regularly conduct a search for the USAS user accounts of terminated employees.
- Develop and document procedures to monitor and mitigate the risk of Commission employees performing incompatible duties.

### Management's Response

*HHSC has documented in existing policies and procedures to monitor employees whose USAS access rights should be terminated or adjusted. These procedures include monthly review of user accounts for terminated employees.*

*HHSC will establish written policies and procedures to monitor and minimize the risks associated with the activities of two individuals with voucher payment edit and release capabilities in USAS. These procedures will include (1) monthly management review of a USAS report listing edited and released USAS transactions and (2) retention of documentation supporting voucher payment edits. As an additional mitigating control, HHSC employees with access rights to edit and release transactions in USAS will not have voucher entry capability in HHSAS.*

*Title of Responsible Person: Director, HHSC Fiscal Management Services*

*Estimated Completion Date: May 2008*

Chapter 1-D

## **The Department of State Health Services Should Strengthen Certain Aspects of Its Financial and Information Technology Operations**

Issue 1

### **The Department of State Health Services Did Not Reconcile Its Internal Accounting System with the State's Accounting System in a Timely Manner**

Reference No. 08-555-11

(Prior Audit Issue 07-555-06, 06-555-04, 05-555-02, 04-555-02, 03-555-01, 02-555-01, and 01-021)

The Department of State Health Services (Department) has established formal policies and procedures for the reconciliation of its internal accounting system

#### **Reconciliation Requirements**

Texas Government Code, Section 2101.012, specifies that the Comptroller of Public Accounts shall prescribe uniform accounting and financial reporting procedures that each state agency shall use in the preparation of its annual financial reports.

The Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports of State Agencies and Universities* (July 2007) and its *USAS User Manual* (Volume 1, December 1995) require state agencies to reconcile their USAS cash in the State Treasury to their internal accounting systems on a monthly basis.

(the Health and Human Services Administrative System) and the State's accounting system (the Uniform Statewide Accounting System). However, it did not clear, adjust, or correct certain reconciling differences in a timely manner as required by the Comptroller of Public Accounts and statute (see text box for additional details). This issue has existed at the Department or its predecessor agency (the Department of Health) for the past seven years. However, during the audit of fiscal year 2007, auditors noted improvement in the Department's efforts to reconcile the two systems on a timely basis.

Although the Department reconciles by appropriation year, fund, and appropriation to ensure the accuracy and completeness of recorded transactions, it continues to carry forward a significant number and dollar amount of reconciling items between periods without resolution and after the Department's internal accounting system has been closed for the respective accounting period. For the month ending October 31, 2007, auditors identified the following:

- The Department cleared 2,666 reconciling items from prior appropriation years 2003 through 2007 between September 30, 2007, and October 31, 2007. (Auditors reviewed the September 30, 2007, and October 31, 2007, reconciliations because the Department had reported that it had taken corrective action on the prior audit issue as of October 2007.) However, 1,951 reconciling items still needed to be cleared. The individual amounts of the 1,951 outstanding reconciling items ranged from \$0.01 to \$8.9 million and had a combined absolute value of \$94,363,761.12.
- Of the 1,951 outstanding reconciling items, 730 were reconciling items arising from transactions posted during October 2007 that affected appropriation years 2004 through 2007.

In prior years, the Department indicated that many of the reconciling items were created during fiscal year 2005, when the Department of State Health Services took over the operations of the former Department of Health. The Department also indicated that reconciling items from prior appropriations must be adjusted or written off before the appropriations expire. However, of the items remaining to be reconciled, auditors identified one item from appropriation year 2003 (\$31,659.56) and six items from appropriation year 2004 (with a combined absolute value of \$631,789.63). (At the time of audit fieldwork, the Department's internal accounting system had been closed for appropriation years 2003 and 2004.)

## Recommendations

The Department should:

- Continue to implement its policy to clear reconciling items in a timely manner. For example, it could require that reconciling items that are 90 days old or older be cleared prior to the end of the fiscal year. This would result in having only reconciling items that are relatively current and would help to ensure the completeness and accuracy of recorded transactions.
- Ensure that it reconciles all appropriations prior to the appropriations expiring.
- Take appropriate measures to resolve reconciling items applicable to appropriation years that have been closed in its internal accounting system.

## Management's Response

*As noted by the auditors, the Department of State Health Services has continued to improve its reconciliation of the internal accounting system to the statewide accounting system. DSHS concurs that the corrections should be processed timely as illustrated by the decrease from 19,853 items to be corrected in October 2006 to the 1,951 items as of October 2007. DSHS has established processes and procedures to identify all variances and process corrections that are 90 days or older, and will continue its efforts to identify these variances, causes for the reconciling items and timely corrections.*

*Of the 1,951 items that had not been cleared as of October 31, 2007 for the four appropriation years, 730 occurred as of result of transactions processed in October 2007. The majority of these 730 reconciling items were a direct result of payroll processing which included partial repayments by employees that do not clear until the indebtedness is fully repaid, adjustments to deductions to recoup from vendors for payroll cancellations, and payroll*



*reissues that were entered directly in USAS. In addition, the reconciling item for appropriation year 2003 was entered directly by the Comptroller's Office in September 2007 well after our internal system was closed for that appropriation year.*

*The Department of State Health Services (DSHS) appreciates the efforts of the State Auditor staff and their work on the Department's financial audit and will work with them as we continue to identify and eliminate variances between our internal accounting systems and the Uniform Statewide Accounting System.*

*Person Responsible: Accounting Director*

*Implementation Date: October 31, 2008*

## Issue 2

### The Department of State Health Services Did Not Regularly Update User Access for the Texas WIC Information Network

Reference No. 08-555-12  
(Prior Audit Issues 07-555-07, 06-555-05, and 05-555-03)

#### Title 1, Texas Administrative Code, Section 202.25(3)(B)

A user's access authorization shall be appropriately modified or removed when the user's employment or job responsibilities within the state agency change.

#### Title 1, Texas Administrative Code, Section 202.25(5)(A)

Information resources systems must provide the means whereby authorized personnel have the ability to audit and establish individual accountability for any action that can potentially cause access to, generation of, modification of, or effect the release of confidential information.

In fiscal year 2007, the Department did not regularly update user access to the Texas WIC Information Network (Texas WIN), which is the system that maintains program and expenditure information for the Women, Infants, and Children nutrition program. Specifically, 11 individuals whose employment had been terminated still had access to Texas WIN. This is a violation of Title 1, Texas Administrative Code, Section 202.25(3)(B) (see text box for additional details).

Auditors also identified one active test user account that could be used to access live production data. This is a violation of Title 1, Texas Administrative Code, Section 202.25(5)(A) (see text box for additional details).

After auditors brought these issues to the Department's attention, the Department deleted the access rights associated with each of the instances noted above.

## Recommendations

The Department should:

- Continue implementing its process to identify individuals for whom system access should be terminated and include a search for the user accounts of terminated employees who may have been overlooked.

- Control test user accounts; conduct an information technology policy review to ensure compliance with Title 1, Texas Administrative Code, Section 202.25(5)(A); and determine an acceptable process for the use of system maintenance and test accounts that provides accountability and protects confidential data.

### Management's Response

*Access to the Department of State Health Services Texas WIC Information Network (Texas WIN) is controlled through 2 levels of security. Security to our network is password secured through our Citrix system. For the 11 employees identified, DSHS had terminated access to the Citrix system; however, we concur that access to the Texas WIN system should have also be terminated. Additionally, the Department concurs with the finding that one active test user account could be used to access live production data.*

*We immediately remediated the problems identified in both audit findings; and, since that time, have worked with the DSHS Security Office to establish the agency's access termination/disablement process which is now done on a weekly basis for the Texas WIN system. Additionally, through a series of proactive steps we plan to evaluate our existing methods and policies, to strengthen internal controls.*

*Any resulting processes will be worked into our standard operating procedures (SOP) that address user access and the use of system maintenance and test accounts. Those processes will provide more accountability and stronger protection of system access and confidential data. We will document all processes that we plan to implement in our standard operating procedures by no later than August 2008.*

*Person Responsible for this response: Branch Manager, Applications Development Unit, Nutrition Services Support Branch*

*Implementation Date: August 31, 2008*

## The Texas Workforce Commission Should Strengthen Certain Aspects of Its Information System Security and Fire Protection and Backup Power Capabilities

### Issue 1

#### The Texas Workforce Commission Should Strengthen Information System Security Monitoring

Reference No. 08-555-13  
(Prior Audit Issues 07-555-11, 06-555-11, and 05-555-05)

The Texas Workforce Commission (Commission) should revise its security reporting to make this task more manageable and ensure that it is performed

#### 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 each user is authorized, and log and report unauthorized users' attempts to access protected assets.

consistently. 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). This prevents it from promptly investigating potential instances of unauthorized access.

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 provides 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.

Certain information technology resources at the Commission, including the mainframe equipment in the Commission's data center, are subject to transfer to the Department of Information Resources in accordance with the requirements of House Bill 1516 (79th Legislature, Regular Session). As a result, the Department of Information Resources has delayed all software purchases related to the Commission's mainframe pending the determination of the new consolidated data center environment. The Commission has previously taken steps to correct this issue by:

- Installing software that monitors security and generates monitoring reports. However, staffing limitations have prevented the agency from being able to fully utilize the software.
- Generating daily monitoring reports that list any (1) changes made to operating system libraries or (2) use of a specific, powerful administrative account.
- Generating daily reports of departmental incidents that have occurred on the Commission's internal network.

## Recommendations

The Commission should:

- Work with the Department of Information Resources to determine which monitoring responsibilities will remain with the Commission and which will move to the Department of Information Resources.
- After the new information technology environment is established, review the design of the new environment, generate security reports, and investigate significant security events. The Commission also should ensure that its staff reports the outcomes of these investigations to management.
- Provide training or additional instruction to departmental security managers regarding how to use the security reports and tools.

## Management's Response

*TWC's Information Resources Integrity and Security (IRIS) group, working with the Department of Information Resources (DIR), has determined that monitoring responsibilities will be the responsibility of TWC. The IRIS group has assumed those responsibilities.*

*Security components are a part of the overall design of the new consolidated information technology environment and TWC continues to play an active part in those efforts. Once the consolidated data center transformation is complete TWC will continue to actively review and monitor all TWC related activities in order to satisfy security requirements of state and federal law as well as contractual requirements between TWC and its partners. Routine monthly reports related to these monitoring activities will be provided to management and anomalous activities will be reported. A primary new monitoring report is being developed and will be in place by June 30, 2008.*

*As the staffing and implementation of a formal systems event monitoring process are IRIS responsibilities, the need for ongoing review of systems log output by departmental security managers is no longer necessary. Systems event monitoring is performed by IRIS by means of daily data gathering, automated event analysis using installed tools such as Sawmill and Vanguard, and routine near-real-time traffic analysis triggered by automated monitoring systems such as Nitro. IRIS deals immediately with anomalous events and involves departmental security management only when appropriate. IRIS staff involved in the monitoring process are trained and actively involved in the installation, configuration, management and maintenance of tools and security processes required for successful systems event management as prescribed by National Institute of Standards for Technology (NIST) and the SysAdmin, Audit, Network and Security (SANS) Institute.*

*Title of Responsible Person: Chief Information Security Officer*

*Implementation Date: June 30, 2008*

## **Issue 2**

### **The Texas Workforce Commission Should Strengthen Its Fire Protection and Backup Power Capabilities**

Reference No. 08-555-14  
(Prior Audit Issues 07-555-12, 06-555-12, and 05-555-06)

The Commission's data center does 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. However, certain information technology resources at the Commission, including the mainframe equipment in the Commission's data center, are subject to transfer to the Department of Information Resources in accordance with the requirements of House Bill 1516 (79th Legislature, Regular Session). As a result, the Commission has not dedicated funds to correct the fire suppression issues in its data center and is waiting until a decision is made regarding which information technology resources will be transferred to the Department of Information Resources.

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

Having an uninterruptible power supply system or generator could help the Commission avoid having 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 re-enter data.

## **Recommendations**

The Commission should:

- Work with the Department of Information Resources to determine which information technology resources will be transferred to the Department of Information Resources.
- After the information technology resources that will be transferred to the Department of Information Resources have been identified, perform a formal cost-benefit analysis and decide whether any of the following is cost-beneficial:

- 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.

### Management's Response

*As recommended, TWC is working with the Department of Information Resources and IBM's Team for Texas to identify which data center assets will remain at TWC. Those decisions should be finalized by March 31, 2009.*

*After the decision is made on which assets will remain, TWC will conduct a cost/benefit analysis which will be completed by June 30, 2009.*

*Title of Responsible Person: Information Technology Director*

*Implementation Date: June 30, 2009*

Chapter 1-F

## The University of Texas at Austin Should Strengthen Its Capital Asset Records

Reference No. 08-555-15

The University should update its capital asset records in a timely manner.

The University of Texas at Austin (University) does not always process its capital assets in a timely manner. Specifically:

#### Property Tagging Requirements

Texas Government Code, Section 2101.012, specifies that the Comptroller of Public Accounts shall prescribe uniform accounting and financial reporting procedures that each state agency shall use in the preparation of its annual financial report.

The Comptroller of Public Accounts' *State Property Accounting (SPA) Process User's Guide*, Chapter 2, February 2008, requires that "all property capitalized or designated as a 'controlled' asset must be marked or tagged as property owned by the agency with the exception of real property."

- In October 2007, auditors obtained a list of untagged capital assets from University management. Excluding purchased software and internally developed software, the value of the assets on that list totaled nearly \$8 million. The University purchased those assets between July 25, 2007, and August 31, 2007.
- The University had not tagged or had incorrectly tagged 7 of 51 (13.7 percent) capital assets that auditors tested.
- The University's Inventory Services unit processed \$43 million in new assets in the last 38 days of fiscal year 2007. Those assets represented 66.1 percent of the University's new assets for fiscal year 2007.

According to University policy, Inventory Services is required to assign an inventory number or affix a numbered property control plate to each asset. In

addition, it is the University's practice to tag assets within 30 days of receipt. Management indicated the high number of assets processed at the end of the fiscal year occurred because of (1) a shortage in resources that resulted from the implementation of additional inventory controls (for example, the University began using new scanners to interact with its internal accounting system) and (2) employee turnover.

Tagging is important in providing an accurate method of identifying assets; controlling the location of assets; aiding in the identification of assets if they are lost or stolen; discouraging theft; and reducing the magnitude of the State's property losses. If assets are not tagged, there is an increased risk of misappropriation.

The University should properly account for incidental charges associated with capital assets.

The University does not always expense warranty costs and service agreement costs that are associated with its capital assets. It also does not always capitalize shipping and handling costs associated with its capital assets. Specifically:

- The University had not expensed the warranty costs or service agreement costs associated with 5 of 55 (9.1 percent) assets that auditors tested. For these five assets, the University instead capitalized the \$7,742.64 in associated warranty costs or service agreement costs. According to the Comptroller of Public Account's *SPA Process User's Guide*, warranty costs or service agreement costs should be expensed if they are itemized on the invoice or purchase order.

#### Requirements for Recording of Incidental Charges

Texas Government Code, Section 2101.012, specifies that the Comptroller of Public Accounts shall prescribe uniform accounting and financial reporting procedures that each state agency shall use in the preparation of its annual financial report.

The Comptroller of Public Accounts' *State Property Accounting (SPA) Process User's Guide*, Chapter 1, June 2006 and February 2008, states that incidental charges, such as extended warranties or maintenance agreements, are no longer considered part of the capital asset cost. These charges should now be expensed. However, if the incidental items are not broken out separately on the purchase order or on the invoice, the incidental charges are considered a part of the capital asset and should be capitalized.

The guide also states that freight and transportation charges should be included as part of the historical cost of the asset.

- The University had not capitalized the shipping and handling costs associated with 2 of 55 (3.6 percent) assets that auditors tested. According to the Comptroller of Public Account's *SPA Process User's Guide*, the University should have capitalized the \$4,250 in shipping and handling costs associated with the assets.

### Recommendations

The University should:

- Process its capital assets in a timely manner. Inventory Services should periodically monitor the assets that departments purchase to ensure that departments submit inventory information and that inventory numbers and tags are assigned to capitalized assets within 30 days of receipt. Inventory

Services also should update formal policies and procedures to include the 30-day requirement for tagging capital assets.

- Expense warranty costs and service agreement costs (rather than capitalizing those costs) that are associated with capital assets, if the warranty costs or service agreement costs are listed as separate line items on the purchase orders or invoices.
- Capitalize the shipping and handling costs associated with capital assets.

### Management's Response

*The University agrees with the recommendation that capital assets should be processed in a timely manner. Inventory Services will continue to work in conjunction with the University community to tag and report equipment data within 30 days of receipt of the asset. Inventory Services has a daily process of monitoring all purchase orders to identify controlled and capitalized assets which should be tagged. The identified purchase orders are then routed to taggers and entered into the inventory system once the item is tagged. In order to better facilitate this process, the current part-time tagging position within the Office of Accounting has been converted to full-time status. In addition, Inventory Services continues to work towards the implementation of an automation project which will streamline the data entry necessary once asset data is received from self-tagging departments. Additional methods of tracking information regarding assets at self-tagging departments are also being investigated. The Handbook of Business Procedures will be updated to reflect the 30 day requirement for tagging capital assets.*

*The University agrees with the recommendation to expense warranty costs and service agreements costs as appropriate. Inventory Services is closely monitoring purchase order detail to ensure that these items are expensed accordingly. Additionally, the Office of Accounting will improve documentation and training materials to remind departments to appropriately categorize all charges on purchase vouchers and will ensure this information is documented in existing procedures and training materials.*

*The University agrees with the recommendation to capitalize the shipping and handling costs associated with capital assets. Inventory Services is closely monitoring purchase order detail to ensure that these items are capitalized accordingly. Additionally, the Office of Accounting will improve documentation and training materials to remind departments to appropriately categorize all charges on purchase vouchers and will ensure this information is documented in existing procedures and training materials.*

*Responsible Person: Associated Director, Office of Accounting*

*Implementation Date: August 2008*



## The Water Development Board Should Strengthen Certain Aspects of Its Information Technology

Reference No. 08-555-16

To protect the integrity of its information resources, the Water Development Board (Board) should ensure that it properly restricts access to certain automated systems.

The Board should restrict access to its network.

**Title 1, Texas Administrative Code,  
Section 202.20(1)**

Information resources residing in the various state agencies of state government are strategic and vital assets belonging to the people of Texas. These assets must be available and protected commensurate with the value of the assets. Measures shall be taken to protect these assets against unauthorized access, disclosure, modification or destruction, whether accidental or deliberate, as well as assure the availability, integrity, authenticity, and confidentiality of information. Access to state information resources must be appropriately managed.

**Title 1, Texas Administrative Code,  
Section 202.25(3)(B)**

A user's access authorization shall be appropriately modified or removed when the user's employment or job responsibilities within the state agency change.

The Board does not always remove access to its network after an individual is no longer employed by the Board. Auditors determined that four individuals whose employment with the Board had been terminated still had access to the Board's network. After auditors brought this issue to the Board's attention, the Board removed the access for these individuals.

The Board should restrict access to the Financial Information System.

Six users whose employment with the Board had been terminated still had access rights to the Financial Information System (FIS), a database developed by the Board and used to track all information associated with the Board's debt and financial assistance (including bonds, loan contracts, and loan forgiveness contracts). After auditors brought this issue to the Board's attention, it removed the access for these six individuals. The employees had not accessed FIS after their employment ended.

The Board should ensure employees have a current authorized access form on file.

In July 2007, the Board's internal auditor recommended that each employee have a current form on file that identifies all authorized access to the Micro Information Products (MIP, the Board's internal accounting system) and a group of systems managed by the Office of the Comptroller of Public Accounts. The group of systems included the Uniform Statewide Accounting System, the Uniform Statewide Payroll/Personnel System, the Texas Identification Number System, and Web Warrant Inquiry/Cancellation Access. In addition, the internal auditor recommended that the Board review the forms when staff duties are altered significantly. Auditors reviewed access levels for MIP during financial compliance testing and determined that the access levels were appropriate.

## Recommendations

The Board should:

- Ensure that it removes access to the network after an individual's employment is terminated.
- Ensure that it removes access to FIS after an individual's employment is terminated.
- Ensure that each staff member has a current form on file that identifies all authorized access to MIP and the group of systems managed by the Office of the Comptroller of Public Accounts.

## Management's Response

*Ensure that IT removes access to the network after an individual's employment is terminated.*

*Management agrees with the recommendation. IT will develop an Employee Request for System Access Form that will require supervisor approval. Each supervisor and the IT Division will maintain these forms to ensure that, upon separation, all system access is terminated. In addition, departing employees' supervisors will be responsible for completing a new Employee Separation Form which will require the signature of the department responsible for terminating system access. The implementation of both of these forms should ensure that appropriate controls are in place for all system access termination for departing employees.*

*Responsible Person: Director of Information Technology, Managers and Supervisors, and HR Director*

*Implementation Date: May 31, 2008*

*Ensure that it removes access to FIS after an individual's employment is terminated.*

*Management agrees with the recommendation. IT will develop an Employee Request for System Access Form that will require supervisor approval for access to FIS. The supervisor and the IT Division will maintain these forms to ensure that, upon separation, all system access is terminated. In addition, departing employees' supervisors will be responsible for completing a new Employee Separation Form which will require the signature of the department responsible for terminating system access. The implementation of both of these forms should ensure that appropriate controls are in place for all system access termination for departing employees.*

*Responsible Person: Director of Information Technology, Managers and Supervisors, and HR Director*

*Implementation Date: May 31, 2008*

*Ensure that each staff members has a current form on file that identifies all authorized access to MIP and the group of systems managed by the Office of the Comptroller of Public Accounts (OCPA).*

*Management agrees with the recommendation. System access security has been assigned to the Financial Systems Analyst, with the Accounting Director as backup. This provides separation between system security and the day-to-day accounting functions. The Chief Financial Officer (CFO), Accounting Director and Financial Systems Analyst reviewed access, agreed to the appropriate access, and documented the approval of access at a point in time. From this point on, forms will be completed for each staff member.*

*Responsible Person: Financial Systems Analyst*

*Implementation Date: Implemented January 2008*

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

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For fiscal year 2007, federal award information has been issued in a separate report. See *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2007*, by KPMG LLP, dated February 20, 2008.

# Summary Schedule of Prior Audit Findings

*State of Texas Financial Portion of the  
Statewide Single Audit Report for the  
Year Ended August 31, 2007*

## *Summary Schedule of Prior Audit Findings*

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

- State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2001 (State Auditor’s Office Report No. 02-555, May 2002).
- State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2002 (State Auditor’s Office Report No. 03-555, April 2003).
- State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2003 (State Auditor’s Office Report No. 04-555, March 2004).
- State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2004 (State Auditor’s Office Report No. 05-555, March 2005).
- State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2005 (State Auditor’s Office Report No. 06-555, March 2006).
- State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2006 (State Auditor’s Office Report No. 07-555, April 2007)

The Summary Schedule of Prior Audit Findings (for the year ended August 31, 2007) has been prepared to address these responsibilities.

## The Health and Human Services Commission Should Strengthen the Design and Operation of Its Internal Control Structure over Validating Payments for Public Assistance Programs

Public assistance program payments that the Health and Human Services

### Internal Controls

Internal controls are the policies and procedures, as well as the overall control environment, established by management to protect the government's assets and ensure the integrity and comprehensiveness of the accounting data used in external and internal reporting.

Source: *An Elected Official's Guide to Auditing*, Stephen Gauthier, Government Finance Officers Association, 1992.

Commission (Commission) reported in its fiscal year 2006 financial statements were materially accurate and fairly stated. The Commission relies on an internal control structure, including pre- and post-payment controls, to help ensure that public assistance program payments for eligible clients are allowable and accurate. However, the Commission has weaknesses in the design and operation of its internal controls that limit the assurances it can make regarding the validity of payments made for public assistance programs in fiscal year 2006.

### Fiscal Year 2006 Federal Expenditures from Public Assistance Programs

Medicaid (Medicaid Cluster) (44 million claims paid)	\$ 8.0 billion
Children's Health Insurance Program (CHIP) (Catalog of Federal Domestic Assistance program 93.767) (5.2 million member months)	0.2 billion
Food Stamps (Food Stamps Cluster) (average of 1 million households served per month)	3.1 billion
Temporary Assistance to Needy Families (TANF) (Catalog of Federal Domestic Assistance program 93.558) (average of 70,000 households served per month)	<u>0.1 billion</u>
<b>Total</b>	<b>\$11.4 billion</b>

Note: Vendor Drug program expenditures (\$1.9 billion) are included within the Medicaid and CHIP expenditures. The Vendor Drug program expenditures were associated with more than 31 million prescriptions.

Sources: *Summary of Federal Expenditures by State Agencies* prepared by the Office of the Comptroller of Public Accounts and Health and Human Services Commission self-reported service levels provided in fiscal year 2006.

The Commission accurately recorded expenditure transactions related to public assistance programs in fiscal year 2006. However, it cannot provide full assurances that all of these expenditures were allowable and paid to eligible clients. This is because:

- The Commission has not fully implemented all components of its payment monitoring process.
- The Commission does not ensure that its contracted Vendor Drug program service organization reports accurate financial information.
- The Commission does not retain complete documentation supporting its payments to certain service providers. The documentation that is maintained is not retained in its original format and is not maintained for the required retention period.
- The Commission has not fully documented policies and procedures for three key accounting functions.
- The Commission does not regularly update user access to two information systems.

The programs affected by these issues spent \$11.4 billion in federal funds in fiscal year 2006.

## Issue 1

### The Health and Human Services Commission Should Implement All Components of Its Payment Monitoring System

Reference No. 07-555-01

The Commission relies on an internal control structure, including pre- and post-payment controls, to help ensure that public assistance program payments for eligible clients are allowable and accurate. However, it should make improvements in its payment monitoring system for the Vendor Drug program, Medicaid, Children's Medicaid, the Children's Health Insurance Program (CHIP), the Food Stamp program, and the Temporary Assistance to Needy Families (TANF) program.

#### Vendor Drug Program

- During fiscal year 2006, the Commission did not have regional pharmacists in six highly populated regions: Houston, Beaumont, Austin, San Antonio, Midland, and Abilene. The Commission uses 14 regional and sub-regional pharmacist positions to review expenditure claims submitted by the participating pharmacies for the Vendor Drug program. However, it has not maintained a full complement of regional pharmacists to perform these reviews since prior to 2000. According to Commission records, its six regional pharmacists visited only 1,479 (36 percent) of the 4,112 participating pharmacies in fiscal year 2006.
- The Office of Inspector General did not conduct any Vendor Drug program reviews in fiscal year 2006 because it asserted that it had not been able to obtain data necessary to perform these reviews. The Office of Inspector General received the information necessary to perform these reviews in December 2006.

#### Medicaid and Children's Medicaid

- In June 2006, the Office of Inspector General initiated reviews at two Austin-area hospitals and started reviewing outpatient costs for Medicaid from fiscal year 2001 through fiscal year 2004. As of December 2006, the two Austin-area reviews were being completed and four more reviews were beginning.
- The Office of Inspector General also has conducted investigations as a result of data analysis using the Medicaid Fraud and Abuse System (MFADS). However, some of the data used for this analysis is not complete. In fiscal year 2006, the Office of Inspector General did not receive data on claim adjustments for the long-term care programs from the State's Medicaid claims processor.
- The Office of Inspector General did not pursue fraud investigations or recoupment of overpayments to providers serving Medicaid clients in



Hays and Travis counties, where eligibility was determined through the Texas Integrated Eligibility Redesign System (TIERS) during fiscal year 2006. It did not pursue investigations or recoupment because some required audit trails and transaction history were not readily available.

- The Commission began performing a monthly quality analysis for August 2006 of paid or finalized claims for Medicaid and Children's Medicaid. Claims information is provided by the Medicaid service organization provider (the Texas Medicaid Health Partnership or TMHP). The Commission received a sample of claims that TMHP selected (900 to 1,110 claims) and pulled a random sample of 41 claims to ensure that (1) the claims went through the edit checks and (2) no edits were inappropriately overwritten.

#### Food Stamp Program and TANF

- The Office of Inspector General did not pursue fraud investigations or recoupment of Food Stamp and TANF program overpayments processed through TIERS for clients living in Hays and Travis counties during fiscal year 2006. It did not pursue investigations or recoupment because some required audit trails and transaction history were not readily available.

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

*See current year finding 08-555-05.*

#### **Issue 2**

#### **The Health and Human Services Commission Did Not Fully Ensure That Its Contracted Vendor Drug Program Service Organization Reports Accurate Financial Information**

Reference No. 07-555-02

The Commission outsourced the processing of Vendor Drug program claims in January 2006. The Commission performed some testing to ensure that the service organization's claims processing system was operating as intended. However, auditors were unable to determine the extent and effectiveness of this testing because the Commission did not maintain sufficient documentation to ensure that a comprehensive review of the system was performed.

Auditors performed tests to verify the accuracy of the service organization's claims for vendor drug payments and determined that the claims were properly adjudicated and submitted for payment. Auditors also determined that the Commission accurately paid the claims.

## Corrective Action and Management's Response

*Corrective action was taken.*

### Issue 3

#### The Health and Human Services Commission Does Not Maintain Complete Documentation Supporting Its Payments to Certain Service Providers

Reference No. 07-555-03

Neither the Commission nor its contracted service organization that processes Medicaid and Children's Medicaid expenditure claims maintains weekly billing files beyond one year after the billing submission date. Although the contracted service organization maintains detailed claim information in its COMPASS21 system, this data is not in a readily usable format. Without the detailed billing data, the Commission's ability to provide timely support for the payments it makes in response to service providers' bills could be limited.

The Texas State Library and Archives Commission's record retention schedule outlined in Texas Government Code, Section 441.185, requires claim files be retained until they are closed, plus three years.

## Corrective Action and Management's Response

*Corrective action was taken.*

### Issue 4

#### The Health and Human Services Commission Has Not Fully Documented Policies and Procedures for Three Key Accounting Functions

Reference No. 07-555-04  
(Prior Audit Issue 06-555-09)

The Commission does not have documented policies and procedures for three key accounting functions related to the recording of public assistance payments and federal revenue. Specifically, it does not have documented policies and procedures for:

- Recording and approving Medicaid and CHIP expenditures.
- Recording and approving Vendor Drug program expenditures.
- Requesting quarterly federal budget approval for Medicaid, CHIP, and the Vendor Drug program.

While it lacks documented policies and procedures for these accounting functions, the Commission has documented many of its other key accounting

functions and has trained backup personnel to perform these functions in the event of unplanned absences.

Having documented policies and procedures is a key control over the Commission's financial reporting. It is important for management to communicate and monitor, through policies and procedures, staff members' responsibilities and expectations related to their job functions. In addition, policies and procedures are beneficial for new employees and backup personnel.

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

*See current year finding 08-555-08.*

#### **Issue 5**

#### **The Health and Human Services Commission Does Not Regularly Update User Access to Two Information Systems**

Reference No. 07-555-05  
(Prior Audit Issues 06-555-08 and 05-555-07)

In fiscal year 2006, the Commission did not regularly update user access to the Health and Human Services Administrative System (HHSAS, the internal accounting system) and Uniform Statewide Accounting System (USAS, the State's accounting system). Specifically:

- Twenty-five users had inappropriate access rights to USAS because their access rights were not necessary for their job duties.
- Three users whose employment with the Commission had been terminated still had access rights to HHSAS.
- Four users had inappropriate access rights to HHSAS because their access rights were not necessary for their job duties.
- One user had duplicate access to HHSAS.
- One user had a user account in HHSAS with an incorrect user name.

These issues constituted a violation of Title 1, Texas Administrative Code, Section 202.25(3)(B), which specifies that "a user's access authorization shall be appropriately modified or removed when the user's employment or job responsibilities within the state agency change." After auditors brought these issues to the Commission's attention, it deleted or corrected access rights for each of the instances noted above.

Additionally, the Commission has developed a report to identify HHSAS transactions entered and released (approved) by the same user; however, this

report was not produced and reviewed by supervisors for appropriateness of the transactions until September 6, 2006. This report identified five vouchers totaling \$141,489 that were entered and approved by the same user during fiscal year 2006.

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

*See current year finding 08-555-10.*

Chapter 3-B

## **The Department of State Health Services Should Strengthen Certain Aspects of Its Financial and Information Technology Operations**

### **Issue 1**

#### **The Department of State Health Services Continues to Leave the Reconciliation of Its Internal Accounting System with the State's Accounting System Unfinished**

Reference No. 07-555-06

(Prior Audit Issue 06-555-04, 05-555-02, 04-555-02, 03-555-01, 02-555-01 and 01-021)

The Department of State Health Services (Department) continues its practice of not clearing, adjusting, or correcting certain reconciling differences between its internal accounting system (the Health and Human Services Administrative System) and the state's accounting system (the Uniform Statewide Accounting System). This issue has been communicated to Department management for the past five years.

Although the Department reconciles by fiscal year, fund, and appropriation to ensure the accuracy and completeness of recorded transactions, a significant number and dollar amount of reconciling items are carried over between periods without resolution and potentially until the appropriations expire. For the month ending August 31, 2006, auditors reviewed 6 of 1,056 reconciliations by fiscal year, fund, and appropriation and identified the following:

- The Department cleared only 40 of 240 reconciling items from July 2006, allowing the remaining 200 items to carry over across multiple periods.
- The total amount of uncleared reconciling items for each reconciliation ranged from \$984,676 to \$27.3 million.

The Department has indicated that many of these reconciling items were created during fiscal year 2005, when the Department of State Health Services took over the operations of the former Department of Health. The Department also indicated that these items must be adjusted or written off during fiscal year 2007, when the appropriations expire.

## Corrective Action and Management's Response

*See current year finding 08-555-11.*

### Issue 2

#### The Department of State Health Services Did Not Regularly Update User Access for the Texas WIC Information Network

Reference No. 07-555-07  
(Prior Audit Issues 06-555-05 and 05-555-03)

In fiscal year 2006, the Department did not regularly update user access to the Texas WIC Information Network (Texas WIN), which is the system that maintains program and expenditure information for the Women, Infants, and Children nutrition program. Specifically, four individuals whose employment had been terminated or who transferred to another health and human services agency still had access to Texas WIN. The Department has implemented a notification process to identify individuals for whom access to systems should be terminated.

Additionally, auditors identified 12 user accounts that were not assigned to individual users. This is a violation of Title 1, Texas Administrative Code, Section 202.25(5)(A), which specifies that, "Information resources systems must provide the means whereby authorized personnel have the ability to audit and establish individual accountability for any action that can potentially cause access to, generation of, modification of, or effect the release of confidential information." These 12 accounts were test accounts that could be used to access live production data.

After auditors brought these matters to the Department's attention, it deleted access rights for the 16 user accounts discussed above.

## Corrective Action and Management's Response

*See current year finding 08-555-12.*

### Chapter 3-C

#### The Department of Transportation Should Strengthen Certain Aspects of Its Financial and Information Technology Operations

### Issue 1

#### The Department of Transportation Did Not Regularly Update User Access Rights for its Automated Systems

Reference No. 07-555-08

In fiscal year 2006, the Department of Transportation (Department) did not regularly update access rights to its automated systems. Specifically:

- Nine users whose employment with the Department had been terminated still had access rights to the Financial Information Management System (FIMS). FIMS is the Department's internal accounting system.
- Forty-six users whose employment with the Department had been terminated still had access rights to the Automated Purchasing System (APS). APS is the Department's internal real-time purchasing system.
- Twenty-six users whose employment with the Department had been terminated still had access rights to the Equipment Operating System (EOS). EOS is the Department's system of record for all information on major equipment.
- Four users whose employment with the Department had been terminated still had access rights to the Minor Equipment System (MES). MES is the Department's system of record for all information on minor equipment.
- Forty-three users whose employment with the Department had been terminated still had access rights to the Materials and Supply Management System (MSMS). In addition, two group login IDs to the system had not been used since August 2005 and November 2005, respectively. MSMS is the Department's real-time inventory system.

According to the Department's policy, "when a user's employment status or job functions change, a user's access authorization must be removed or modified appropriately and immediately."

None of these users had accessed the automated systems after their employment was terminated. The Department has removed the inappropriate access rights that auditors identified.

### Corrective Action and Management's Response

*Corrective action was taken.*

#### Issue 2

#### The Department of Transportation Should Monitor Access to Its Automated Purchasing System to Ensure That This Access Matches Users' Job Functions

Reference No. 07-555-09

In fiscal year 2006, the Department did not regularly match users' access to APS with their job functions. Of the Department's 4,102 employees who have access to APS, 129 (3.1 percent) have both purchaser and receiver access rights. This means that, as purchasers, these users can add, create, and change purchase orders. As receivers, these users also can receive the purchased items and authorize payment.

According to the Department's policy, the Office of Primary Responsibility must approve assigning a user both purchaser and receiver access rights. The Department was unable to provide documentation indicating that the 129 users discussed above had received this approval.

### Corrective Action and Management's Response

*Corrective action was taken.*

Chapter 3-D

## The Texas Workforce Commission Should Strengthen Certain Aspects of Its Information System Security and Fire Protection and Backup Power Capabilities

Issue 1

### The Texas Workforce Commission Should Strengthen Security and Password Settings

Reference No. 07-555-10  
(Prior Audit Issues 06-555-10 and 05-555-04)

#### 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.

The Texas Workforce Commission (Commission) has improved computer security since the State Auditor's Office's audits of fiscal years 2005 and 2004. The Commission has corrected weaknesses in password settings and security settings to decrease the risk that unauthorized users could access its automated systems and data. However, it has not performed regular audits of authorized users and configuration settings.

The Commission has created an annual security audit checklist to guide the review of security settings. However, it has not used that checklist to review the adequacy of baseline mainframe security settings. Although the Commission reviews these settings informally during system upgrades, these reviews may not be sufficiently thorough.

### Corrective Action and Management's Response

*Corrective action was taken.*

**Issue 2**  
**The Texas Workforce Commission Should Strengthen Information System Security Monitoring**

Reference No. 07-555-11  
(Prior Audit Issues 06-555-11 and 05-555-05)

The Commission should revise its security reporting to make this task more manageable and ensure that it is performed consistently. The Commission

**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 each user is authorized, and log and report unauthorized users' attempts to access protected assets.

does not adequately review security reports that provide information on security events identified by its mainframe computer's security management product (see text box). This prevents it from promptly investigating potential instances of unauthorized access.

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.

Certain information technology resources at the Commission, including the mainframe equipment in the Commission's data center, are subject to transfer to the Department of Information Resources in accordance with the requirements of House Bill 1516 (79th Legislature, Regular Session). As a result, the Department of Information Resources has delayed all software purchases related to the Commission's mainframe pending the determination of the new consolidated data center environment.

The Commission has previously taken steps to correct this issue by:

- Installing software that monitors security and generates monitoring reports. However, additional software to analyze the data generated has not been received due to the pending data center consolidation.
- Generating daily monitoring reports that list any (1) changes made to operating system libraries or (2) use of a specific, powerful administrative account.
- Generating daily reports of departmental incidents that have occurred on the Commission's internal network.

**Corrective Action and Management's Response**

*See current year finding 08-555-13.*



### Issue 3

#### The Texas Workforce Commission Should Strengthen Its Fire Protection and Backup Power Capabilities

Reference No. 07-555-12  
(Prior Audit Issues 06-555-12 and 05-555-06)

The Commission's data center does 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. However, certain information technology resources at the Commission, including the mainframe equipment in the Commission's data center, are subject to transfer to the Department of Information Resources in accordance with the requirements of House Bill 1516 (79th Legislature, Regular Session). As a result, the Commission has not dedicated funds to correct the fire suppression issues in its data center and is waiting until a decision is made regarding which information technology resources will be transferred to the Department of Information Resources.

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

Having an uninterruptible power supply system or generator could help the Commission avoid having 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 re-enter data.

#### Corrective Action and Management's Response

*See current year finding 08-555-14.*

# Independent Auditor's Report

*State of Texas Financial Portion of the  
Statewide Single Audit Report for the  
Year Ended August 31, 2007*

## Summary of Auditor's Results

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### Financial Statements

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

### Federal Awards

For fiscal year 2007, federal award information has been issued in a separate report. See *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2007*, by KPMG LLP, dated February 20, 2008.



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

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

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, 2007, which collectively comprise the State's basic financial statements and have issued our report thereon dated February 20, 2008. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the entities listed below. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the University of Texas M.D. Anderson Cancer Center, the University of Texas Investment Management Company, and the Texas Local Government Investment Pool (TexPool) were not audited in accordance with *Government Auditing Standards*.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

Summary of Findings	
Agency	Finding Numbers
Comptroller of Public Accounts	08-555-01 08-555-02 08-555-03
Department of Transportation	08-555-04
Health and Human Services Commission	08-555-05 08-555-06 08-555-07 08-555-08 08-555-09 08-555-10
Department of State Health Services	08-555-11 08-555-12
Texas Workforce Commission	08-555-13 08-555-14
University of Texas at Austin	08-555-15
Water Development Board	08-555-16

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material

weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### Compliance and Other Matters

As 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 the Texas Guaranteed Student Loan Corporation, a component unit of the State of Texas, was conducted as of and for the years ended September 30, 2007 and 2006.
Texas Local Government Investment Pool	An audit of the statements of pool net assets of the Texas Local Government Investment Pool, an investment trust fund of the State of Texas, was conducted as of August 31, 2007 and 2006, and the related statements of change in pool 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, 2007.
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 of the Texas Prepaid Higher Education Tuition Board, a Board of the State of Texas, was conducted as of and for the year ended August 31, 2007.
Texas Lottery Commission	An audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the Texas Lottery Commission, an agency for the State of Texas, as of and for the year ended August 31, 2007.
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 supplementary schedules 1A through 1F of the Department of Housing and Community Affairs was conducted as of and for the year ended August 31, 2007.
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 year ended August 31, 2007.
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 year ended August 31, 2007.
The University of Texas System 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 Intermediate Term Fund was conducted as of and for the year ended August 31, 2007.

Entities Audited by Other Auditors	Scope of Work Performed
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 the Permanent Health Fund was conducted as of and for the year ended August 31, 2007.
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 General Endowment Fund was conducted as of and for the year ended August 31, 2007.
Permanent School Fund	An audit of the financial statements of the Texas Permanent School Fund was conducted as of and for the year ended August 31, 2007.
The University of Texas M.D. Anderson Cancer Center	An audit of the consolidated balance sheets of the University of Texas M.D. Anderson Cancer Center and subsidiaries as of August 31, 2007 and 2006, and the related consolidated statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended.

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 2007 Financial Statements* (State Auditor's Office Report No. 08-014, December 2007)
- *A Report on the Audit of the Department of Transportation's Central Texas Turnpike System Financial Statements for the Fiscal Year Ended August 31, 2007* (State Auditor's Office Report No. 08-017, December 2007)
- *A Report on the Audit of the Department of Transportation's Texas Mobility Fund Financial Statements for the Fiscal Year Ended August 31, 2007* (State Auditor's Office Report No. 08-018, December 2007)
- *A Report on the Audit of the Fire Fighters' Pension Commissioner's Fiscal Year 2007 Financial Statements* (State Auditor's Office Report No. 08-019, January 2008)
- *A Report on the Audit of the Employees Retirement System's Fiscal Year 2007 Financial Statements* (State Auditor's Office Report No. 08-021, February 2008)

The State's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the State's response, and accordingly, we express no opinion on it.

This report is intended 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

February 20, 2008



# Appendices

Appendix 1

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

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### **Objective**

The audit objective was to determine whether the State's basic financial statements accurately reflect the balances and activities for the State of Texas for the fiscal year ended August 31, 2007.

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 performed the financial portion of the Statewide Single Audit and audited the fiscal year 2007 Schedule of Expenditures of Federal Awards. The State Auditor's Office contracted with KPMG LLP to perform part of 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.

### **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 2007 and a review of significant controls over financial reporting and compliance with applicable requirements.

### **Methodology**

The audit 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 higher education institution policies and procedures.
- Agency and higher education institution systems documentation.
- Agency and higher education institution accounting data.
- Agency and higher education institution year-end accounting adjustments.
- Agency and higher education institution fiscal year 2007 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.
- Comparing agency and higher education institution accounting practices with Comptroller of Public Accounts reporting requirements.

Information systems reviewed included the following:

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

Criteria used included the following:

- Texas statutes.
- Texas Administrative Code.
- General Appropriations Act (79th 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.
- Agency and higher education institution policies.

### **Other Information**

Fieldwork was conducted from July 2007 through March 2008. Except as discussed in the following paragraph, we conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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:

Michelle Ann Feller, CIA (Project Manager)  
William J. Morris, CPA (Assistant Project Manager)  
Jenay Oliphant (Assistant Project Manager)  
Robert H. (Rob) Bollinger, CPA, CFE  
Mark A. Cavazos  
Joe Curtis, CPA, CIA  
Olin Davis, MBA  
Scott Ela, CPA  
Nicole Elizondo  
Michael Gieringer, MS  
Lauren Godfrey, CGAP  
Arby Gonzales, CFE  
Kathryn Hawkins  
Cyndie Holmes, CISA  
Anne Hoel, CGAP  
Joyce Inman, CGFM  
Tracy Jarratt, CPA, MAcy  
Ashlee C. Jones, MAcy, CGAP  
Robert G. Kiker, CGAP  
Jennifer Logston, MBA  
Veda Bragg Mendoza, CIA, CGAP  
Paige Paul, MBA  
Jeannette Quiñonez  
Stephen J. Randall, MBA  
John Rios  
Ashley Rutherford  
Katrina Schule  
Kristyn Scoggins  
Karen S. Smith, CGAP  
Christy Srubar  
Serra Tamur, MPAff, CISA, CIA  
Brendi Tubbs  
Bill Vanecek, CGAP  
Michael Yokie, CISA  
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)  
Kelly Furgeson Linder, CIA, CGAP (Federal Funds Audit Manager)  
Michael C. Apperley, CPA (Assistant State Auditor)

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

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Financial accounts at the following agencies and higher education institutions were audited:

- Comptroller of Public Accounts.
- Department of Aging and Disability Services.
- Department of State Health Services.
- Department of Transportation.
- Health and Human Services Commission.
- Texas A&M University System.
- Texas Education Agency.
- Texas Workforce Commission.
- The University of Texas at Austin.
- University of Texas Medical Branch at Galveston.
- University of Texas Southwestern Medical Center.
- The University of Texas System.
- Water Development Board.

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 Warren Chisum, 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 Susan Combs, Comptroller of Public Accounts

### **Department of Aging and Disability Services**

Ms. Adelaide Horn, Commissioner

### **Department of State Health Services**

Dr. David L. Lakey, Commissioner

### **Department of Transportation**

Members of the Texas Transportation Commission  
Mr. Amadeo Saenz, Jr., P.E., Executive Director

### **Health and Human Services Commission**

Mr. Albert Hawkins, Executive Commissioner

### **Texas A&M University System**

Members of the Texas A&M University System Board of Regents  
Dr. Mike McKinney, Chancellor

### **Texas Education Agency**

Members of the State Board of Education  
Mr. Robert Scott, Commissioner of Education

### **Texas Workforce Commission**

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

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

Mr. William C. Powers, Jr., President

### **The University of Texas Medical Branch at Galveston**

Dr. David L. Callender, President

**The University of Texas Southwestern Medical Center  
at Dallas**

Dr. Kern Wildenthal, President

**The University of Texas System**

Members of the University of Texas System Board of Regents  
Mr. Mark G. Yudof, Chancellor

**Water Development Board**

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



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