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State Auditor

State of Texas Financial Portion of the
Statewide Single Audit Report
for the Year Ended
August 31, 2010

February 2011
Report No. 11-555



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Year Ended August 31, 2010**

SAO Report No. 11-555
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Overall Conclusion

The basic financial statements presented in the Comprehensive Annual Financial Report (CAFR) for the State of Texas present fairly, in all material respects, the financial position and activities of the State for the fiscal year ended August 31, 2010. These financial statements provide a comprehensive disclosure of the State's financial activities during the fiscal year and an overall picture of the financial position of the State at the end of the fiscal year.

The State successfully contends with significant complexities in preparing its basic financial statements. Compiling financial information and ensuring its accuracy for more than 200 state agencies and higher education institutions is a major undertaking. The financial statements convey the use of more than \$120.1 billion during the fiscal year.¹

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

Basic Financial Statements

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 12 of the State's largest agencies and higher education institutions.

¹ The \$120.1 billion in annual expenditures exceeded the \$96.1 billion appropriated for fiscal year 2010 primarily because:

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

The State Auditor's Office also audited the State's Schedule of Expenditures of Federal Awards (SEFA) for fiscal year 2010, which is prepared by the Office of the Comptroller of Public Accounts (Comptroller's Office) using SEFA data from all state agencies and higher education institutions that made federal expenditures during the fiscal year. The State Auditor's Office and KPMG LLP audited the processes for preparing SEFA information at 15 agencies and 9 higher education institutions. Additionally, auditors followed up on prior year SEFA findings at 2 agencies and 15 higher education institutions. Auditors identified errors caused by inadequate review of SEFA information at 8 agencies and 18 higher education institutions. These errors are discussed in Chapter 2-I of this report.

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

Overall, financial systems and controls were adequate at the 12 agencies and higher education institutions audited and at the agency and higher education institution at which auditors followed up on findings from prior fiscal years (see Appendix 2 for a list of all agencies and higher education institutions audited). However, auditors identified control weaknesses at four agencies and three higher education institutions. For example:

- The Health and Human Services Commission (Commission) should strengthen information technology controls over payment processing. To avoid disclosure of potential security weaknesses, auditors communicated the details of this issue in writing to management for corrective action. This issue represented a material weakness in the Commission's internal control structure and is repeated from an audit conducted in a prior year.

Summary of Issues

Auditors identified system access or password management issues at:

- Health and Human Services Commission
- Department of Transportation
- Office of the Comptroller of Public Accounts
- Texas Workforce Commission
- The University of Texas at Austin
- The University of Texas Medical Branch at Galveston
- The University of Texas Southwestern Medical Center at Dallas

Auditors identified significant deficiencies in reporting and documenting assets and expenditures at:

- Health and Human Services Commission
- Department of Transportation
- The University of Texas Medical Branch at Galveston
- The University of Texas Health Science Center at Houston

- The Department of Transportation (Department) should improve financial reporting of new construction financing agreements. The Department should implement controls to ensure accurate reporting of pass-through toll roads and be proactive in identifying reporting methodologies for advanced financing arrangements.

Additionally, auditors identified:

- System access or password management deficiencies at 7 (58.3 percent) of the 12 agencies and higher education institutions audited. Examples include the use of generic user accounts, not updating business rules or access criteria for systems, and not adequately performing annual reviews of system access. Additionally, certain agencies and higher education institutions had password authentication controls that did not comply with Title 1, Texas Administrative Code, Chapter 202.
- Weaknesses in accounting for capital assets, revenues, and expenditures at 4 of the 12 agencies and higher education institutions audited.

Agencies and higher education institutions also should strengthen their reviews of their SEFAs. Auditors identified a lack of adequate review of SEFA information at 26 (63.4 percent) of the 41 agencies and higher education institutions at which SEFA information was audited.

Auditors communicated less significant issues, when identified, to management of each affected agency or higher education institution in writing.

Summary of Management's Responses

The agencies and higher education institutions generally agreed with the recommendations in this report.

Summary of Information Technology Review

Auditors reviewed the 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 the Comprehensive Annual Financial Report and then reviewed basic data protection such as security, access, application development and control, and data recovery. As discussed in the detailed findings, auditors identified certain user access control and password weaknesses at the Health and Human Services Commission, the Department of Transportation, the Comptroller's Office, the Texas Workforce Commission, the University of Texas at Austin, the University of Texas Medical Branch at Galveston, and the University of Texas Southwestern Medical Center at Dallas. Correcting these weaknesses will help to ensure the reliability of those entities' financial information.

Auditors also reviewed the internal controls over the Uniform Statewide Accounting System (USAS), the Uniform Statewide Payroll/Personnel System (USPS), and the State Property Accounting (SPA) system. The Comptroller's Office provides the primary controls over access for those systems; however, agencies and higher education institutions are primarily responsible for adequately assigning access. Agencies and higher education institutions should ensure that they grant access only as needed and that access rights provide adequate segregation of duties for day-to-day activities.

Summary of Objective, Scope, and Methodology

The audit objective was to determine whether the State's basic financial statements present fairly, in all material respects, the balances and activities for the State of Texas for the fiscal year ended August 31, 2010.

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 scope of the financial portion of the Statewide Single Audit included an audit of the State's basic financial statements and a review of significant controls over financial reporting and compliance with applicable requirements. The opinion on the basic financial statements, *The State of Texas Comprehensive Annual Financial Report for the Fiscal Year Ended August 31, 2010*, was dated February 18, 2011.

The scope of the federal portion of the Statewide Single Audit included an audit of the State's SEFA, a review of compliance for each major program, and a review of significant controls over federal compliance. The State Auditor's Office contracted with KPMG LLP to provide an opinion on compliance for each major program and internal control over compliance. The State Auditor's Office provided an opinion on the State's SEFA. The report on the federal portion of the Statewide Single Audit is included in a separate report issued by KPMG LLP entitled *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2010*.

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

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Independent Auditor's Report

*State of Texas Financial Portion of the
Statewide Single Audit Report for the
Year Ended August 31, 2010*

Summary of Auditor's Results

Financial Statements

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

Federal Awards

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2010 was included in Chapter 2-I of this report. All other fiscal year 2010 federal award information was issued in a separate report (see *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2010*, by KPMG LLP).



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

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

We have audited 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, 2010 which collectively comprise the State's basic financial statements, and have issued our report thereon dated February 18, 2011. Our report includes 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 in the section titled "Work Performed by Other Auditors." 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 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

Summary of Findings	
Agency	Finding Numbers
Health and Human Services Commission	11-555-01

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

Summary of Findings	
Agency or Higher Education Institution	Finding Numbers
Health and Human Services Commission	11-555-02
	11-555-03
	11-555-04
Department of Transportation	11-555-05
	11-555-06
	11-555-07
Office of the Comptroller of Public Accounts	11-555-08
	11-555-09
Texas Workforce Commission	11-555-10
The University of Texas at Austin	11-555-11
	11-555-12
The University of Texas Medical Branch at Galveston	11-555-13
	11-555-14
The University of Texas Southwestern Medical Center at Dallas	11-555-15
The University of Texas Health Science Center at Houston	11-555-16
Multiple agencies and higher education institutions	11-555-17

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Lottery Commission	An audit of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Texas Lottery Commission was conducted as of and for the year ended August 31, 2010.
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 as of August 31, 2010 and August 31, 2009, and the related consolidated statements of revenues, expenses and changes in net assets and statements of cash flows for the years then ended.
Permanent University Fund	An audit of the statements of fiduciary net assets and changes in fiduciary net assets of the Permanent University Fund was conducted as of and for the years ended August 31, 2010 and August 31, 2009.
The University of Texas System Long Term Fund	An audit of the statements of fiduciary net assets and changes in fiduciary net assets of the University of Texas System Long Term Fund was conducted as of and for the years ended August 31, 2010 and August 31, 2009.
The University of Texas System General Endowment Fund	An audit of the statements of fiduciary net assets and changes in fiduciary net assets of the University of Texas System General Endowment Fund was conducted as of and for the years ended August 31, 2010 and August 31, 2009.
The University of Texas System Permanent Health Fund	An audit of the statements of fiduciary net assets and changes in fiduciary net assets of the University of Texas System Permanent Health Fund was conducted as of and for the years ended August 31, 2010 and August 31, 2009.
The University of Texas System Intermediate Term Fund	An audit of the statements of fiduciary net assets and changes in fiduciary net assets of the University of Texas System Intermediate Term Fund was conducted as of and for the years ended August 31, 2010 and August 31, 2009.
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 was conducted as of and for the year ended August 31, 2010.
Texas Local Government Investment Pool (TexPool)	An audit of the statements of pool net assets and the related statements of changes in pool net assets of TexPool was conducted as of and for the years ended August 31, 2010 and 2009.

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 2010 Financial Statements* (State Auditor's Office Report No. 11-014, December 2010).
- *A Report on the Audit of the Department of Transportation's Central Texas Turnpike System's Financial Statements for the Fiscal Year Ended August 31, 2010* (State Auditor's Office Report No. 11-020, February 2011).
- *A Report on the Audit of the Department of Transportation's Texas Mobility Fund Financial Statements for the Fiscal Year Ended August 31, 2010* (State Auditor's Office Report No. 11-018, February 2011).
- *A Report on the Audit of the Employees Retirement System's Fiscal Year 2010 Financial Statements* (State Auditor's Office Report No. 11-015, January 2011).
- *A Report on the Audit of the Office of the Fire Fighters' Pension Commissioner's Fiscal Year 2010 Financial Statements* (State Auditor's Office Report No. 11-016, January 2011).
- *A Report on the Audit of the Permanent School Fund's Fiscal Year 2010 Financial Statements* (State Auditor's Office Report No. 11-021, February 2011).

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

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

Sincerely,

John Keel, CPA
State Auditor

February 18, 2011

Schedule of Findings and Responses

*State of Texas Financial Portion of the
Statewide Single Audit Report for the
Year Ended August 31, 2010*

Financial Statement Findings

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

Chapter 2-A

The Health and Human Services Commission Should Strengthen Controls Over Payments and Receivables for Public Assistance Programs

Issue 1

The Health and Human Services Commission Should Strengthen Controls Over Payment Processing

Reference No. 11-555-01
(Prior Audit Issue 10-555-01)

Type of finding: Material Weakness

Material Weakness in Internal Control

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

Source: Codification of Statements on Auditing Standards AU 325.06.

The Health and Human Services Commission (Commission) continues to have inadequate controls to address risks related to system and server access, security over sensitive documentation, and physical security over computing resources.

Additionally, the Commission does not review interfaced payment transactions prior to releasing those transactions for payment into the Uniform Statewide Accounting System (USAS). The interfaced payment transaction batch sizes during fiscal year 2010 ranged from approximately 1,800 transactions to more than 24,000 transactions. The large volume of payment transactions and the lack of review and approval increase the risk that a payment error could go undetected.

As the State Auditor's Office reported in March 2010², the issues in the payment process represent a material weakness. In June 2010, the Commission began an audit to address this material weakness. The Commission received the report from that audit in February 2011, and the Commission has asserted that it will develop action plans to address the recommendations from that audit. The results of the Commission's audit confirmed the existence of the issues the State Auditor's Office reported in March 2010. To minimize the risks associated with disclosure, auditors communicated details regarding these issues directly to the Commission.

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

Recommendations

The Commission should:

- Strengthen information technology controls over payment processing.
- Develop, document, and implement an approval process for all payment transactions.
- Establish a list of individuals who are authorized to submit transactions for client service payments for both interfaced and manual transactions and limit payment submission to the individuals on that list. The Commission also should develop policies with specific criteria and documentation requirements for making modifications to the list of authorized submitters.
- Consider establishing and implementing procedures to verify and reconcile USAS payment batch files by payee and amount to source documentation from interface partners prior to releasing payment transactions into USAS.

Management's Response

A final report detailing the results of the "Audit of Proxy Server and Batch File Processing Security and Compliance," performed on behalf of HHSC Internal Audit to more fully examine processes related to the control issues raised by the State Auditor's Office, is scheduled to be issued in February 2011.

Included in the final report will be HHSC's management responses that will include actions planned to address the issues and recommendations reported in the audit. HHSC management will monitor the implementation of these actions until the risks identified in the report are addressed.

Implementation Date: Dates to be developed as part of management responses to the recommendations reported in the "Audit of Proxy Server and Batch File Processing Security and Compliance."

Responsible Persons: Deputy Executive Commissioner for Information Technology and Deputy Executive Commissioner for Financial Services

Issue 2

The Health and Human Services Commission Should Strengthen Controls Over Service Providers

Reference No. 11-555-02

Type of finding: Significant Deficiency

The Commission did not ensure that the claims processing system at its Vendor Drug program service provider was operating as intended during fiscal year 2010. As a result, the Commission did not have adequate controls to ensure that claims were processed appropriately. Commission staff reviewed a sample of claims the service provider processed, but that sample included only claims processed during August 2010. The Commission made \$2.5 billion in Vendor Drug program expenditures during fiscal year 2010.

Recommendation

The Commission should ensure that its contracted service providers report accurate financial information by either contracting for an independent review of the service providers' automated systems or requiring Commission employees to perform sufficient testing of service providers' automated systems.

Management's Response

The pharmacy claims processing services were scheduled for transition to a new vendor by September 2010, therefore HHSC elected not to perform a SAS-70 Type II review, as has been done in past years. HHSC staff did not perform the routine sampling and testing of pharmacy claims during 2010 that they have done in prior fiscal years. In January 2011 staff completed the reviews of the monthly, randomized claim samples for fiscal year 2010 and found the claims were paid correctly by the incumbent vendor.

For fiscal year 2011, HHSC has resumed the monthly review of randomized claim samples. Additionally, HHSC will complete an SSAE-16 review of the new pharmacy claims vendor for claims processed in fiscal year 2011.

Implementation Date: Fully Implemented

Responsible Person: Deputy Director for Vendor Drug

Issue 3
The Health and Human Services Commission Should Track and Accurately Report Accounts Receivable

Reference No. 11-555-03
(Prior Audit Issue 10-555-05)

Type of finding: Significant Deficiency

The Commission did not adequately track accounts receivable. A Commission internal audit report noted issues related to collection efforts for delinquent accounts receivable and noncompliance with requirements of the Office of the Attorney General and the Office of the Comptroller of Public Accounts (Comptroller's Office).

Accounts Receivable Tracking

The Commission did not ensure that it recorded overpayments to hospital districts participating in the Upper Payment Limit (UPL) program as accounts receivable during fiscal year 2010. The Commission makes UPL payments to hospitals on a quarterly basis, and those payments are based, in part, on UPL payments made in the previous year. Due to the amount of time allowed to

finalize Medicaid claims, the Commission is not able to determine whether it overpaid or underpaid a hospital until up to a year after it has made a payment. The Commission relies on program staff to track the overpayments, but the Commission's fiscal management unit is unaware of the amount of accounts receivable that the Commission needs to collect.

The Commission changed its methodology for calculating UPL payments in October 2010. The new methodology allows the Commission to make UPL payments on an adjudicated claims basis, instead of on a date-of-service basis. While this may eliminate overpayments to hospitals, the Commission still needs to identify overpayments it made to hospitals prior to October 2010.

While the Commission has improved the communication between program staff and fiscal management, program staff still do not consistently report overpayments to fiscal management. As of August 31, 2010, fiscal management was not tracking at least \$997,112 in overpayments that program staff had identified. In addition, program staff notified fiscal management of overpayment in only 8 (53.3 percent) of 15 instances.

Internal Audit Report Findings

The Commission's internal audit division reviewed the Commission's accounts receivable processes for the Medicaid, Children with Special Health Care Needs (CSHCN), and Family Planning programs and issued a report on September 26, 2008. During fiscal year 2010, the Commission began to take

**Comptroller's Office Accounting
Policy Statement 028**

State agencies and institutions of higher education must report to the Texas Comptroller of Public Accounts the names of persons with a debt to the state. This includes an indebtedness to the state, a tax delinquency, a child support delinquency, or a student loan default. Agencies must use the Comptroller's warrant hold procedures to ensure payments are not issued to a person with a debt to the state.

steps to address the issues identified in that report; however, the issues have not been fully addressed.

Recommendations

The Commission should:

- Improve communication between the program areas and fiscal management staff to ensure that all overpayments to providers or clients and any additional receivables due to the Commission are tracked for collection purposes and reported appropriately on Commission financial statements and in USAS.
- Ensure that fiscal management has sufficient time to properly record receivable amounts prior to receiving funds from overpaid parties.
- Continue to address recommendations regarding accounts receivable that its internal audit division made in September 2008.
- Comply with all Comptroller's Office accounting policies.

Management's Response

Fiscal Management will continue to improve its communication with program areas, including Rate Analysis, in an effort to obtain all accounts receivable information, and to ensure the timely processing and reporting of receivables in compliance with Comptroller's Office accounting policies.

Implementation Date: May 2011

Responsible Person: Deputy Executive Commissioner for Financial Services

HHSC continues to actively address Internal Audit's recommendations related to accounts receivable, and estimates that actions planned to address these recommendations are 80 percent complete. HHSC management will continue to monitor the implementation status until actions are fully implemented.

Implementation Date: August 2012

Responsible Persons: Deputy Executive Commissioner for Financial Services and Deputy Executive Commissioner for Information Technology

Issue 4

The Health and Human Services Commission Should Review User Accounts and Business Rules in Its Premium Payables System

Reference No. 11-555-04
(Prior Audit Issues 10-555-09 and 09-555-13)

Type of finding: Significant Deficiency

Premium Payable System (PPS)

PPS is an internal system the Commission uses to determine risk group placement for clients who are eligible to receive managed care services. Business rules within PPS direct clients into the appropriate risk groups based on various eligibility attributes.

Auditors identified certain control weaknesses related to the use of generic user accounts for and business rules in the Commission's Premium Payable System (PPS).

Generic User Accounts

The Commission removed 6 (85.7 percent) of 7 generic user accounts for the PPS online application; however, 1 generic account still exists. Use of generic user accounts prevents accountability for user actions and places the Commission's data at risk of unauthorized changes.

Title 1, Texas Administrative Code, Section 202.25(3)(A), requires that "Each user of information resources shall be assigned a unique identifier except for situations where risk analysis demonstrates no need for individual accountability of users. User identification shall be authenticated before the information resources system may grant that user access."

PPS Business Rules

The Commission does not have a process for reviewing the business rules in PPS. As a result, one risk group contained business rules that incorrectly allowed the system to include clients who exceeded that risk group's age requirements to be enrolled in the group. More than 600 individuals whose age exceeded the requirements enrolled in that risk group during fiscal year 2010, and the Commission paid approximately \$1.8 million in premiums for those individuals. Without reviewing the eligibility data for these individuals, the Commission is not able to identify whether it paid appropriate premiums related to those individuals or whether it should place those individuals into a different risk group or Medicaid service model.

Recommendations

The Commission should:

- Develop and implement a process for reviewing PPS user accounts to ensure that it complies with the Texas Administrative Code.
- Develop and implement a process for reviewing PPS business rules on a consistent basis to help ensure compliance with managed care eligibility requirements.

Management's Response

Commission IT will work with program staff to assist with the validation and verification of PPS user accounts used to access the production system and ensure compliance with the Texas Administrative Code. IT will review, internally, accounts that are used by IT staff to ensure access to test and development environments complies with the Texas Administrative Code. Commission IT will establish a process to periodically review PPS user accounts and access privileges to ensure user accounts are valid and access is based on business need.

Implementation Date: June 2011

*Responsible Person: Director, Application Development and Support,
Commission IT*

HHSC will establish a process to periodically review PPS business rules to ensure clients are classified in the correct risk groups.

Implementation Date: April 2011

Responsible Person: Medicaid and CHIP Associate Commissioner

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

Issue 1

The Department of Transportation Should Improve the Identification of Its Financial Reporting Needs and the Requirements Related to Complex Issues in Its Financial Records

Reference No. 11-555-05

Type of finding: Significant Deficiency

In fiscal year 2010, the Department of Transportation (Department) engaged in several complex financing tools to pay for the construction of roads and bridges throughout Texas. Two of those tools are described below:

- The Department uses a method of financing construction called “pass-through tolls,” which was authorized in Texas Transportation Code, Section 222.104. Under this method, a local government or entity (developer) finances and constructs a road and then transfers that road to the Department for inclusion in the state highway system. Although there is no direct tolling of traffic, the financing is based on an estimated vehicle-mile basis, and the Department reimburses the developer over a period of time.
- The Texas Transportation Commission created the Texas Private Activity Bond Surface Transportation Corporation (TxPABST) to promote and develop public transportation facilities through the issuance of bonds for comprehensive development agreements.

While these tools aid in the construction of roads and bridges, the Department should proactively consider their effect on its financial statements. Auditors identified the following errors related to those tools:

- In fiscal year 2010, the Department did not include five completed pass-through toll roads totaling \$189 million in its financial statements. In addition, the Department incorrectly identified one construction project as a non-state highway system road, which caused the Department to understate fiscal year 2010 capital assets non depreciable by \$9 million.

While the Department’s finance division relies on the Department’s district and area offices to notify it when a pass-through toll project is complete, the finance division does not have a process to determine whether the information it receives is complete or accurate.

- The Department excluded the costs and related liability of 14 pass-through toll projects that were under construction from its financial statements. Those projects had fiscal year 2010 costs totaling \$365 million. Of that

amount, Department records did not accurately reflect the status of one project with \$197 million in costs.

- In fiscal year 2010, TxPABST issued \$1 billion in bonds. With the issuance of those bonds, TxPABST generated assets and liabilities requiring financial statement reporting. Although TxPABST is a separate legal entity and the bonds it issued are not legal obligations of the State, TxPABST meets governmental accounting and financial reporting conditions for being categorized as a blended component unit. The Department planned to disclose the TxPABST bond activity in a note to its financial statements. However, that plan was not in compliance with a GASB requirement to include TxPABST information in the Department's financial statements as part of the primary government. The Department correctly reported TxPABST as a component unit after auditors brought this matter to its attention.

The Department did not perform adequate research to determine the correct manner in which to record TxPABST bond activity in its financial statements.

Without a process to ensure that it reports all financial information accurately, the Department increases the risk that it would be unable to prevent or detect a potentially material misstatement in its financial statements.

Recommendations

The Department should:

- Implement controls to ensure that it accurately discloses all pass-through toll roads in its financial statements.
- Be proactive in determining the financial effects of new financing and, at a minimum, do the following:
 - Research appropriate reporting requirements for new operations and activities prior to implementation of those operations.
 - Document its accounting methodology decisions.
- Require that its staff obtain a minimum level of annual continuing education that covers current accounting topics.

Management's Response

The Department agrees improvements need to be implemented for capturing and reporting of completed pass-through toll roads. In addition, the Department will continue to research and confer with the Comptroller's

Office and the Governmental Accounting Standards Board (GASB) on the proper accounting treatment of pass-through toll roads. As of the report date, the GASB has not provided specific guidance on the treatment of construction costs incurred under pass-through toll agreements prior to acceptance of the project by the Department. For consistency of reported financial information between the State's Consolidated Annual Financial Report and the Department's Annual Financial Report, the Department aligned its treatment of construction cost incurred with that of the Comptroller's Office.

The Department agrees with recommendations for determining the financial effects of new financing.

Implementation Date: August 2011

Responsible Person: Finance Division Director

Issue 2

The Department of Transportation Should Establish a Process to Accurately Account for Bridges

Reference No. 11-555-06
(Prior Audit Issue 10-555-10)

Type of finding: Significant Deficiency

The Department should improve its processes to ensure that it records accurate information for all completed bridges in its financial records in a timely manner.

Department records for fiscal year 2010 reflected 8,761 bridges with a value of \$18.8 billion (including 266 bridge additions or improvements with a value of \$713.1 million).

The Department requires its district offices to provide a certification to the Department's finance division for bridges that are placed in service in the district each fiscal year. The finance division relies on those certifications to identify and calculate the value of the bridges. However, the certification process does not always provide accurate and complete information, and the Department continually identifies bridges that were not accounted for in the fiscal year they came into service. For example, in fiscal year 2010, 14 district offices reported 89 bridges valued at \$174.4 million that were in service prior to fiscal year 2010.

The Department relies on reconciling its Bridge Inventory, Inspection, and Appraisal Program database to its bridge database to ensure that it records information for all completed bridges in its financial records. The reconciliation identifies bridges for which information in the financial records

must be updated. However, at the end of fiscal year 2010, the reconciliation process did not cover all bridges placed in service during the fiscal year. For example, one bridge valued at \$1.2 million was placed in service in fiscal year 2009, but information for that bridge was not recorded in the Department's financial records until fiscal year 2011.

In addition, auditors identified the following errors in the Department's bridge database:

- For 2 (6.1 percent) of 33 bridges tested, information in the bridge database was incorrect. These errors led the Department to overstate its fiscal year 2010 capital assets depreciable by \$2.3 million.
- For 5 (15.2 percent) of 33 bridges tested, the amount of depreciation was incorrect in the bridge database. These errors led the Department to understate accumulated depreciation by \$1.9 million.

The Department also does not formally document or track ownership for (1) bridges it builds and (2) bridges whose ownership is transferred to or maintained by the Department. Without documentation or a method to track ownership, the Department could account for bridges incorrectly in its financial statements.

Recommendations

The Department should:

- Ensure that it properly records and reports bridge values and associated depreciation.
- Record and report all completed bridges in the fiscal year in which they are open to service.
- Implement controls to ensure that district offices report all required bridge information to the finance division.
- Establish controls to ensure that it records accurate information concerning bridge ownership.

Management's Response

The Department agrees and continues to evaluate and modify controls for the accounting and reporting of bridges. The Department has seen noticeable improvement from prior years in this area. As noted in the Report, controls implemented in fiscal year 2010 allowed the Department to detect and correct \$174 million in bridge errors prior to the submission of financials. As a result these bridges were properly and accurately reported as of August 31, 2010 to

the Comptroller's Office. The Department will continue to modify controls to ensure remaining errors noted are detected and corrected in a timely manner.

The Department will evaluate the use of available documentation in its processes to account for bridges. The Department acquires and maintains fee title deeds or right of way easements for all land (right-of-way) it owns. For any improvements made upon right-of-way owned by the Department, such as bridges, the land deed or easement rights will include and support ownership of all permanent improvements constructed or located thereon. All bridges built by the Department are upon right-of-way real property interests owned by the Department. The Department also maintains agreements with entities from which bridges have been transferred.

Implementation Date: August 2011

Person Responsible: Finance Division Director

Issue 3

The Department of Transportation Should Strengthen Its Management of System Access and Password Requirements

Reference No. 11-555-07
(Prior Audit Issue 10-555-11)

Type of finding: Significant Deficiency

To protect the integrity of its information resources, the Department should ensure that it properly manages access to certain automated systems and that user passwords settings are sufficient.

The Department should strengthen its management of system access.

In fiscal year 2010, the Department did not regularly update access rights to its automated systems and it did not properly restrict user access. Removing users' access to automated systems immediately upon termination of employment or change in job function helps to ensure information resources are protected against unauthorized access, disclosure, modification, or destruction. It also helps to ensure the availability, integrity, authenticity, and confidentiality of information. Auditors identified the following:

- 7 (23.3 percent) of 30 users tested had inappropriate update access rights to the Construction and Maintenance Contracting System (CMCS) based on their job duties. CMCS is the Department's system of record for routine maintenance contracts.
- 215 (29.8 percent) of 722 active user accounts for the Department's Web-based Revenue Logging System (also referred to as the DLOG) were not removed upon termination of the users' employment. When auditors brought this to the Department's attention, it removed these users' access.

The DLOG is used to log cash collection activity at the Department's various locations statewide.

- 3 (9.1 percent) of 33 users with access to the Department's client server-based Revenue Logging System were not current employees or other authorized personnel of the Department; the Department did not remove these users' access when they transferred to another state agency. When auditors brought this to the Department's attention, it removed these users' access. The Revenue Logging System is the internal system the Department's finance division's uses to record cash collection activity in the Uniform Statewide Accounting System (USAS) and its Financial Information Management System (FIMS).
- 5 (3.5 percent) of 144 users of the Uniform Statewide Payroll/Personnel System (USPS) had inappropriate access rights to the system based on their job functions. Additionally, 2 (1.4 percent) of 144 users were inappropriately given access to multiple USPS profiles, which is prohibited by the USPS access criteria. When auditors brought this to the Department's attention it removed these users' access. USPS is the system of record for the Department's salary and labor distributions.

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, utility authenticity, and confidentiality of information. Access to state information resources shall 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.

- 3 (37.5 percent) of 8 users with access to the test environment for the Department's Materials and Supplies Management System (MSMS) had inappropriate access based on their job functions. Auditors also identified one user for whom the Department did not remove access when that user transferred to another state agency. When auditors brought these issues to the Department's attention, it removed the inappropriate access. MSMS is the Department's system of record for materials and supplies purchases.

According to the Department's *Information Security Manual* dated March 2010, "when a user's employment status or job functions change, a user's access authorization must be removed or modified appropriately and immediately." The manual also states that "system and administrative rights must be restricted to persons responsible for system administrative management or security" and that "there should be separation between the production, development, and test environments when resources permit."

The Texas Administrative Code also requires agencies to take measures to protect data from authorized access, disclosure, modification, or destruction, whether accidental or deliberate (see text box for additional details).

The Department should develop or update user access criteria for certain systems and regularly review that criteria.

The Department's user access criteria for CMCS and USPS were not current or did not accurately reflect the actual criteria the Department uses. Additionally, the Department does not have user access criteria for its Revenue Logging System.

Developing and regularly reviewing access criteria helps reduce the risk of unauthorized access, disclosure, modification, or destruction of its information resources.

According to the Department's *Information Security Manual* dated March 2010, access criteria must be developed for any system or application. Access criteria define:

- Levels of access to the system and/or application.
- Who can have each level of access to the system and/or application.
- The capabilities of each level of access.
- The resources needed for each level of access.

Furthermore, the *Information Security Manual* states that "access will be reviewed on an annual basis by the Technology Services Division (TSD) Information Security Services (ISS) containing the office of primary responsibility and making any pertinent changes and/or modifications." Additionally, the Texas Administrative Code states that "state agencies shall ensure adequate controls and separation of duties for tasks that are susceptible to fraudulent or other unauthorized activity."

The Department should strengthen SiteManager and ROWIS password settings.

As of August 31, 2010, the Department had not implemented a policy to ensure that its SiteManager and ROWIS automated systems were adequately protected. Specifically:

- Password settings at the application level for ROWIS do not meet the Department's *Information Security Manual* requirements because passwords are assigned and cannot be changed.
- Password settings at the database and application levels for SiteManager do not conform to *Information Security Manual* password expiration and complexity requirements.

Title1, Texas Administrative Code, Section 202.25(3)(D)

Information resources systems which use passwords shall be based on industry best practices on password usage and documented state agency risk management decisions.

To access the Department's SiteManager and ROWIS systems, users must enter a password. According to the Texas Administrative Code and the Department's *Information Security Manual*, state agencies should use unique passwords that contain both alphanumeric characters and special characters. In addition, the *Information Security Manual* states that passwords used to gain access to network entry points must be changed every 90 days. The Texas Administrative Code also specifies requirements related to passwords (see text box for additional details).

Requiring the use of passwords that include both alphanumeric and special characters; have a minimum password age, history, and length; and have a maximum number of failed password attempts helps to ensure that information resources are protected against unauthorized access, disclosure, modification, or destruction. This also helps to ensure the availability, integrity, authenticity, and confidentiality of information.

Recommendations

The Department should:

- Ensure that it manages access to state information resources in compliance with its policy and the Texas Administrative Code.
- Enforce its policy and ensure that it disables user accounts immediately upon termination or change in a user's job functions.
- Strengthen its process for review of user accounts to ensure that it manages employee and contractor access appropriately.
- Enforce its policy and ensure that it (1) develops access criteria for all systems and applications and (2) annually reviews and updates those criteria as necessary.
- Continue to implement a policy to ensure that its automated systems are adequately protected with appropriate password settings.

Management's Response

TxDOT agrees with the State Auditor's recommendations to strengthen its management of system access and password requirements.

The Department should strengthen its management of system access. In fiscal year 2010 the department moved the responsibility for many TxDOT business functions from personnel in the districts to regional personnel as a component of the regionalization effort. These changes to the business model required code level modifications to several existing TxDOT applications. A large percentage of the discrepancies identified by the State Auditor's Office

were a result of the reassignment of both business functions and employees from districts to regions. The change to business functions experienced during the regionalization effort has identified opportunities for the department to improve policy enforcement and reporting.

TxDOT has policies in place that require the following:

1. The Office of Primary Responsibility (OPR) for an application should periodically monitor compliance with application access criteria.
2. District /Division / Office /Region (DDOR) Security Administrators (SAs) should annually, in conjunction with the applicable supervisor(s), review and update users' access capabilities in local and wide area network (LAN/WAN), web, mainframe, and client-server environments, based on current job duties or management requirements and provide a summary of the annual access review to the TSD ISS branch supervisor.
3. Supervisors should participate in periodic security reviews when requested.
4. Supervisors should submit user requests to terminate access, including Internet access due to termination or transfer, to the SA immediately for processing.
5. Supervisors should annually review and update, in conjunction with the SA, each user's access capabilities in local and wide area network, web, mainframe, and client-server environments based on current job duties or management requirements.
6. Supervisors should provide SA with annual access review summaries of information security User ID reports.

The Technology Services Division (TSD) Information Security Services Branch (ISS) will put into practice the following changes to address the audit finding.

1. Modify the policy requiring OPRs to periodically monitor compliance with an application's access criteria to state that OPRs shall annually validate compliance with an application's access criteria and provide the validation to TSD's ISS branch. This modification to the policy will be included in the June 2011 update of the TxDOT Information Security Manual.
2. Implement a tracking database to identify when the following items have been reported to TSD's ISS Branch.
 - OPR application access criteria review
 - D/D/O/R SA user access review

3. *Develop and provide an annual report to the TxDOT Information Security Officer (ISO) documenting any missing SA or OPR reviews. The ISO will communicate any deficiencies to the appropriate D/D/O/R director for immediate resolution.*

The Department should develop or update user access criteria for certain systems and regularly review that criteria.

TxDOT has policies in place that require an access criteria be developed for any new system and/or application prior to production implementation.

TxDOT policy also states that an OPR must review and verify access controls at least annually and recommend revisions where appropriate.

TSD will implement the following process improvements to ensure access criteria are properly developed and maintained:

- *The TSD Data and Quality Management / Configuration Management (DAQ/CM) branch will not perform a new application move to production until an access criteria has been developed and published on the TSD Crossroads site.*
- *Prior to performing an existing application enhancement move to production, the TSD DAQ/CM branch will verify) that the application access criteria on Crossroads has been reviewed or updated within the last year.*

The Department should strengthen SiteManager and ROWIS password settings.

The Construction Division (CST) requested an enhancement to the SiteManager application to support compliance with the department's password policies. TSD has completed the application modifications. The updated SiteManager application is scheduled for production release in March 2011.

TSD has discussed the criticality of the need to address ROWIS password settings with Right of Way Division (ROW) personnel. Following these discussions, ROW has committed to immediately submit an Information Resource Request (IRR) to TSD to request the identification and implementation of a technical solution to ensure the ROWIS application complies with the department's password policies. TSD staff will analyze the system and recommend one or more technical solutions to ROW staff to determine which technical solution best meets ROWIS business requirements.

Implementation Dates: The initial analysis by TSD staff to determine solution alternatives will be completed by the end of February 2011. Programming and implementation of the selected solution will begin in early March 2011.

Responsible Person: Technology and Services Division Director

The Office of the Comptroller of Public Accounts Should Strengthen Information Security Controls

Issue 1

The Office of the Comptroller of Public Accounts Should Strengthen Access Controls for Treasury Division Automated Systems

Reference No. 11-555-08
(Prior Audit Issues 10-555-15, 09-555-02, and 08-555-01)

Type of finding: Significant Deficiency

Since April 2008, the State Auditor's Office has reported that the Office of the Comptroller of Public Accounts (Comptroller's Office) has allowed internal system program developers to have access to production data for its Treasury Division's automated systems.³

The Comptroller's Office allows two internal system program developers to have access to production data for the Treasury Division's automated systems. These systems were developed using a programming language that has limited security options. After auditors brought this issue to the Comptroller's Office's attention during the audit of fiscal year 2007, the Treasury Division reduced the number of program developers who had this access from 15 to 2. The Treasury Division is in the process of replacing its automated systems with another application that can be implemented with more advanced security features. It also has strengthened controls over access to its automated systems.

**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 shall 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 shall 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, data corruption, potential service disruption, and loss of state revenue. Because the Treasury Division processes billions of dollars in revenue, the loss of even a single day's interest due to data manipulation or destruction would affect state revenue. However, nothing came to auditors' attention to indicate that automated systems had been compromised.

³ See *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2009*, State Auditor's Office Report No. 10-555, March 2010; *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2008*, State Auditor's Office Report No. 09-555, April 2009; and *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2007*, State Auditor's Office Report No. 08-555, April 2008.

Recommendations

The Comptroller's Office should:

- Continue to monitor end user and developer access to Treasury Division automated systems to ensure that short-term compensating controls effectively promote proper segregation of duties.
- Ensure that the security features of the planned new application enable the Treasury Division to properly manage end user and developer access.

Management's Response

The Treasury Operations Division agrees to continue to monitor end user and developer access to our automated systems to ensure that the short-term compensating controls effectively address proper segregation of duties. After auditors brought this issue to our attention during the fiscal year 2007 statewide financial audit, we implemented a new security access process using the agency's Help Desk ticket system. The ticket system now requires multiple levels of approval before access is granted to files and automated systems. The user or developer requesting access must first obtain approval through their designated security coordinator, and then obtain approval through Treasury Operations Division's designated security coordinator before staff or developer access is granted. The process is monitored and approved at several checkpoints throughout the process.

As noted in the finding the Treasury Operations Division is in the process of replacing our legacy systems with a new software solution. During this project we agree to ensure that the security features of the new system will allow for us to properly manage end user and developer access.

Implementation Date: August 31, 2011

Responsible Person: Director, Treasury Operations

Issue 2

The Office of the Comptroller of Public Accounts Should Strengthen Password Requirements

Reference No. 11-555-09

Type of finding: Significant Deficiency

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

Information resources systems which use passwords shall be based on industry best practices on password usage and documented state agency risk management decisions.

The Comptroller's Office did not program its access management system to comply with password requirements in the Texas Administrative Code (see text box). This access management system was implemented in fiscal year 2005. The Comptroller's Office adopted internal password management policies that are designed to comply with the Texas Administrative Code's requirements for password management; however, it had not implemented those policies at the time of this audit.

Password rules that meet industry best practices are important to prevent security breaches and unauthorized access to the information systems managed by the access management system. Unauthorized access to information systems causes the data in that information system to be at risk of inappropriate disclosure, corruption, and deletion. Auditors did not identify any instances of unauthorized access or loss of data integrity as a result of tests performed during the audit.

Due to the nature of this issue, auditors communicated other details regarding this issue in writing directly to the Comptroller's Office.

Recommendation

The Comptroller's Office should ensure that the password requirements over its access management information system comply with its policies and the Texas Administrative Code.

Management's Response

Testing is in progress on the newly modified password requirements for the Treasury Access Management System to ensure that they comply with policies and the Texas Administrative Code. The new password requirements will be in production this month.

Implementation Date: February 28, 2011

Responsible Person: Software Development Manager

The Texas Workforce Commission Should Strengthen Access Controls

Issue 1

The Texas Workforce Commission Should Regularly Update and Restrict User Access Rights to Screens in the Tax System

Reference No. 11-555-10

Type of finding: Significant Deficiency

According to the Texas Workforce Commission's (Commission) *Information Security Standards and Guidelines Manual*, section SG2.9, "Custodians or other designated staff are responsible for modifying, disabling or deleting the accounts of individuals who change roles within [the Texas Workforce Commission] TWC or are separated from their relationship with TWC" and "must have a documented process for periodically reviewing existing accounts for approved access."

In fiscal year 2010, the Commission's Tax Department did not regularly update access rights to a screen in the Commission's Tax System. Specifically, 7 (20.0 percent) of 35 of users tested who had access to the adjustment entry screen in the Tax System did not require that access to perform their job functions. These users had the ability to enter and edit transactions. After auditors brought this issue to the Commission's attention, the Commission removed these users' access rights.

The Commission tracks and reviews user transactions to ensure that only appropriate financial transactions are entered. In addition, the Commission performs periodic reviews to identify inactive users, duplicated accounts, and access violations. However, its periodic reviews do not ensure that users have continued appropriate access to the Tax System according to users' job functions. Granting improper access rights increases the risk of fraud and inappropriate financial transactions not being detected.

Recommendations

The Commission should:

- Restrict users' access rights to only what is needed to perform their job functions.
- Remove or modify users' access appropriately and immediately upon a change in their job functions.
- Develop and document a process for performing periodic reviews of user access to the Tax System screens.

Management's Response

Management agrees with the recommendations. The Commission has taken the following actions:

- *Reviewed all Tax Department users with transaction entry and edit access authorizations for appropriate RACF authority and determined these users have access rights to only what is needed to perform their job functions;*
- *Implemented procedures to remove or modify users' access appropriately and immediately upon a change in their job function; and*
- *Developed and documented written procedures that will ensure the performance of periodic reviews of user access to the Tax system and identify inactive users, duplicated accounts, and access violations.*

In addition, the Commission will provide training for applicable employees on the procedures cited above.

Implementation Date: March 31, 2011

Responsible Person: Deputy Director, Unemployment Insurance Division

The University of Texas at Austin Should Strengthen Certain Aspects of Its Information Technology Operations

Issue 1

The University of Texas at Austin Should Strengthen its Management of System Access

Reference No. 11-555-11

Type of finding: Significant Deficiency

The University of Texas at Austin (University) did not promptly remove access to its accounting system for employees and affiliates who separated from the University. A total of 163 employees and affiliates still had access to the accounting system after they separated from the University. Four (2.5 percent) of the 163 employees and affiliates logged into the accounting system after their separation dates. However, auditors did not identify any inappropriate activity by those users.

The University's policy, *Managing Information Resources at The University of Texas at Austin*, states that user accounts of individuals who have had their status, roles, or affiliations with the University changed must be updated to reflect their current status. Additionally, accounts must be reviewed at least annually to ensure their current status is correct.

Title 1, Texas Administrative Code, Section 202.70(2), requires higher education institutions to take measures to protect data from unauthorized access, disclosure, modification, or destruction, whether accidental or deliberate. Title 1, Texas Administrative Code, Section 202.75(3)(B), requires a user's access to be removed when the user's employment status changes.

Monitoring and modifying system access as required reduces the risk of fraud, data corruption, and potential service disruption.

Recommendations

The University should:

- Manage access to state information resources in compliance with its policy and the Texas Administrative Code.
- Disable user accounts immediately upon termination of a user's employment.
- Strengthen its process for review of user accounts to ensure that it manages employee and affiliate access appropriately.

Management's Response

We agree with the principle that access to and updating of protected University information should be limited to those affiliated with the University as employees or those specifically designated as Affiliated via our central tracking system. We plan to strengthen our access controls in three phases, which are scheduled for completion by December, 2011. The three phases include:

1. Various reports will be developed and deployed that enable electronic office managers and delegates (who manage access for individuals) to review access to the financial systems. These reports will also be helpful to office managers and delegates during their required quarterly review of access. (Implemented).

2. A new nightly process will be implemented which will remove any individual who is not affiliated with the University from DEFINE, thus removing their access to financial applications. Those affiliated with the University include employees and those specifically designated as University Affiliates in Human Resource Management System (HRMS). This phase will allow user accounts to be disabled automatically immediately upon termination of employment or affiliation. (April 2011)

3. All core financial systems that do not currently have an active affiliation check in them (due to their previous reliance on these individuals being removed from having access) will have this check added before the end of 2011. (December 2011)

The changes described above, in conjunction with the quarterly review by all electronic office managers and delegates of their access settings for individuals, will address all three audit recommendations:-

- *Manage access to state information resources in compliance with its policy and the Texas Administrative Code*
- *Disable user accounts immediately upon termination of a user's employment*
- *Strengthen its process for review of user accounts to ensure that it manages employee and affiliate access appropriately*

Implementation Date: December 2011

Responsible Person: Associate Director, Office of the Controller

Issue 2

The University of Texas at Austin Should Comply with the Texas Administrative Code Password Standards

Reference No. 11-555-12

Type of finding: Significant Deficiency

The University did not consistently follow the requirements of Title 1, Texas Administrative Code, Section 202.75(3)(D), which requires information systems to use passwords based on industry best practices on password usage and to document risk management decisions.

Industry best practices, including those established by Microsoft Corporation, recommend that passwords be routinely changed or expire every 30 to 90 days. The University's policy does not require users to change passwords that often; instead, the policy recommends that users change passwords every six months. Texas higher education institutions can choose to establish different guidelines based on their needs, but they should document risk management decisions and detail the discussions and acceptance of the risk associated with departing from generally accepted best practices. The University was unable to provide such documentation.

Recommendation

The University should review its current password policies and align them with industry best practices and the Texas Administrative Code, or it should document its risk management decisions and its acceptance of the risk associated with departing from industry best practices and the Texas Administrative Code.

Management's Response

The University concurs that it should consistently follow the requirements of Title 1, Texas Administrative Code, Section 202.75(3)(D) password standards which requires that its practices with respect to password usage be based on industry best practices. Determining what is in fact "industry best practices" involves judgement and is ever changing. Management believes that our procedures follow best practices guidelines based on research from a variety of sources including the National Institute of Standards and Technology, SANS Institute, security guru Bruce Schneier, and peer institutions. University adherence to high standards related to password security is documented in a 2010 survey of the 10 largest universities by enrollement (Ohio State, Florida, Arizona State, Penn State, Minnesota, Michigan State, Texas A&M) and the ten universities with the highest rated computer science departments (UC Berkeley, Illinois Urbana-Champaign, MIT, CMU, Stanford,

Georgia Tech, Washington). This documentation will be provided to the State Auditor's Office.

Management has approved this strategy, as evident by this response and by the University's published password policy, which of itself is also documentation of risk management decisions.

In addition, we will provide a signed document to demonstrate documentation of management's risk management decisions.

Implementation Date: February 28, 2011

Responsible Person: Chief Financial Officer

The University of Texas Medical Branch at Galveston Should Strengthen Certain Aspects of Its Financial and Information Technology Operations

Issue 1

The University of Texas Medical Branch at Galveston Should Strengthen Its Documentation for Capital Assets

Reference No. 11-555-13

Type of finding: Significant Deficiency

The University of Texas Medical Branch at Galveston (Medical Branch) was unable to provide documentation to support the acquisition cost for 19 (86.4 percent) of 22 equipment items that auditors tested. The Medical Branch disposed of the equipment items tested in fiscal year 2010. The Office of the Comptroller of Public Accounts' *State Property Accounting Process User's Guide* and the Library and Archives Commission's *Texas State Records Retention Schedule* require capital asset records to be maintained for three years after the disposal of assets. Not maintaining these records for required time periods could impair the Medical Branch's ability to substantiate the value of assets or to demonstrate that it owned an asset that was stolen or destroyed.

Recommendation

The Medical Branch should maintain capital asset records in accordance with the minimum required retention periods established in the *State Property Accounting Process User's Guide* and the *Texas State Records Retention Schedule*.

Management's Response

UTMB Asset Management will work with both the Purchasing and the Accounts Payable departments to ensure appropriate documentation is maintained for capital asset purchases on a go forward basis in accordance with the minimum required retention periods established in the State Property Accounting Process Users Guide the Texas State Records Retention Schedule.

Implementation Date: September 1, 2011

Responsible Persons: Finance Manager, General Accounting and Asset Management and Finance Manager, Accounts Payable.

Issue 2

The University of Texas Medical Branch at Galveston Should Strengthen Management of User Access to Internal and State Systems

Reference No. 11-555-14

Type of finding: Significant Deficiency

The Medical Branch did not appropriately manage user access to internal and state systems to ensure that access levels were appropriate for a user's job responsibilities, that it removed terminated employees' access, that there was proper segregation of duties, or that access was restricted to an appropriate number of users. Specifically:

- Although the Medical Branch reviews access to state systems semi-annually, auditors identified inappropriate access to the State Property Accounting System (SPA) and the Uniform Statewide Accounting System. Specifically, 3 (33.3 percent) of 9 SPA users and 3 (25.0 percent) of 12 USAS users had access that was not required for them to perform their job duties.
- 2 (5.9 percent) of 34 user accounts for Invision, the hospital revenue system, were for users whose employment had been terminated.
- 13 (59.1 percent) of 22 users of Invision had access to make code changes and move those changes to the production environment. For three code changes auditors tested, two had no evidence that the changes were authorized, two had no evidence that changes were tested prior to moving the changes to the production environment, and none had evidence of proper segregation of duties between the individual who made the changes and the individual who moved those changes to the production environment.
- 2 (50.0 percent) of 4 users of the Financial Management System and Payroll System had access to make code changes and move those changes to the production environment.
- 12 approved users had access to make data changes to certain blanket approved tables within the Financial Management System and Payroll System, and those systems do not have controls to prevent or identify inappropriate changes.
- An excessive number of users—51 employees—had read and write access to the Medical Branch's annual financial report file. That file is uploaded to the University of Texas System's Financial Consolidated Reporting System.

Title 1, Texas Administrative Code, Section 202.75(3)(B), requires user access to be appropriately reviewed, managed, modified, or removed when a user's employment or job responsibilities change. Additionally, Title 1, Texas Administrative Code, Section 202.70(8), requires higher education institutions to establish adequate controls and segregation of duties for tasks that are susceptible to fraudulent or other unauthorized activity.

Users with inappropriate access to key systems and information could disclose, modify, or destruct information resources and adversely affect the availability, integrity, utility, authenticity, and confidentiality of key information.

Recommendations

The Medical Branch should:

- Periodically review user access to ensure that (1) it has established adequate controls and segregation of duties and (2) access to key systems and state information is appropriate.
- Strengthen change management controls to ensure that it can prevent unauthorized changes and to provide accountability for updates to mission-critical information and software.

Management's Response

Effective November 2010, the three State Property Accounting System users access was removed and three Uniform Statewide Accounting System users access was restricted to access needed only to perform either current job duties. Additionally, in December 2010, for the two users with access to make code changes and move those changes to the production environment in the Financial Management System and Payroll System had their programming access removed.

To address the access issues identified related to Invision, effective March 2011, a process will be established for each Trusted Requestor to routinely review users access to identify and delete access for any users whose access is inappropriate. Information Services (IS) will incorporate proper segregation of duties for staff making code changes to Invision and moving those changes to the production environment. Additionally, current IS policy states that code changes should be authorized, tested and testing documented prior to moving those changes to production. This policy will be reinforced with IS staff immediately.

To address the issues identified related to twelve approved users having access to make data changes to certain blanket approved tables within FMS and the Payroll System, UTMB will review user access to ensure we have

established adequate controls and segregation of duties and that access is limited to the appropriate current personnel. Additionally, we will also review our change management controls to ensure prevention of unauthorized changes and provide accountability for updates to mission-critical information and software.

Finally, access to the annual financial report file that is uploaded to the University of Texas System's Financial Consolidated Reporting System will be limited.

Responsible Persons:

Invision: Associate Vice-President, Information Services and Director, Clinical Information Services

FMS and Payroll Systems: Director of Administrative Information, Information Services

UT System Financial Consolidated Reporting System: Director of Financial Reporting

Implementation Dates:

Invision: May 31, 2011

FMS and Payroll Systems: March 31, 2011

UT System Financial Consolidated Reporting System: October 2011

The University of Texas Southwestern Medical Center at Dallas Should Strengthen Certain Aspects of Its Information Technology Operations

Issue 1

The University of Texas Southwestern Medical Center at Dallas Should Strengthen Management of User Access to Internal and State Systems

Reference No. 11-555-15
(Prior Audit Issue 10-555-24)

Type of finding: Significant Deficiency

The University of Texas Southwestern Medical Center at Dallas (Medical Center) did not appropriately manage user access to internal and state systems to ensure that it removed terminated employees' or contractors' access, that access levels were appropriate for each user's job responsibilities, or that there was proper segregation of duties. The Medical Center did not review user access to its information systems during fiscal year 2010. Auditors identified the following:

- 125 (8.4 percent) of 1,495 user accounts to the internal patient account system, Siemens, were for terminated employees, contractors, or users who could not be identified. A total of 13 (10.4 percent) of those 125 user accounts also had current access to the network.
- 41 (2.7 percent) of 1,495 Siemens user accounts had access to (1) override prices in the Charge Description Master within Siemens and (2) post adjustments. Access to both of these features represents a weakness in segregation of duties.
- 4 (0.3 percent) of 1,495 Siemens user accounts had inappropriate access to modify the Charge Description Master within Siemens; the job duties of the employees associated with these user accounts did not require that level of access.
- 3 (0.5 percent) of 577 current user accounts to PeopleSoft, the accounting system for the Medical Center's hospitals, were for terminated employees.
- 137 (23.7 percent) of 577 PeopleSoft user accounts had not been accessed for 6 months or more or had never been accessed. Those user accounts also were not locked. A total of 80 (58.4 percent) of those 137 accounts had not been accessed for 6 months or more. A total of 57 (41.6 percent) of those 137 user accounts had never been accessed.
- 3 (30.0 percent) of 10 employees had inappropriate access to screens within the Uniform Statewide Accounting System (USAS) based on their job duties.

- 8 (1.9 percent) of 427 current user accounts for the overall accounting system, the Online Administrative System (OAS), were for terminated employees or contractors.
- One programmer had inappropriate super-user access to OAS, which allowed the programmer to make code changes and then migrate those changes to the production environment.
- Two users had access to all functions in the inventory system, IVIN, including entering data and overriding audit reports. Having full access to that system represents a weakness in segregation of duties and increases the risk that an individual could modify or delete information without any record of the change being properly recorded.

Title 1, Texas Administrative Code, Section 202.75(3)(B), requires user access to be appropriately reviewed, managed, modified, or removed when a user's employment or job responsibilities change. Additionally, Title 1, Texas Administrative Code, Section 202.70(8), requires higher education institutions to establish adequate controls and segregation of duties for tasks that are susceptible to fraudulent or other unauthorized activity.

When users have inappropriate access to key systems and information, they could disclose, modify, or destruct information resources and adversely affect the availability, integrity, utility, authenticity, and confidentiality of key information.

Recommendation

The Medical Center should periodically review user access to ensure that (1) it has established adequate controls and segregation of duties and (2) access to key systems and state information is appropriate.

Management's Response

The Medical Center has reviewed all of the user access exceptions noted in this finding. Management has assessed the appropriateness of the access of the individual users within each of the internal or state systems identified based on the user's roles and responsibilities. Required access corrections have been identified and process or system changes are being implemented, as deemed appropriate, to strengthen the user access controls of the Medical Center.

Implementation Status: In process

Implementation Date: April 2011

Responsible Person: Vice President for Information Resources

The University of Texas Health Science Center at Houston Should Strengthen Controls Over Capital Assets

Issue 1

The University of Texas Health Science Center at Houston Should Strengthen Its Documentation for Capital Assets

Reference No. 11-555-16
(Prior Audit Issue 10-555-23)

Type of finding: Significant Deficiency

The University of Texas Health Science Center at Houston (Health Science Center) continued to have insufficient support for its capitalized asset balance because it did not have documentation for assets it purchased prior to fiscal year 2004.

Definition

Capitalized Assets - Real or personal property that has an estimated life of greater than one year and has a value equal or greater than the capitalization threshold established for that type of asset.

Capitalized assets are reported in an agency's annual financial report.

Source: *State Property Accounting Process User's Guide*, Office of the Comptroller of Public Accounts, February 2008.

The State Auditor's Office reported in March 2010⁴ that the Health Science Center was not able to locate documentation to support the beginning valuations in its asset management system for 18 (24.7 percent) of the assets tested. As a result, auditors were unable to verify the beginning valuations for those 18 assets. According to the Health Science Center's records, the value of those 18 assets totaled \$12.5 million, or 12.4 percent of the assets tested.

The Health Science Center implemented a new financial system in 2003. This made locating documentation for the 18 assets discussed above more difficult because the Health Science Center acquired each of those 18 assets prior to fiscal year 2004. Without documentation, it would be difficult for the Health Science Center to prove ownership of an asset or its valuation in the event of theft or destruction of the asset.

Recommendation

The Health Science Center should develop and implement a process to enable it to more easily locate documentation for capitalized assets it acquired prior to fiscal year 2004.

Management's Response

UTH-Houston has now isolated within the university content management repository (Documentum) a separate file folder for real properly asset information. A file folder for each fiscal year will contain the details for the real properly additions. The documents in the file folder will include

⁴ See *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009*, State Auditor's Office Report No. 10-555, March 2010.

references to voucher number, purchase order number and componentization breakdowns. Information currently being entered into Documetum for personal property acquisitions include voucher number, purchase order number, and componentization breakdowns. To the fullest extent possible, available information supporting acquisitions prior to 2004 have been aggregated in this repository.

Implementation Date: September 2011

Responsible Person: Senior Vice President, Finance and Business Services

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

Reference No. 11-555-17
(Prior Audit Issues 10-555-26 and 09-555-19)

Type of finding: Significant Deficiency

Schedule of Expenditures of Federal Awards (SEFA)

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

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

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts, July 2010.

The agencies and higher education institutions listed in Table 1 did not perform an adequate review of their fiscal year 2010 Schedules of Expenditures of Federal Awards (SEFAs) (see text box for additional information).

Because they did not perform an adequate review, the SEFAs these agencies and higher education institutions submitted to the Office of the Comptroller of Public Accounts (Comptroller’s Office) contained errors. Table 1 summarizes the errors that auditors identified in these agencies’ and higher education institutions’ fiscal year 2010 SEFAs.

The 8 agencies and 18 higher education institutions listed below reported \$21.9 billion in federal expenditures, or 38.5 percent of the total federal expenditures the State of Texas reported for fiscal year 2010. The errors listed below were not material to the fiscal year 2010 SEFA for the State of Texas or to the fiscal year 2010 Comprehensive Annual Financial Report for the State of Texas.

Table 1

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2010 SEFAs								
Agency or Higher Education Institution	Incorrect Program Clustering ^a	Incorrect Pass-through Reporting ^b	Incorrect Preparation of SEFA Using Revenues ^c	Incorrect Classification of Expenditures ^d	Incorrect Inclusion of Expenditures ^e	Incorrect Exclusion of Expenditures ^f	Errors in Notes to the SEFA ^g	Incorrect Reporting of ARRA Expenditures ^h
Department of Aging and Disability Services						X		
Department of Agriculture		X			X	X		
Department of Public Safety					X		X	

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2010 SEFAs

Agency or Higher Education Institution	Incorrect Program Clustering ^a	Incorrect Pass-through Reporting ^b	Incorrect Preparation of SEFA Using Revenues ^c	Incorrect Classification of Expenditures ^d	Incorrect Inclusion of Expenditures ^e	Incorrect Exclusion of Expenditures ^f	Errors in Notes to the SEFA ^g	Incorrect Reporting of ARRA Expenditures ^h
Department of State Health Services		X						X
Department of Transportation		X						
Higher Education Coordinating Board						X		
Parks and Wildlife Department			X					
Sam Houston State University	X			X	X	X	X	
Texas A&M University System Health Science Center					X			
Texas A&M International University			X					
Texas Education Agency	X	X						
Texas Southern University					X			
Texas State University - San Marcos							X	
The University of Texas at Arlington					X		X	
The University of Texas at Austin	X				X	X	X	
The University of Texas at Brownsville		X						

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2010 SEFAs

Agency or Higher Education Institution	Incorrect Program Clustering ^a	Incorrect Pass-through Reporting ^b	Incorrect Preparation of SEFA Using Revenues ^c	Incorrect Classification of Expenditures ^d	Incorrect Inclusion of Expenditures ^e	Incorrect Exclusion of Expenditures ^f	Errors in Notes to the SEFA ^g	Incorrect Reporting of ARRA Expenditures ^h
The University of Texas at El Paso				X			X	
The University of Texas - Pan American							X	
The University of Texas Health Science Center at Houston							X	X
The University of Texas Health Science Center at San Antonio	X							
The University of Texas M. D. Anderson Cancer Center				X				X
The University of Texas Medical Branch at Galveston	X						X	
The University of Texas Southwestern Medical Center at Dallas	X						X	
University of Houston				X				
University of Houston - Downtown				X				
University of North Texas Health Science Center at Fort Worth	X							

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2010 SEFAs

Agency or Higher Education Institution	Incorrect Program Clustering ^a	Incorrect Pass-through Reporting ^b	Incorrect Preparation of SEFA Using Revenues ^c	Incorrect Classification of Expenditures ^d	Incorrect Inclusion of Expenditures ^e	Incorrect Exclusion of Expenditures ^f	Errors in Notes to the SEFA ^g	Incorrect Reporting of ARRA Expenditures ^h
<p>^a Reported federal programs in an incorrect cluster.</p> <p>^b Incorrectly classified expenditures as direct expenditures. The expenditures should have been classified as "Pass-Through to Non-State Entities" and "Pass-Through to Agencies or Universities."</p> <p>^c Incorrectly prepared SEFA using federal revenues rather than expenditures.</p> <p>^d Incorrectly classified expenditures between federal programs.</p> <p>^e Overreported federal expenditures on its SEFA. Expenditures were reported based on the federal award year rather than the state fiscal year.</p> <p>^f Underreported federal expenditures on its SEFA.</p> <p>^g Errors were noted in the notes to the SEFAs.</p> <p>^h Incorrectly reported expenditures of funds received from the American Recovery and Reinvestment Act.</p>								

Performing an adequate review of their SEFAs and supporting documentation would help the agencies and higher education institutions ensure that the SEFA information they submit to the Comptroller's Office is accurate.

Recommendation

Agencies and higher education institutions should implement an adequate review process to ensure that the SEFA information they submit to the Comptroller's Office is accurate.

Management's Response

See Appendix 3 for management's response from each agency and higher education institution.

Federal Award Findings and Questioned Costs

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2010 was included in Chapter 2-I of this report. All other fiscal year 2010 federal award information was issued in a separate report. See *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2010*, by KPMG LLP.

Summary Schedule of Prior Audit Findings

*State of Texas Financial Portion of the
Statewide Single Audit Report for the
Year Ended August 31, 2010*

Summary Schedule of Prior Audit Findings

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

- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 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).
- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2007* (State Auditor’s Office Report No. 08-555, April 2008).
- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2008* (State Auditor’s Office Report No. 09-555, April 2009).
- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009* (State Auditor’s Office Report No. 10-555, March 2010).

The Summary Schedule of Prior Audit Findings (for the year ended August 31, 2010) has been prepared to address these responsibilities.

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

Issue 1

The Health and Human Services Commission Should Strengthen Controls over Payment Processing

Reference No. 10-555-01

Type of finding: Material Weakness

Material Weakness in Internal Control

A material weakness is an internal control weakness of such magnitude that it could potentially result in a material misstatement of the financial statements.

Source: *Governmental Accounting, Auditing, and Financial Reporting*, Stephen J. Gauthier, Government Finance Officers Association, 2005.

The Health and Human Services Commission (Commission) had inadequate controls to address risks related to system and server access, security over sensitive documentation, and physical security over computing resources. Additionally, the Commission does not review interfaced or manual payment transactions prior to releasing those transactions for payment into the Uniform Statewide Accounting System (USAS).

The payment transaction batch size for the first two weeks of August 2009 ranged from 600 to more than 22,000 transactions, with an average of more than 7,000 transactions per batch. Due to this large volume of payment transactions, there is a possibility that an error in payment could go undetected.

Auditors identified multiple issues in the payment process which, when combined, represent a material weakness. To minimize the risks associated with disclosure, auditors communicated details regarding these issues directly to the Commission.

Nothing came to the auditors' attention to indicate that the Commission had processed and made erroneous or excessive payments.

Correction Action and Management's Responses

See current year finding 11-555-01.

Issue 2

The Health and Human Services Commission Should Enhance Its Monitoring of the Vendor Drug Program

Reference No. 10-555-02
(Prior Audit Issues 09-555-08, 08-555-05, and 07-555-01)

Type of finding: Significant Deficiency

The Commission has improved its oversight of Vendor Drug Program monitoring by hiring additional staff in its monitoring unit and requiring the submission of monthly tracking reports from the field administration regional pharmacist to track monitoring activities (see text box for additional details). However, the monthly tracking reports for at least 4 months (which included 56 reports in fiscal year 2009) were inaccurate. Specifically:

Field Administration Regional Pharmacist

The Vendor Drug Program uses regional and sub-regional pharmacists to review expenditure claims submitted by the approximately 4,244 pharmacies participating in the Vendor Drug Program. The regional pharmacists submit monthly tracking reports to the field administration manager to document their monitoring activities. These reports include information such as the number of site visits completed, the number of claims reviewed, and the type of claims reviewed. Each of the 14 regions submits a monthly tracking report to the field administration regional pharmacist.

- Thirty-four (60.7 percent) of the 56 reports reviewed did not include the correct number of claims.
- Two (25.0 percent) of the 8 reports reviewed for recoupment were not reported accurately.

During fiscal year 2009, the Commission began developing policies and procedures to ensure that regional pharmacist activities and reporting are done in a consistent manner.

Correction Action and Management's Responses

Corrective action was taken.

Issue 3

The Health and Human Services Commission Should Review User Access to Two Information Systems and Ensure That Related Duties Are Properly Segregated

Reference No. 10-555-03
(Prior Audit Issues 09-555-10, 08-555-10, and 07-555-05)

Type of finding: Significant Deficiency

The Commission does not adequately manage user access to the State's accounting system (the Uniform Statewide Accounting System, or USAS) and its internal accounting system (the Health and Human Service Administrative System, or HHSAS). Specifically:

- Five users have access to sensitive financial data; can enter, edit, and delete accounting transactions; and can release any accounting transactions into USAS.

- Nine users have USAS class codes that conflict with their job duties. All nine users have access to transaction codes for accounts receivable and accounts payable and can enter, edit, and delete accounting transactions. In addition, three of these nine users can release revenue transactions into USAS. This represents a weakness in segregation of duties, which increases the risk that inappropriate financial transactions could be made without detection.
- Three users have HHSAS roles and responsibilities that conflict with their job duties. Two have security coordinator responsibilities and can also final approve payments. One has administrative privileges for the accounts payable module and can also final approve payments.

After auditors brought this matter to its attention, the Commission asserted that it had removed the ability of the eight individuals discussed above who could enter or edit and then release accounting transactions into USAS.

In fiscal year 2009, the same Commission employee both entered and released 323 documents totaling \$21,398,732 in USAS. Without mitigating controls, this increases the risk that intentional or unintentional errors could go undetected.

Correction Action and Management's Responses

Corrective action was taken.

Issue 4

The Health and Human Services Commission Should Adequately Review Its Annual Financial Report

Reference No. 10-555-04

Type of finding: Significant Deficiency

The Commission does not have an adequate review process to ensure that its

Comptroller's Office's Reporting Requirements for Annual Financial Reports of State Agencies and Universities

Annual financial reports should be submitted to the State Auditor's Office, Governor's Office, Legislative Budget Board, Legislative Reference Library, and Texas State Library.

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts, July 2009.

annual financial report is complete and is for the current reporting period before it submits that report to various oversight agencies. The required fiscal year 2009 annual financial statements submitted by the Commission to agencies (see text box) were incomplete. The financial statements did not include all annual financial report transactions. It also incorrectly included financial statements that were from fiscal year 2008 instead of fiscal year 2009.

After auditors brought these matters to the Commission's attention, the Commission resubmitted its annual financial

report with complete financial statements and for the correct reporting period.

Correction Action and Management's Responses

Corrective action was taken.

Issue 5

The Health and Human Services Commission Should Track All Accounts Receivable, Improve Collection Efforts, and Report Accounts Receivables on the Financial Statements and in the Uniform Statewide Accounting System

Reference No. 10-555-05

Type of finding: Significant Deficiency

The Commission understated non-current accounts receivable in its fiscal year 2009 financial statements and did not adequately track all accounts receivable during 2009. A Commission internal audit report noted issues related to collection efforts for delinquent accounts receivable and non-compliance with requirements of the Office of the Attorney General and the Office of the Comptroller of Public Accounts (Comptroller's Office).

Accounts Receivable Understated

The Commission is not reporting the full amount of the non-current accounts receivable arising from overpayments to Medicaid providers on its financial statements and in the Uniform Statewide Accounting System (USAS, the State's accounting system). The Commission reported \$27,658,852 in non-current accounts receivable. However, based on reports received from the Texas Medicaid and Healthcare Partnership (TMHP, see text box) and provided by Commission staff, auditors determined the total balance of non-current accounts receivable due from overpayments to Medicaid providers was \$84,666,450, resulting in an understatement on the financial statements and in USAS of \$57,007,598.

Texas Medicaid and Healthcare Partnership (TMHP)

The Texas Medicaid and Healthcare Partnership (TMHP) is a coalition of contractors that provides services to the Commission in several areas. TMHP's primary contractor is Affiliated Computer Services (ACS), which subcontracts with Health Management Systems, Inc. (HMS), Accenture, and other smaller contractors. ACS is ultimately responsible for the payments and its subcontractors' performance. TMHP's services and processing activities include:

- Provider enrollment.
- Processing claims for service.
- Services for children with special needs.
- Long-term care program.
- STAR (State of Texas Access Reform Dental and Medical, an insurance program) services.
- Prior authorization services for certain procedures.
- Primary care case management (PCCM).
- Policy development.

Internal Audit Report Findings

Additionally, the Commission's Internal Audit Division conducted a review of the accounts receivable processes for the Medicaid, Children with Special Health Care Needs (CSHCN), and Family Planning programs and issued a report on September 26, 2008. The report noted the following:

- The claims processing system at TMHP cannot recoup provider accounts receivable balances across programs using the unique identifiers specified in the contract.

- Providers may have multiple Texas Provider Identifier (TPI) numbers. This allows providers to receive payments under one identifying number while maintaining an accounts receivable balance under a different identifying number.
- TMHP makes no further collection efforts on receivables after 90 days.
- The Commission has not established a policy providing guidance to address delinquent debts and comply with related requirements of the Office of the Attorney General and the Comptroller's Office.
- The Commission does not report delinquent providers to the Office of the Attorney General for further collection efforts or to the Comptroller's Office for placement on vendor hold.
- Neither the Commission nor TMHP compares vendors to the vendor hold lists available from the Comptroller's Office before payments are made. Reviewing the vendor hold lists can identify vendors with outstanding liabilities to the State. These liabilities can be recovered through withholding future claims payments.

Accounts Receivable Tracking

Medicaid Upper Payment Limit

The Medicaid Upper Payment Limit requires that the Medicaid agency find that the estimated average proposed payment rate is reasonably expected to pay no more in the aggregate for inpatient hospital services or long-term care facility services than the amount that the agency reasonably estimates would be paid for the services under the Medicare principles of reimbursement.

Source: Title 42, Code of Federal Regulations, Section 447.253 (b)(2).

The Commission also does not ensure that it records overpayments to hospital districts participating in the Urban Hospital Upper Payment Limit (UPL) program as accounts receivable. The Commission makes UPL payments to urban hospitals on a quarterly basis, and these payments are based in part on previous year UPL payments. Due to the amount of time allowed to finalize Medicaid claims, the Commission is not able to determine whether an urban hospital is overpaid or underpaid for a year after the payments have been made. Without setting up the overpayments to urban hospitals, the Commission has to rely on program staff to track the amount of the overpayments, and the Commission's Fiscal Management unit is unaware of the amount of accounts receivable that the Commission needs to collect.

Correction Action and Management's Responses

See current year finding 11-555-03.

Issue 6

The Health and Human Services Commission Should Disclose the Contingent Financial Liability Associated with the Open Investigations of its Office of Inspector General

Reference No. 10-555-06
(Prior Audit Issues 09-555-11 and 08-555-09)

Type of finding: Significant Deficiency

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 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*, Office of the Comptroller of Public Accounts, July 2009.

The Commission does not adequately track its Office of Inspector General's open investigations to determine related dollar amounts paid to providers and recipients for these cases.

As of August 31, 2009, the Commission's list of active open investigation cases included 5,301 cases. The Commission did not analyze these cases to determine whether it should report them in its annual financial report as contingent liabilities. This resulted in the Commission not reporting a contingent liability in its annual financial report for fiscal year 2009. After auditors brought this to the Commission's attention, the Commission provided a contingent liability note to the Comptroller's Office for inclusion in the State's Comprehensive Annual Financial Report for fiscal year 2009.

The Comptroller's Office 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).

Correction Action and Management's Responses

Corrective action was taken.

Issue 7

The Health and Human Services Commission Should Evaluate the Need to Accrue Expenditures

Reference No. 10-555-07
(Prior Audit Issue 09-555-12)

Type of finding: Significant Deficiency

The Commission did not evaluate the need for a potential accrual of \$13.2 million in expenditures with a fiscal year 2009 service date related to the Supplemental Nutrition Assistance Program (SNAP, formerly known as the

Food Stamp Program), which it oversees. Delays in eligibility processing for SNAP were well publicized, and Commission accounting staff did not work with program staff to quantify any potential financial statement impact. Once approved, benefits for SNAP begin from the date the applicant submitted his or her application.

In fiscal year 2009, the Commission partially implemented a prior State Auditor's Office recommendation to accrue necessary expenditures by recording an accrual related to the Medicaid Upper Payment Limit Program.

According to the Comptroller's Office's *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, expenditures should be recognized as soon as a liability is incurred, regardless of the timing of related cash flows.

Correction Action and Management's Responses

Corrective action was taken.

Issue 8

The Health and Human Services Commission Should Fully Document Policies and Procedures for Two Key Accounting Functions

Reference No. 10-555-08
(Prior Audit Issues 09-555-09, 08-555-08, 07-555-04, and 06-555-09)

Type of finding: Significant Deficiency

The Commission has continued to operate two key accounting functions since fiscal year 2005 without finalized, approved policies and procedures. These key accounting functions are related to the recording of public assistance payments. Specifically, the Commission did not have finalized and approved 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 key functions during fiscal year 2008; however, the draft policies and procedures were not finalized and approved until fiscal year 2010. The Commission has documented many of its other key accounting functions and has trained backup personnel to perform those functions.

Having finalized and approved 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.

Correction Action and Management's Responses

Corrective action was taken.

Issue 9

The Health and Human Services Commission Should Strengthen Password Requirements for its Premium Payable System

Reference No. 10-555-09
(Prior Audit Issue 09-555-13)

Type of finding: Significant Deficiency

Auditors reviewed the Commission's Premium Payable System (PPS) during the audit of fiscal year 2008 and identified certain control weaknesses. The version of the system in use at that time and until July 2009 has been retired. Auditors were unable to confirm the condition of the prior system; therefore, the issues from fiscal year 2008 are repeated below, with the current condition as asserted by the Commission.

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

Each user of information resources shall be assigned a unique identifier except for situations where risk analysis demonstrates no need for individual accountability of users. User identification shall be authenticated before the information resources system may grant that user access.

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

Information resources systems which use passwords shall be based on industry best practices on password usage and documented state agency security risk management decisions.

The Commission should ensure that password requirements for its PPS comply with the Texas Administrative Code (see text box). Passwords for this system are not required to have a minimum length, and there is no system-enforced requirement to change passwords at regular intervals. The PPS also did not maintain a history of passwords to prevent reuse of recent passwords.

In the audit of fiscal year 2008, 7 (63.6 percent) of the 11 user accounts on the PPS online application were generic accounts. Use of generic user accounts, particularly in light of the password issues discussed above, prevents accountability for user actions and places the Commission's data at risk of unauthorized changes.

To mitigate the risks associated with weaknesses in passwords, the Commission asserted that it removed the user access accounts from PPS and that certain tasks previously performed through the PPS were accomplished by pulling the requested information directly from the data tables. However, the Commission did not do this until July 2009. The Commission also asserted that it has updated the PPS with a new system that has up-to-date security. However, the update occurred in August 2009 and, therefore, was not in place for the calculation of premium payments for fiscal year 2009.

Correction Action and Management's Responses

See current year finding 11-555-04.

Chapter 4-B

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

Issue 1

The Department Of Transportation Should Establish a Process to Accurately Account for Bridges

Reference No. 10-555-10

Material Weakness in Internal Control

A material weakness is an internal control weakness of such magnitude that it could potentially result in a material misstatement of the financial statements.

Source: *Governmental Accounting, Auditing, and Financial Reporting*, Stephen J. Gauthier, Government Finance Officers Association, 2005.

Type of finding: Material Weakness

The Department of Transportation (Department) did not have a process to capture all completed bridges in its financial records. In addition, when reporting bridge costs, the Department used multiple cost estimation methodologies, rather than using actual historical costs as required by generally accepted accounting principles and the Office of the Comptroller of Public Accounts (Comptroller's Office). These issues represent a material weakness in the Department's internal controls (see text box for more information).

Lack of a Process to Capture All Bridges in the Financial Records

The Department did not have a formal process to capture information regarding all completed bridges. As a result, the Department understated Capital Assets Depreciable by approximately \$669.7 million⁵ in its fiscal year 2009 financial statements. Specifically:

- The Department incorrectly omitted at least 378 bridges from Capital Assets Depreciable. The bridges were completed between 1970 and 2009 and had a total estimated value of approximately \$670.9 million. Individually, the bridges ranged in value from approximately \$0.5 million to approximately \$20.0 million.
- The Department incorrectly included two bridges in Capital Assets Depreciable. The two bridges, valued at approximately \$1.2 million, are owned by the Central Texas Turnpike System and not by the Department.

⁵ Dollar amounts in Issue 1 are based on the Department's estimated amounts because the Department did not maintain information on actual amounts for individual bridges. The Department used multiple methodologies to estimate bridge costs.

The errors noted above resulted in the following inaccuracies in the Department's fiscal year 2009 financial statements:

- Capital Assets Depreciable was understated by approximately \$669.7 million and Capital Assets Nondepreciable was overstated by the same amount.
- Accumulated Depreciation was understated by approximately \$193.3 million.
- Depreciation Expense was understated by approximately \$25.0 million.

While the Department's Finance Division relies on the district and area offices to notify it when a bridge is complete, there is no formal process or documented procedure to ensure that this notification occurs. Additionally, the Finance Division does not have a process to determine whether the information it receives is complete. In fiscal year 2009, there were 25 district offices and 106 area offices across the state.

Use of Estimated Costs, Rather Than Historical Costs, for Bridges

- In its fiscal year 2009 financial statements, the Department reported estimated costs for its bridges, rather than actual historical costs as required by generally accepted accounting principles and the Comptroller's Office's *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*. Additionally, the Department used multiple methodologies to estimate bridge costs, and it had not used those methodologies consistently.
 - For bridges completed in or prior to fiscal year 2001, the Department based the estimated cost on the square footage of the bridge. For bridges completed after fiscal year 2001, the Department estimated the value by adjusting the original estimated cost. (See text box for details on the Department's cost estimation methodologies.) If the historical cost is not used to value the individual bridge, the value of the bridge could be misstated.
 - The Department's current policy requires district offices to report bridge values when a bridge is open for traffic using the formulas and percentages in effect for the current year, regardless of when the bridges were completed. However, the district offices do not always report a bridge's value in the same year in which a bridge was open for traffic. As a result, if a bridge was completed in fiscal year 2002 and not reported until fiscal year 2009 for example, the district office would use the formulas and percentages in effect for fiscal year 2009 to value the bridge.

The Department's Bridge Cost Estimation Methodologies

Square Footage Methodology: Under this methodology, the Department estimates a bridge's costs by multiplying the average price per structure type by the square footage of the bridge.

Adjustment to Original Estimate Methodology: Under this methodology, the Department estimates a bridge's costs by using the estimated structure cost along with percentages from formulas for construction costs, preliminary engineering costs, and construction engineering costs.

After auditors brought this matter to the Department's attention, the Department provided necessary adjustments to the Comptroller's Office to ensure that, in the State's Comprehensive Annual Financial Report, (1) the estimated value of the bridges initially recorded as non-depreciable was reported correctly as Capital Assets Depreciable and (2) the estimated adjusted depreciation expense and accumulated depreciation were reported correctly.

Correction Action and Management's Responses

See current year finding 11-555-06.

Issue 2

The Department of Transportation Should Strengthen System Access Controls and Password Requirements

Reference No. 10-555-11
(Prior Audit Issue 09-555-06)

Type of finding: Significant Deficiency

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

The Department should regularly update and restrict user access rights for its automated systems.

**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 shall 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 shall 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.

According to the Department's *Information Security Manual* dated October 2008, "when a user's employment status or job functions change, a user's access authorization must be removed or modified appropriately and immediately." The manual also states that "system and administrative rights must be restricted to persons responsible for system administration management or security." The Texas Administrative Code also specifies requirements related to user access (see text box for additional details). In fiscal year 2009, the Department did not regularly update access rights to its automated systems, nor did it properly restrict user access. Specifically:

- Five (17.2 percent) of 29 users tested had inappropriate access rights to the Equipment Operating System (EOS) based on their job duties. EOS is the Department's system of record for all information on major equipment. The Department subsequently removed these users' access rights.
- Four (13.3 percent) of 30 users tested had inappropriate access rights to the Automated Purchasing System (APS) based on their

job responsibilities. APS is the Department's internal real-time purchasing system through which it requests and purchases all of its goods and services. Auditors identified 25 additional employees who had inappropriate access rights to APS based on their job titles and Department, district, or division criteria. In addition, 2 (2.9 percent) of 70 users had both purchaser and receiver access roles within APS. A lack of segregation of duties such as this increases the risk that inappropriate purchases could be made without detection. The Department subsequently removed inappropriate access rights for most of these users.

- Four (13.3 percent) of 30 users tested had inappropriate access rights to the Minor Equipment System (MES) based on their job functions. MES is the Department's system of record for all information on minor equipment. The Department subsequently removed these users' access rights.
- For one user whose employment was terminated, the Department did not deactivate access rights to the Right of Way Information System (ROWIS) until 26 months after the user's employment had been terminated. ROWIS is the Department's proprietary right of way acquisition, data storage, tracking, and retrieval application.
- For one user whose employment was terminated, the Department did not deactivate access rights to the Uniform Statewide Accounting System (USAS) until four months after the user's employment termination date. USAS is the State's accounting system. The Office of the Comptroller of Public Accounts uses the information in USAS to create the State's comprehensive annual financial report.
- One user had inappropriate access rights to the Design and Construction Information System (DCIS) based on the employee's job functions and the Department's access criteria. Auditors also identified three external users for whom the Department could not provide documentation explaining why access was needed from the time access rights were initially granted. The Department uses DCIS to plan, program, and develop projects. After auditors brought this to the Department's attention, the Department obtained justification for each of these users having access and reapproved their access rights.
- The Department did not remove one user's administrative rights to SiteManager after the employee was promoted and a change in job functions eliminated the need for those rights. Additionally, seven contractor users had unnecessary access to SiteManager. The Department uses SiteManager to monitor construction projects, generate daily work reports, and process contractor payment estimates for projects funded through the Highway Planning and Construction Cluster of federal

programs. After auditors brought this issue to the Department's attention, the Department deactivated these access rights.

- Three users had inappropriate access rights to the Financial Information Management System (FIMS). One user was an auditor but had the capability to modify the information in FIMS. The Department did not immediately remove two other users' access rights to FIMS after these users' job responsibilities changed. FIMS is the Department's internal accounting system. After auditors brought this issue to the Department's attention, the Department removed these users' access rights.

Removing users' access to automated systems immediately upon termination of employment or a change in job functions helps to ensure that information resources 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 strengthen network, SiteManager, and ROWIS password settings.

Employees and users of the Department's automated systems must have access to the Department's network to access those systems. To access the network, SiteManager, and ROWIS, users must enter a password. According to the Department of Information Resources and the Department's *Information Security Manual*, state agencies should use unique passwords that contain both alphanumeric characters and special characters. In addition, the *Information Security Manual* states that passwords used to gain access to network entry points must be changed every 60 days. The Texas Administrative Code also specifies requirements related to passwords (see text box for additional details). Auditors noted the following:

Title 1, Texas Administrative Code, Section 202.25(3)(D)

Information resources systems which use passwords shall be based on industry best practices on password usage and documented state agency risk management decisions.

- Network password settings do not conform to *Information Security Manual* requirements concerning maximum password age.
- Network password settings do not conform to *Information Security Manual* requirements concerning the use of alphanumeric and special characters.
- SiteManager password settings do not conform to *Information Security Manual* requirements at the database and application levels.
- Access to ROWIS at the server and database levels is dependent on network authentication.
- Passwords at the application level for ROWIS do not meet *Information Security Manual* requirements because passwords are assigned and cannot be changed.

Requiring the use of passwords that include both alphanumeric and special characters; have a minimum password age, history, and length; and have a maximum number of failed password attempts helps to ensure that information resources are protected against unauthorized access, disclosure, modification, or destruction. It also helps to ensure the availability, integrity, authenticity, and confidentiality of information.

Correction Action and Management's Responses

See current year finding 11-555-07.

Issue 3

The Department of Transportation Should Implement Additional Controls to Ensure That Its Annual Financial Report Complies with Financial Reporting Requirements

Reference No. 10-555-12

Type of finding: Significant Deficiency

Annual Financial Report (AFR) Matching Requirements

For AFR purposes, the balance sheet and statement of net assets must match the capital asset note (Note 2) in the AFR.

Specifically:

- The classifications increase in the interagency transfer column in AFR Note 2 should match the increase in interagency transfers on the operating statement.
- The reclassifications decrease in the interagency transfer column in AFR Note 2 should match the decrease in interagency transfers on the operating statement.
- The total asset addition should match total capital outlay plus any capital contributions.
- The deletions column should match the net proceeds from the sale of capital assets and any gain or loss on the sale of assets.

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts, July 2009.

During preparation of the Department's annual financial report (AFR), the Department performs several levels of review, including reviews by various individuals in upper management, prior to submitting the AFR to the Comptroller's Office. The purpose of these reviews is to ensure that the AFR is accurate and that it complies with the Comptroller's Office's *Reporting Requirements for Annual Financial Reports of State Agencies and Universities* (reporting requirements). However, auditors identified instances of noncompliance with the reporting requirements that the Department's reviews did not identify.

The reporting requirements specify that the balance of each column within the capital asset note to the AFR (Note 2) must tie to the operating statement, which is in Exhibit II of the Department's AFR (see text box for specific items that should match). However, the Department did not comply with requirements that certain items should match.

In addition, the Department did not include an explanation of the \$219,455,353 deficit in State Highway Fund 006 in Note 20 of the AFR as required by the reporting requirements. According to the

Department, that deficit is primarily due to a timing difference between the recognition of the expenditure of funds and the recognition of revenues. After auditors brought this matter to the Department's attention, the Department provided an explanation to the Comptroller's Office for inclusion in the State's comprehensive annual financial report.

Correction Action and Management's Responses

Corrective action was taken.

Chapter 4-C

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

Issue 1

The Office of the Comptroller of Public Accounts Should Strengthen Controls to Ensure That Taxes It Collects Are Accurate, Supported, and Verified

Reference No. 10-555-13

Type of finding: Significant Deficiency

The Office of the Comptroller of Public Accounts (Comptroller's Office) relies on certain controls to ensure that data it receives from taxpayers is accurate, complete, and verified. This is important to ensure that the Comptroller's Office assesses and collects the proper amount of taxes. Verifying taxpayer-submitted data also is important to ensure that taxes are applied consistently to all taxpayers. However, certain controls do not exist or are not working as intended.

Control weaknesses in information system. The Comptroller's Office has implemented automated controls within its tax-related information system to prevent data entry errors and to ensure that it assesses and collects taxes in accordance with statute. However, certain automated controls do not exist, and the Comptroller's Office has not corrected all errors created during information system conversions. As a result, the Comptroller's Office's tax-related information system contains incorrect taxpayer data. Auditors analyzed 50,156 records and identified the following errors:

- Instances in which taxpayers received tax liability reductions that exceeded statutorily allowable amounts. Auditors tested the largest 7 of these instances and determined that for 6 (85.7 percent) of these 7 instances, tax liability reductions exceeded statutorily allowable amounts by a total of \$8,326,798. For an additional 348 instances, certain data in the information system indicates that taxpayers could have received tax liability reductions that exceeded statutorily allowable amounts. These errors occurred because the information system does not contain sufficient automated controls to prevent tax liability reductions from exceeding statutorily allowable amounts. Management asserts it was aware that automated controls were not sufficient and that there are manual checks of tax refunds and overpayments applied to different periods to identify this type of error. These manual checks do not always occur in a timely

manner. Prior to the audit, the Comptroller's Office indicated that it had not identified tax returns with tax liability reductions exceeding statutorily allowed amounts, and it had not updated written policies and procedures to include a manual check for this error.

- 7 instances in which tax discount eligibility periods were incorrect. As a result, 6 taxpayers could have received liability reductions from tax deductions for which they were not eligible, and 1 taxpayer might not have received liability reductions for which the taxpayer was eligible because the information system contained an incorrect eligibility period.
- Instances in which statutorily required dates that are used to determine tax exemption eligibility were unreliable (for example, dates were in the year 2200).

Control weaknesses in recording and retaining taxpayer data. Title 34, Texas Administrative Code, Section 3.21, requires taxpayers to submit supporting documentation to support taxes due. Controls over data entry are not sufficient to ensure that taxpayer data the Comptroller's Office enters manually is accurate.

For 4 (16.0 percent) of 25 amounts used to calculate taxes due that auditors tested, amounts in the Comptroller's Office's information system did not match supporting documentation submitted by the taxpayer. In addition, the Comptroller's Office could not provide supporting documentation for 1 (3.8 percent) of 26 amounts used to calculate taxes due in its information system. Prior to August 2009, the Comptroller's Office indicated that it performed only spot checks of manual data entry. Because the Comptroller's Office calculates tax credits, tax discounts, and tax due amounts from the data in its information system, it is important that this data is accurate and adequately supported.

After the conclusion of audit testing, the Comptroller's Office management asserted that it implemented a quality control review of data manually entered into its information system to address the types of errors auditors identified.

Control weaknesses in verifying taxpayer data. The Comptroller's Office relies on its Tax Audit Division to ensure that taxpayers self-report correct information. However, not all taxpayers are subject to audit by the Tax Audit Division, tax audits do not always occur in a timely manner, and the Tax Audit Division does not always audit all time periods.

According to the Tax Audit Division's schedules of completed audits, not all taxpayers, including taxpayers paying a large amount of taxes, are subject to audit. In addition, there is not appropriate audit coverage. Ensuring appropriate audit coverage helps to deter fraudulent reporting and ensure that taxpayers apply the tax code correctly.

For ongoing audits of taxpayers as of November 23, 2009, 62 (11.4 percent) of 544 audits tested had audit periods that exceeded four years. However, the statute of limitations for assessing a tax is four years after the tax is due, unless it is extended for two years with the taxpayer's consent. Additionally, 30 (5.5 percent) of 544 audits tested were not complete as of November 23, 2009, but the time periods these audits covered had ended more than four years earlier. Not conducting audits in a timely manner increases the risk that not all of the audit periods will be audited.

Because the Tax Audit Division relies on the taxpayer to cooperate with audits, it should be noted that the timeliness of audits is not entirely within the control of the Tax Audit Division.

Correction Action and Management's Responses

Corrective action was taken.

Issue 2

The Office of the Comptroller of Public Accounts Should Reconcile Tax Deposits and Tax Refunds in a Timely Manner

Reference No. 10-555-14
(Prior Audit Issue 09-555-04)

Type of finding: Significant Deficiency

In April 2009, the State Auditor's Office reported that the Comptroller's Office did not reconcile tax payments and tax refunds recorded in its Integrated Tax System (ITS) with information in the Uniform Statewide Accounting System (USAS) in a timely manner (see *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2008*, State Auditor's Office Report No. 09-555). Auditors identified this same issue during the audit of fiscal year 2009. ITS processed approximately \$37.6 billion in tax payments and \$2.4 billion in tax refunds in fiscal year 2009.

The Comptroller's Office is responsible for reconciling tax deposits processed in ITS to the amounts of taxes collected and refunded in USAS. This reconciliation helps to ensure that the Comptroller's Office correctly applies credits and debits to taxpayer accounts. However, in fiscal year 2009, the Comptroller's Office did not conduct this reconciliation in a timely manner for 16 tax types that auditors tested.

Table 2 provides information on the Comptroller's Office reconciliations of tax payments and tax refunds.

Table 2

Summary of the Comptroller's Office's Reconciliations of Tax Payments and Refunds in ITS with Tax Payments and Refunds in USAS			
Tax Type	Date Last Reconciled	USAS Unreconciled Balance	Difference Between ITS and USAS
Tax Payment Reconciliations			
Prepaid Sales	October 2008	\$ 6,605,646,188	\$ 20,391
State Sales	September 2008	\$ 13,159,950,020	\$ 17,301,049
Franchise	January 2009	\$ 587,261,426	\$ (38,504,584)
Franchise Margin	May 2009	\$ 280,160,266	\$ 6,863,289
Motor Vehicle Sales	May 2009	\$ 592,157,430	\$ (1,011,032)
Motor Vehicle Rental	October 2008	\$ 176,773,406	\$ (609)
Motor Vehicle Sales Seller Finance	August 2008	\$ 112,825,681	\$ (205,474)
Motor Fuel	May 2009	\$ 602,917,136	\$ 707
Diesel Fuel	May 2009	\$ 176,420,742	\$ (69,414)
Liquefied Gas	September 2008	\$ 1,098,513	\$ 17,470
Crude Oil	May 2009	\$ 213,653,701	\$ (130)
Natural Gas	June 2009	\$ 166,041,950	\$ 165,626
Cigarette and Tobacco Products	May 2009	\$ 32,376,660	\$ (183,298)
Cigarette Stamp	November 2008	\$ 1,075,236,561	\$ 3,057,035
Manufactured Housing	November 2008	\$ 7,382,943	\$ (52,102)
Insurance Premium	October 2008	\$ 1,186,833,592	\$ 9,419,581
Tax Refund Reconciliations			
Prepaid Sales	Not reconciled in fiscal year 2009	\$ (325,727,737)	\$ (870,466)
State Sales	Not reconciled in fiscal year 2009	\$ (319,811,403)	\$ (7,091,850)
Franchise	Not reconciled in fiscal year 2009	\$ (209,442,608)	\$ 882,327
Franchise Margin	Not reconciled in fiscal year 2009	\$ (806,099,327)	\$ 15,565,536
Natural Gas	Not reconciled in fiscal year 2009	\$ (513,901,264)	\$ (432,454)

Source: Unaudited reports supplied from the Comptroller's Office.

For sales taxes, the Comptroller's Office did not perform any tax payment reconciliations for 11 months of fiscal year 2009. For franchise margin taxes,

natural gas taxes, and sales taxes, the Comptroller's Office did not perform any tax refund reconciliations in fiscal year 2009. A portion of the differences between these systems is attributable to the fact that these systems begin and close the fiscal year on a different date.

Comptroller's Office management asserted that it has not performed reconciliations in a timely manner due to the volume of reconciliations that it performs and unexpected employee turnover. Additionally, management asserted that it is taking steps to train remaining staff to perform reconciliations.

Correction Action and Management's Responses

Corrective action was taken.

Issue 3

The Office of the Comptroller of Public Accounts Should Continue to Strengthen Access Controls for the Treasury Division Technology Operations

Type of finding: Significant Deficiency

Reference No. 10-555-15
(Prior Audit Issues 09-555-02 and 08-555-01)

In April 2008 and April 2009, the State Auditor's Office reported that the Comptroller's Office allowed internal system program developers to have access to production data for the State Treasury's automated systems.⁶ Auditors identified this same issue during the audit of fiscal year 2009.

The Comptroller's Office allows two internal system program developers to have access to production data for the State Treasury's automated systems. These systems were developed using a programming language that has limited security options. After auditors brought this issue to the Comptroller's Office's attention during the audit of fiscal year 2007, the Comptroller's Office's Treasury Division reduced the access from 15 developers to 2 developers. The Comptroller's Office's Treasury Division is in the process of replacing the current systems with another application that can be implemented with more advanced security features. It also has strengthened controls over obtaining access to its automated systems.

⁶ See *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2008*, State Auditor's Office Report No. 09-555, and *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2007*, State Auditor's Office Report No. 08-555.

**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 shall 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 shall 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, data corruption, potential service disruption, and loss of state revenue. Because the Treasury Division processes billions of dollars in revenue, the loss of even a single day's interest due to data manipulation or destruction would affect state revenue. However, nothing came to auditors' attention to indicate that automated systems had been compromised.

Correction Action and Management's Responses

See current year finding 11-555-08.

Chapter 4-D

The Texas Workforce Commission Should Strengthen Controls Over Tax Payments and Returns and Document Policies and Procedures for Certain Unemployment Insurance Program Processes

Issue 1

The Texas Workforce Commission Should Implement Controls to Ensure That It Adequately Secures Tax Payments and Returns

Reference No. 10-555-16

Type of finding: Significant Deficiency

The Texas Workforce Commission (Commission) does not always secure the unemployment insurance tax payments and tax returns it receives in its mailroom. Employers paid more than \$1 billion in unemployment taxes in fiscal year 2009. Of that amount, the Commission asserted that it received approximately 38 percent in payments and returns that arrived in its mailroom.

While the Commission does have certain security measures in its mailroom, such as cameras, some areas where staff temporarily store tax payments are not viewed by those cameras. In addition, during business hours the Commission does not lock the room where it receives and processes tax payments, which increases the risk of loss or theft.

Not adequately safeguarding tax payments and tax returns increases the risk that these documents might be misplaced or stolen, which would prevent the Commission from processing payments and/or return information and applying the correct information to taxpayers' accounts. Auditors did not identify any instances in which tax payments were misplaced or stolen during the time period under review.

Correction Action and Management's Responses

Corrective action was taken.

Issue 2

The Texas Workforce Commission Should Fully Document Policies and Procedures for Certain Unemployment Insurance Program Processes

Reference No. 10-555-17

Type of finding: Significant Deficiency

In two areas, the Commission does not have formal policies and procedures to guide staff. This could affect the reliability of financial information related to the Unemployment Insurance Program. Specifically:

- When a daily tax rate changes during the year, an account examiner reviews the new rate to ensure that the Commission's Unemployment Insurance Tax System accurately calculated the rate. The Commission's Tax Department has policies and procedures requiring account examiners to verify changes in daily tax rates; however, there are no formal policies and procedures requiring supervisors to review the work that the account examiners perform, specifying how often such reviews should be conducted, and outlining what should be reviewed.
- Personnel in the Commission's Unemployment Insurance Support Services Division perform an informal review of unemployment insurance benefit payments made by Chase Bank to data in the Commission's automated system to ensure that all payments made to recipients match amounts recorded in the Commission's automated system. However, the Commission does not have formal policies and procedures for this review.

Having documented policies and procedures is a key control to help ensure that management directives are carried out and that necessary actions are taken to address the risks to achievement of the Commission's objectives. Without formal policies and procedures, key processes may not be performed or performed completely and accurately. In addition, policies and procedures are beneficial for employees who may be new to their positions and for backup personnel.

Correction Action and Management's Responses

Corrective action was taken.

The Water Development Board Should Strengthen Its Review of Adjustments to Its Annual Financial Report and Its Password Requirements

Issue 1

The Water Development Board Should Accurately Account for Adjustments It Makes to the Loans and Contracts Balances in its Annual Financial Report

Reference No. 10-555-18

Components of Receivables

Governmental Accounting Standards Board (GASB) Statement No. 38, *Certain Financial Statement Note Disclosures*, paragraph 13, requires that governments provide details regarding the components of receivables. It further requires that significant receivable balances not expected to be collected within one year of the date of the financial statements be disclosed.

Components of receivables must be separately recorded in the Uniform Statewide Accounting System using the appropriate general ledger accounts, as well as presented as separate line items on the fund financial statements. This includes components such as accounts receivable, federal receivable and notes, and loans and contracts receivable.

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts, July 2009.

Type of finding: Significant Deficiency

The Water Development Board (Board) entered a loan of \$322,000 that it made into its accounting system early so that payment of the loan could be processed on time. The loan consisted of non-current funds receivable. When preparing its annual financial report for fiscal year 2009, the Board incorrectly removed the total loan amount from the current portion of the loans and contracts balance, instead of removing it from the non-current portion of the loans and contracts balance. The Board did not detect this error during its review of adjustments to its annual financial report.

The Board classifies all of its loan balances as current loans and contracts during the fiscal year. It then makes an adjusting entry at the end of the fiscal year to reclassify the balance between current and non-current. Part of the reclassification process involves removing from the correct loan balance any amounts for loans the Board entered into the accounting system early.

Correction Action and Management's Responses

Corrective action was taken.

Issue 2

The Water Development Board Should Strengthen Password Requirements for Its Accounting and Financial Systems

Reference No. 10-555-19

Type of finding: Significant Deficiency

The Board uses two internal systems to compile financial data for its annual financial report: (1) Micro Information Products (MIP), which is the Board's internal accounting system, and (2) Financial Information System (FIS), which is a financial system that records loan and bond information. The passwords required to access these two systems contain weaknesses that could put the data in these systems at risk.

The Board's password policy states that:

- Passwords must have a minimum length of seven alphanumeric and special characters.
- Passwords must be changed at least once every six months.
- Password history must be kept to prevent the reuse of a password.
- Passwords must contain a mix of uppercase and lowercase characters and must have at least two numeric characters.

Industry Best Practices for Passwords

The Texas Administrative Code requires that passwords be based on industry best practices on password usage and documented state agency risk management decisions.

According to Microsoft, a strong password:

- Is at least seven characters long.
- Expires as often as necessary for the environment, typically, every 30 to 90 days.
- Is significantly different from previous passwords.
- Contains characters from each of the following four groups: uppercase letters, lowercase letters, numerals, and symbols found on the keyboard (all keyboard characters not defined as letters or numerals).

Sources: Title 1, Texas Administrative Code, Section 202.25(3)(D), and Microsoft best practices at [http://technet.microsoft.com/en-us/library/cc784090\(WS.10\).aspx](http://technet.microsoft.com/en-us/library/cc784090(WS.10).aspx) and [http://technet.microsoft.com/en-us/library/cc756109\(WS.10\).aspx](http://technet.microsoft.com/en-us/library/cc756109(WS.10).aspx).

The Board purchased MIP from a vendor, and the Board has the option to (1) either require a password or not require a password and (2) determine the minimum length of passwords. The Board has set up MIP to require a password that is at least seven characters in length. However, there are no requirements for passwords to contain non-alphanumeric characters, for users to change passwords, or for the system to record password history.

A consultant developed FIS for the Board. FIS is programmed to require passwords that are at least six characters in length and contain at least one non-alphanumeric character. There are no requirements for users to change passwords or for the system to record password history.

All Board employees must log into the Board's network before they can access FIS or MIP, and password requirements for that network meet the Board's password policy and industry best practices (see text box for best practices). This helps to prevent unauthorized external access to FIS and MIP. However, because of the password weaknesses for FIS and MIP discussed above, current employees of the Board who have a valid network user ID and password could potentially alter data in FIS and MIP without detection.

Correction Action and Management's Responses

Corrective action was taken.

Chapter 4-F

The University of Texas at Austin Should Strengthen Certain Aspects of Its Financial Operations

Issue 1

The University of Texas at Austin Should Strengthen Its Inventory Controls

Reference No. 10-555-20
(Prior Audit Issues 09-555-14 and 08-555-15)

Type of finding: Significant Deficiency

The University of Texas at Austin (University) did not consistently follow state property accounting requirements in the Office of the Comptroller of Public Accounts' *SPA Process User's Guide* and the University's *Handbook of Business Procedures*. Specifically:

- As of August 31, 2009, the University had not entered 947 capital assets valued at \$12.7 million into its fixed asset system as a permanent inventory record. The University purchased 723 of those capital assets, with a value of \$10.6 million, between September 4, 2008, and July 31, 2009. However, these capital assets were reflected in the University's August 31, 2009, financial statements. The University should enter information into its fixed asset system in a timely manner to ensure that inventory records are accurate and current.
- The University did not correctly value 6 (20.0 percent) of 30 asset acquisitions tested. Specifically:
 - The University did not capitalize freight and shipping costs for 5 (16.7 percent) of 30 asset acquisitions that auditors tested. The University should have capitalized \$1,011 in freight and shipping costs for these five assets, as required by the *SPA Process User's Guide* and the *Handbook of Business Procedures*.
 - The University did not account for \$856 in discounts when valuing 1 (3.3 percent) of 30 assets that auditors tested. For that same asset, the University incorrectly expensed the cost of components purchased for \$1,230 that were necessary for the operation of equipment. The University should have capitalized the cost of those components as required by the *SPA Process User's Guide* and the *Handbook of Business Procedures*.

- The University asserted that it reconciled its fixed asset system to the State Property Accounting (SPA) system on an annual basis, rather than on a quarterly basis. According to the *SPA Process User's Guide*, the University, as a "reporting agency," should reconcile balances from its fixed asset system to the SPA system on a quarterly basis, and it should clear the reconciling items it identifies (that is, corrections should be made) as soon as possible. The University should clear all reconciling items before it prepares the capital asset note to its financial statements.

Ensuring that the University enters accurate information into its fixed asset system and the SPA system helps to ensure that the University accurately reports capital asset balances, depreciation, and accumulated depreciation in its financial statements.

Correction Action and Management's Responses

Corrective action was taken.

Chapter 4-G

The University of Texas at San Antonio Should Strengthen Its Capital Asset Records

Issue 1

Reference No. 10-555-21
(Prior Audit Issue 09-555-15)

Type of finding: Significant Deficiency

The University of Texas at San Antonio (University) did not always follow state property accounting requirements for capital assets. During fiscal year 2008, the University did not maintain documentation supporting the acquisition cost of assets for the life of the assets plus three years, as required by the *SPA Process User's Guide* and the Library and Archive Commission's Texas State Records Retention Schedule. The University's record retention policy requires the University to maintain this documentation for the fiscal year in which assets are acquired plus three years. For fiscal year 2009, the University asserted that it had not implemented a policy to ensure that it maintains documentation for the life of the asset plus three years.

Correction Action and Management's Responses

Corrective action was taken.

The University of Texas Health Science Center at Houston Should Strengthen Access Controls and Capital Asset Documentation

Issue 1

The University of Texas Health Science Center at Houston Should Ensure That Access to Its Financial Systems Is Appropriate

Reference No. 10-555-22

Type of finding: Significant Deficiency

Access to automated financial systems at the University of Texas Health Science Center at Houston (Health Science Center) did not consistently comply with state information resources policies and Health Science Center policies. This represents a weakness in the Health Science Center's internal controls. Auditors reviewed access rights to the Health Science Center's internal accounting system and the State's accounting system (the Uniform Statewide Accounting System, or USAS) and identified the following:

- Eleven individuals had access to both enter and approve transactions in the general ledger module of the Health Science Center's internal accounting system.
- Four individuals had access in USAS to enter, edit, and post transactions and to release batches of transactions into USAS.
- Five individuals had access to screens in USAS that were not necessary or appropriate based on their job duties.

Title 1, Texas Administrative Code, Section 202.70 (1)

Information resources residing in the various institutions of higher education of state government are strategic and vital assets belonging to the people of Texas. These assets shall 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 shall be appropriately managed.

After auditors brought these matters to the Health Science Center's attention, the Health Science Center removed the access of individuals who were former employees and began reviewing access rights for the other individuals to identify and remove inappropriate access levels.

The Texas Administrative Code requires higher education institutions to take measures to protect data from unauthorized access, disclosure, modification, or destruction, whether accidental or deliberate (see text box). Not removing access for former employees or not providing for proper segregation of duties increases the risk of fraud.

In addition, the Health Science Center's policy requires that different individuals enter and release journal vouchers. However, the Health Science Center does not have a review process to ensure that staff do not both enter and post their own financial transactions. The Health Science Center did have a compensating control requiring a separate individual to review vouchers that were entered and approved by the same individual in the general ledger module of its internal accounting system. Eight (28.6 percent) of 28 journal

vouchers that auditors tested were both entered and approved by the same individual during fiscal year 2009 and were not reviewed by a separate individual. These eight journal vouchers totaled \$20,123,955.

The Health Science Center also does not have a compensating control for reviewing transactions that the same individual both enters and releases in USAS. However, no transactions were entered and released by the same individual in USAS in fiscal year 2009.

Correction Action and Management's Responses

Corrective action was taken.

Issue 2

The University of Texas Health Science Center at Houston Should Strengthen Its Documentation for Capital Assets

Reference No. 10-555-23

Type of finding: Significant Deficiency

To determine whether the Health Science Center presented beginning capital asset balances fairly, auditors tested the Health Science Center's documentation for a sample of 73 capitalized assets from the Health Science Center's asset management system. The sample tested \$101,336,105 in assets from the total asset balance of \$760,123,686. The Health Science Center:

Definitions

Capitalized Assets - Real or personal property that has an estimated life of greater than one year and has a value equal or greater than the capitalization threshold established for that type of asset. Capitalized assets are reported in an agency's annual financial report.

Real Property - Land, buildings, infrastructure, facilities and other improvements, and leasehold improvements.

Personal Property - Tangible and intangible movable items, such as furniture, equipment, vehicles, boats, aircraft, books, works of art, historical treasures and computer software.

Source: *State Property Accounting Process User's Guide*, Office of the Comptroller of Public Accounts, February 2008.

- Was able to locate documentation for 55 (75.3 percent) of the assets tested, and that documentation supported each asset's beginning valuation.
- Was not able to locate documentation to support the beginning valuations in its asset management system for 18 (24.7 percent) of the assets tested. Those 18 assets included 3 personal property assets and 15 real property assets (see text box for definitions). As a result, auditors were unable to verify the beginning valuations for those 18 assets. According to the Health Science Center's records, the value of those 18 assets totaled \$12,528,098, or 12.4 percent of the assets tested.

The Health Science Center implemented a new financial system in 2003. This made locating documentation for the 18 assets described above more difficult because the Health Science Center acquired each of those 18 assets prior to 2004. However, without documentation it would be difficult for the Health Science Center to prove ownership of an asset or its valuation in the event of theft or destruction of the asset.

Correction Action and Management's Responses

See current year finding 11-555-16.

Chapter 4-I

The University of Texas Southwestern Medical Center at Dallas Should Strengthen Certain Aspects of Its Financial Operations

Issue 1

The University of Texas Southwestern Medical Center at Dallas Should Strengthen Its Management of System Access

Reference No. 10-555-24

Type of finding: Significant Deficiency

Auditors reviewed access to the University of Texas Southwestern Medical Center at Dallas's (Medical Center) internal patient accounting system and identified 43 (11.4 percent) of 376 active user accounts that did not comply with the Medical Center's *System Access Management* policy and the Texas Administrative Code. These 43 user accounts did not comply because these

accounts were associated with users whose employment or contracts had been terminated or could not be substantiated.

According to the Medical Center's *System Access Management* policy dated April 2005, "In the event a User terminates employment, contract expires or otherwise no longer requires access to information systems, the User's supervisor or sponsor will have the responsibility for submitting a request for termination of access to the Information Owner or centralized process (System Access Management group) to have the User's account disabled."

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 for additional details).

Monitoring and modifying access as required reduces the risk of fraud, data corruption, and potential service disruption.

Excerpts from The Texas Administrative Code

According to Title 1, Texas Administrative Code, Section 202.70(1), "Information resources residing in various institutions of higher education are strategic and vital assets belonging to the people of Texas. These assets shall 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, utility, authenticity, and confidentiality of information. Access to state information resources shall be appropriately managed."

According to Title 1, Texas Administrative Code, Section 202.75(3)(B), "A user's access authorization shall be appropriately modified or removed when the user's employment or job responsibilities within the institution of higher education change."

Correction Action and Management's Responses

See current year finding 11-555-15.

Issue 2

The University of Texas Southwestern Medical Center at Dallas Should Strengthen Its Patient Billing Process

Reference No. 10-555-25
(Prior Audit Issue 09-555-18)

Type of finding: Significant Deficiency

As of August 31, 2009, the Medical Center had not implemented a policy to ensure that it reviews and addresses unbilled patient transactions in a timely manner and that it receives all information needed to process bills for medical services provided. Unbilled patient charges are identified on the Medical Center's *Discharged Not Final Billed Report*.

In October 2009 (fiscal year 2010), the Medical Center asserted that it implemented a policy to address the deficiencies related to patient billing that auditors identified during fiscal year 2008. Because the process was not implemented until fiscal year 2010, auditors did not test the process.

Correction Action and Management's Responses

Corrective action was taken.

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

Reference No. 10-555-26
(Prior Audit Issues 09-555-19)

Type of finding: Significant Deficiency

Schedule of Expenditures of Federal Awards (SEFA)

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

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

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts, July 2009.

The agencies and higher education institutions listed in Table 3 did not perform an adequate review of their fiscal year 2009 Schedules of Expenditures of Federal Awards (SEFAs) (see text box for additional information).

Because they did not perform an adequate review, the SEFAs these agencies and higher education institutions submitted to the Office of the Comptroller of Public Accounts (Comptroller’s Office) contained errors. Table 3 summarizes the errors that auditors identified in these agencies’ and higher education institutions’ fiscal year 2009 SEFAs.

The 9 agencies and 17 higher education institutions listed below reported \$36.4 billion in federal expenditures, or 78.7 percent of the total federal expenditures reported by the State of Texas for fiscal year 2009. The errors listed below were not material to the fiscal year 2009 SEFA for the State of Texas or to the fiscal year 2009 Comprehensive Annual Financial Report for the State of Texas.

Table 3

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2009 SEFAs								
Agency or Higher Education Institution	Incorrect Program Clustering ^a	Incorrect Pass-through Reporting ^b	Incorrect Preparation of SEFA Using Revenues ^c	Incorrect Classification of Expenditures ^d	Incorrect Inclusion of Expenditures ^e	Incorrect Exclusion of Expenditures ^f	Incorrect Exclusion of Indirect Cost Recovery ^g	Errors in Notes to the SEFA ^h
Adjutant General’s Department				X				X
Department of Aging and Disability Services				X	X	X		
Department of Agriculture		X					X	

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2009 SEFAs

Agency or Higher Education Institution	Incorrect Program Clustering ^a	Incorrect Pass-through Reporting ^b	Incorrect Preparation of SEFA Using Revenues ^c	Incorrect Classification of Expenditures ^d	Incorrect Inclusion of Expenditures ^e	Incorrect Exclusion of Expenditures ^f	Incorrect Exclusion of Indirect Cost Recovery ^g	Errors in Notes to the SEFA ^h
Department of State Health Services								X
Department of Transportation		X		X				
Health and Human Services Commission		X		X				
Office of the Attorney General		X			X			
Parks and Wildlife Department			X					
Sam Houston State University	X							X
Tarleton State University	X			X				
Texas A&M University					X			X
Texas A&M University - Commerce		X						
Texas A&M University - Kingsville	X							
Texas State University - San Marcos					X	X		X
Texas Workforce Commission		X						
The University of Texas at Arlington	X			X				X
The University of Texas at Austin	X			X				X
The University of Texas at El Paso				X				X

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2009 SEFAs

Agency or Higher Education Institution	Incorrect Program Clustering ^a	Incorrect Pass-through Reporting ^b	Incorrect Preparation of SEFA Using Revenues ^c	Incorrect Classification of Expenditures ^d	Incorrect Inclusion of Expenditures ^e	Incorrect Exclusion of Expenditures ^f	Incorrect Exclusion of Indirect Cost Recovery ^g	Errors in Notes to the SEFA ^h
The University of Texas - Pan American				X				X
The University of Texas Health Science Center at Houston				X		X		X
The University of Texas Health Science Center at San Antonio	X							
The University of Texas Medical Branch at Galveston	X			X	X			X
University of Houston						X		X
University of Houston - Clear Lake					X	X		X
University of North Texas	X							
University of North Texas Health Science Center at Fort Worth	X			X	X			X

^a Reported federal programs in an incorrect cluster.

^b Incorrectly classified expenditures as direct expenditures. The expenditures should have been classified as "Pass-Through to Non-State Entities" and "Pass-Through to Agencies or Universities."

^c Incorrectly prepared SEFA using federal revenues rather than expenditures.

^d Incorrectly classified expenditures between federal programs.

^e Over-reported federal expenditures on its SEFA. Expenditures were reported based on the federal award year rather than the state fiscal year.

^f Under-reported federal expenditures on its SEFA.

^g Did not include indirect cost recovery.

^h Errors were noted in the notes to the SEFAs.

Performing an adequate review of their SEFAs and supporting documentation would help the agencies and higher education institutions ensure that the SEFA information they submit to the Comptroller's Office is accurate.

Correction Action and Management's Responses

Summary of Corrective Action	
Agency or Higher Education Institution	Corrective Action
Adjutant General's Department	Corrective action taken.
Department of Aging and Disability Services	See current year finding 11-555-17.
Department of Agriculture	See current year finding 11-555-17.
Department of State Health Services	Corrective action was taken. However, see current year finding 11-555-17.
Department of Transportation	See current year finding 11-555-17.
Health and Human Services Commission	Corrective action taken.
Office of the Attorney General	Corrective action taken.
Parks and Wildlife Department	See current year finding 11-555-17.
Sam Houston State University	See current year finding 11-555-17.
Tarleton State University	Corrective action taken.
Texas A&M University	Corrective action taken.
Texas A&M University - Commerce	Corrective action taken.
Texas A&M University - Kingsville	Corrective action taken.
Texas State University - San Marcos	See current year finding 11-555-17.
Texas Workforce Commission	Corrective action taken.
The University of Texas at Arlington	See current year finding 11-555-17.
The University of Texas at Austin	See current year finding 11-555-17.
The University of Texas at El Paso	See current year finding 11-555-17.
The University of Texas - Pan American	See current year finding 11-555-17.
The University of Texas Health Science Center at Houston	See current year finding 11-555-17.
The University of Texas Health Science Center at San Antonio	See current year finding 11-555-17.
The University of Texas Medical Branch at Galveston	See current year finding 11-555-17.
University of Houston	Corrective action was taken. However, see current year finding 11-555-17.
University of Houston - Clear Lake	Corrective action taken.
University of North Texas	Corrective action taken.
University of North Texas Health Science Center at Fort Worth	See current year finding 11-555-17.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The audit objective was to determine whether the State's basic financial statements present fairly, in all material respects, the balances and activities for the State of Texas for the fiscal year ended August 31, 2010.

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.

Scope

The scope of the financial portion of the Statewide Single Audit included an audit of the State's basic financial statements and a review of significant controls over financial reporting and compliance with applicable requirements. The opinion on the basic financial statements, *The State of Texas Comprehensive Annual Financial Report for the Fiscal Year Ended August 31, 2010*, was dated February 18, 2011.

The scope of the federal portion of the Statewide Single Audit included an audit of the State's Schedule of Expenditures of Federal Awards (SEFA), a review of compliance for each major program, and a review of significant controls over federal compliance. The State Auditor's Office contracted with KPMG LLP to provide an opinion on compliance for each major program and internal control over compliance. The State Auditor's Office provided an opinion on the State's SEFA. The report on the federal portion of the Statewide Single Audit is included in a separate report issued by KPMG LLP entitled *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2010*.

Methodology

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

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 2010 annual financial reports.
- Agency and higher education institution fiscal year 2010 SEFA submissions to the Office of the Comptroller of Public Accounts.

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 Office of the 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).
- Uniform Statewide Payroll/Personnel System (USPS).
- State Property Accounting (SPA) system.

Criteria and standards used included the following:

- Texas statutes.
- Texas Administrative Code.
- General Appropriations Act (81st Legislature).
- The Office of the Comptroller of Public Accounts' policies and procedures.
- The Office of the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*.

- The Office of the Comptroller of Public Accounts' *SPA Process User's Guide*.
- Agency and higher education institution policies.
- Office of Management and Budget Circular A-133.
- Generally accepted accounting principles as established by existing authoritative literature including, but not limited to, that published by the Governmental Accounting Standards Board and the Financial Accounting Standards Board.

Other Information

Fieldwork was conducted from August 2010 through January 2011. 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:

Jules Hunter, CPA, CIA (Project Manager)
Scott Ela, CPA, CIA (Assistant Project Manager)
Brianna C. Lehman, CPA (Assistant Project Manager)
William J. Morris, CPA (Assistant Project Manager)
Shahpar Ali, CPA, M/SBT
Kathy Aven, CIA, CFE
Robert H. (Rob) Bollinger, CPA, CFE
Robert Burg, CPA
Matt Byrnes, CIDA
Mark Cavazos
Joe Curtis, CPA
David Dowden
Melissa Dozier
Anton Dutchover
George Eure
W. Chris Ferguson
Joe Fralin
Nicolas Frey
Priscilla Garza, CGAP
Lauren Godfrey, CGAP
Rachel Goldman
Mary Goldwater
Arby Gonzales, CFE
Justin H. Griffin, CISA
Frances Anne Hoel, CIA, CGAP
Anna Howe
Joyce Inman, CGFM
Tracy Jarratt, CPA
Brian Jones, CGAP
Cain Kohutek
Katherine Koinis
Jennifer Logston
Thomas Andrew Mahoney
Kenneth Manke
Tessa Mlynar
Joseph Mungai, CIA, CISA
Jaime J. Navarro, CIDA
Chipo Nziramasanga
Jenay Oliphant
Robert Pagenkopf
Namita Pai, CPA
Jeannette Quiñonez, CPA
Anthony W. Rose, MPA, CPA, CGFM
Mike Sanford
Jeremy Schoech, CIA, CGAP
Steve Summers, CPA, CISA
Sonya Tao, CFE
Alyassia Taylor, MBA, CGAP

Tony White, CFE
Stacey Williams, CGAP
Brenda Zamarripa
Dennis Ray Bushnell, CPA (Quality Control Reviewer)
Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)
Michelle Ann Feller, CIA (Quality Control Reviewer)
Angelica M. Ramirez, CPA (Audit Manager)

Agencies and Higher Education Institutions Audited

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

- Department of Transportation
- Health and Human Services Commission
- Office of the Comptroller of Public Accounts
- Texas A&M University System
- Texas A&M University
- Texas Education Agency
- Texas Workforce Commission
- The University of Texas at Austin
- The University of Texas at San Antonio
- The University of Texas Medical Branch at Galveston
- The University of Texas Southwestern Medical Center at Dallas
- The University of Texas System

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

- Department of Aging and Disability Services
- Department of Agriculture
- Department of Assistive and Rehabilitative Services
- Department of Family and Protective Services
- Department of Housing and Community Affairs
- Department of Public Safety
- Department of State Health Services
- Department of Transportation
- Health and Human Services Commission
- Office of the Attorney General
- Office of the Governor
- Texas Workforce Commission

- Texas Education Agency
- Higher Education Coordinating Board
- Department of Rural Affairs
- Texas A&M International University*
- Texas A&M University System Health Science Center *
- Texas Southern University*
- University of Houston – Downtown*
- The University of Texas at Austin
- The University of Texas at Brownsville*
- The University of Texas M.D. Anderson Cancer Center
- The University of Texas Health Science Center at Houston
- The University of Texas Southwestern Medical Center at Dallas

* Entity was not selected for audit, but auditors applied limited procedures at this entity.

Follow up on prior year comprehensive annual financial report and schedule of expenditures of federal awards findings was conducted at the following agencies and higher education institutions:

- Adjutant General's Department
- Parks and Wildlife Department
- Sam Houston State University
- Tarleton State University
- Texas A&M University
- Texas A&M University – Commerce
- Texas A&M University – Kingsville
- Texas State University – San Marcos
- The University of Texas at Arlington
- The University of Texas at El Paso
- The University of Texas Health Science Center at Houston
- The University of Texas Health Science Center at San Antonio
- The University of Texas Medical Branch at Galveston
- The University of Texas – Pan American
- University of Houston
- University of Houston – Clear Lake
- University of North Texas
- University of North Texas Health Science Center at Fort Worth
- Water Development Board

Agencies and Higher Education Institution Responses to Schedule of Expenditures of Federal Awards Finding

Below are the individual responses from management at agencies and higher education institutions included in the Schedule of Expenditures of Federal Awards (SEFA) finding in Chapter 2-I of this report.

Management's Response from the Department of Aging and Disability Services

In regards to the audit issue identified at the Department of Aging and Disability Services (DADS), management agrees with the finding. DADS will update the Schedules of Expenditures of Federal Awards (SEFA) business process to include steps to follow up with the Comptroller's Office. This will ensure DADS has properly and accurately reflected any and all prior year adjustments made at the State level on behalf of DADS that impact the current year's SEFA information.

Implementation Date: May 2011

Responsible Persons: Accounting Director and General Ledger Manager.

Management's Response from the Department of Agriculture

The Texas Department of Agriculture's (TDA) Financial Services Division (Division) staff will enhance its procedures to ensure inclusion and accuracy of all SEFA expenditures. Incorrectly classified expenditures resulted from payments to daycares at several universities which should have been processed as pass throughs instead of direct expenditures. The expenditures were misclassified because some daycares did not use the state vendor number to reflect pass through of funds through the universities. Instead the daycares used a regular federal tax number. During the preparation of the SEFA, TDA along with the universities worked with the Comptroller's Office to define pass throughs with university associated daycares. The Comptroller's Office clarified and TDA worked to correct and report amounts. To prevent the reoccurrence of this type of error in the future, TDA has begun the process of reviewing all payments to daycares associated with universities on a quarterly basis.

The over reporting error occurred as a result of one remaining line of entry which should have been deleted during data entry for the SEFA.

The exclusion of expenditures was due to under reporting of earned federal funds (EFF) and additional accruals. In the future, TDA will review EFF and the additional accruals work papers and data entered on the SEFA prior to

submission. Staff will further enhance its procedures to ensure inclusion and accuracy of all SEFA expenditures and balances.

TDA will review corrections more thoroughly through the preparation process of the SEFA to prevent future errors.

Implementation Dates: February 28, 2011 (TDA will begin its quarterly review process of all payments to daycares and universities as stated in the 2nd paragraph of the management response)

November 20, 2011 (TDA will review EFF and additional accruals work papers and data entered on the SEFA prior to submission, enhance its procedures to ensure inclusion and accuracy of all SEFA expenditures and balances, and review corrections more thoroughly through the preparation of the SEFA to prevent future errors).

Responsible Persons: Assistant Commissioner for Financial Services and Accounting Coordinator

Management's Response from the Department of Public Safety

The Department of Public Safety (DPS) agrees with these findings. In the 2010 Schedule of Expenditures of Federal Awards (SEFA), DPS did not adequately disclose Non-Monetary Assistance for surplus property that was sold by the Texas Facilities Commission as required in Note 1 of the SEFA. Also, DPS did over report expenditures for two of the Interagency Contracts. To address these conditions, DPS will develop and follow a detailed project plan for the 2011 SEFA. This project plan will include the detailed steps necessary to maximize the use of automation, tying the SEFA data directly to our data system. As much as possible, it will rely less on the legacy method of using a network of spreadsheets that summarized complex MSA data in a way that lent itself to erroneous reporting. The detailed steps of the project plan will identify the party responsible for each step as well as project milestones.

Implementation Date: November 2011

Responsible Person: Deputy Assistant Director of Grants

Management's Response from the Department of State Health Services

The Department of State Health Services (DSHS) concurs with the State Auditor's findings concerning classification of specific accruals to pass-thru and reporting of non-monetary donation of ARRA vaccine in our notes. DSHS will continue to refine our review procedures to provide for more accurate reporting.

Implementation Date: November 20, 2011

Responsible Party: DSHS Accounting Director

Management's Response from the Department of Transportation

The Department agrees with recommendation.

Implementation Date: March 2011.

Responsible Person: Finance Division Director

Management's Response from Higher Education Coordinating Board

The Coordinating Board agrees with the recommendation and is committed to financial statement integrity and continuous improvement in the accuracy of the agency's financial data. Management will provide additional in-house training to financial reporting staff regarding expense recognition in compliance with Governmental Accounting Standards Board, Statement No. 34 and implement an additional review process as part of the year-end close procedures to review all accounting entries related to deferred revenues.

Implementation Date: Immediately

Responsible Person: Director Financial Reporting and Analysis

Management's Response from the Parks and Wildlife Department

TPWD agrees and has implemented a new accounting system on September 1, 2010 which integrates grant expenses, billing and revenue with the general ledger. The new accounting system and review process will support the correct preparation of SEFA for grants that are material starting with the 2011 AFR. Process changes necessary to ensure that data and all grants are identified properly in the system for inclusion in SEFA will take more time and is an ongoing monitoring effort.

Implementation Date: November 1, 2011

Responsible Person: Finance Director

Management's Response from Sam Houston State University

We concur with the findings and have strengthened our procedures internally regarding the proofreading of the Notes to the Annual Financial Report and the Notes to the Schedule of Expenditures of Federal Awards, as each of the findings were typographical errors that were limited to this particular note. The related information in the SEFA and the University's financial records was found to be correct. We have added an Associate Controller position to

the Controller's Office staff who will supervise the Financial Accounting and Reporting team in order to assure that these added controls are implemented fully for fiscal year 2011.

Implementation Date: August 31, 2011

Responsible Person: Controller

We concur with the findings and have strengthened our procedures internally regarding the classification of Federal pass thru funding. We frequently find our direct sponsor does not know the source of the funding. With Banner it is imperative that we correctly identify the sponsor and program prior to establishing the grant. Added verification is now incorporated in the proposal processing and approval steps. If an award is received without a formal proposal being submitted the Federal source will be verified prior to establishment of the grant. A FOAP (new grant account) will not be established in Banner until the CFDA has been identified and verified. The approval process includes verifying that the Federal Source has been correctly identified. These steps have been implemented concurrent with the conversion to Banner.

Implementation Date: Concurrent with Banner implementation

Responsible Person: Associate Vice President for Research Administration and Technology Commercialization.

Management's Response from the Texas A&M University System Health Science Center

The Texas A&M University System Health Science Center concurs with the recommendation. The Health Science Center has established SEFA preparation and review procedures. The Health Science Center has identified the cause of the reporting error and has implemented additional procedures to alleviate or further minimize reporting errors.

Implementation Date: December 1, 2010

Responsible Person: Director of Fiscal Services

Management's Response from Texas A&M International University

The auditor's findings reflect that we incorrectly prepared the SEFA using federal revenues rather than expenditures. Texas A&M International University will review supporting ledgers and documentation to ensure future SEFA's correctly reflect expenditures.

Implementation Date: October, 2011 (date of next AFR)

Responsible Person: Comptroller

Management's Response from the Texas Education Agency

The Texas Education Agency (TEA) has an adequate review process to ensure that the Schedule of Expenditures of Federal Awards (SEFA) information submitted to the Comptroller's Office is materially accurate. The auditors identified two minor errors that required reclassification on the SEFA, a \$2 million item and a \$36 million item, out of a SEFA report with over \$7.6 billion in federal grant funding. The TEA feels these two minor classification errors do not indicate that TEA "did not perform an adequate review of their fiscal year 2010 Schedule of Expenditures of Federal Awards (SEFAs)." We will continue with our existing process to ensure accuracy of our SEFA information.

Implementation Date: Immediate

Responsible Person: Accounting Director

Management's Response from Texas Southern University

Texas Southern University acknowledges that its method of selecting certain data for inclusion in the SEFA is incorrect. Furthermore, we acknowledge the Significant Deficiency finding that stated Texas Southern University's SEFA report for fiscal year 2010 contained inaccurate information. Per the recommendations of the State Auditor's Office, the University will monitor data included in future SEFA reports. TSU will verify that information is for the correct fiscal period only and ensure that management reviews the reports for accuracy prior to submission to the Comptroller. The action steps for corrective measures are as follows:

1) Modify the current query used to extract expenditures to no longer use term as the selection criteria. Data will be selected based upon the transaction dates falling within the fiscal year in question i.e. 09/01/YYYY to 8/31/YYYY.

2) The Associate Director, Student Accounting and Director, Research Financial Services will review reported expenditures flowing into the SEFA to insure that they are based on the appropriate fiscal year.

Implementation Date: April 2011

Responsible Persons: Associate Director, Student Accounting and Director, Research Financial Services

Management's Response from Texas State University - San Marcos

Management concurs with the State Auditor's Office conclusion and recommendation. The University will strengthen the review process procedures to ensure accurate reporting of SEFA information.

Implementation Date: August 2011

Responsible Persons: Director, Accounting and Associate Director, Accounting

Management's Response from the University of Texas at Arlington

Incorrect Inclusion of Expenditures

On the error regarding incorrect inclusion of expenditures, we agree that expenditures were included that were considered vendor relationship as a result of an incomplete CFDA number in our system. The Office of Grant and Contracts (OGC) assigns the CFDA number for federal awards at the time the grant account is established. The account in question had an incomplete CFDA number, in that the suffix was .000, and when the OGC attempted to get a valid suffix they were told it was a vendor relationship. This was after the SEFA had been completed. We have a review process to ensure that CFDA information is accurate and complete. In FY 2010 a process was implemented to identify incomplete CFDA numbers. Financial Reporting created a report to identify incomplete CFDA numbers and informed OGC. OGC is responsible for assigning complete CFDA numbers or declaring the account a vendor relationship prior to the deadline for SEFA completion.

Errors in Notes to the SEFA

On the finding regarding errors in the Note 1, the amount in the note was correct. However, additional information was required for inclusion in the Note 1 field. A Financial Analyst and the Director of Financial Reporting will be responsible for ensuring that all the requested elements are entered in the website for Note 1. This will be implemented when the schedule is open for data entry for FY 2011. We have updated our current year internal note copies with the additional information, and this will be copied in the note for FY 2011.

Implementation Date: November 2011

Responsible Person: Director of Financial Reporting

Management's Response from the University of Texas at Austin

Management agrees with the findings. The University will continue to evaluate and strengthen internal procedures in order to minimize reporting errors. While the University's preparation of the SEFA was consistent with prior years, management will review reporting requirements and change current procedures accordingly.

Implementation Date: October 31, 2011

Responsible Person: Finance Manager, Office of Accounting

Management's Response from the University of Texas at Brownsville

The University of Texas at Brownsville will implement an adequate review process to ensure that the SEFA information we submit to the Comptroller's Office is accurate. We will implement an additional confirmation for non-state entities in the same manner currently utilized with state pass through entities.

Implementation Date: May 1, 2011

Responsible Person: Director of Accounting and Finance Office

Management's Response from the University of Texas at El Paso

The University of Texas at El Paso concurs with the finding. An incorrect CFDA number was used in the notes section of the Schedule of Expenditure of Federal Awards due to an oversight during preparation. We were able to identify the recurring error in awards received from one agency, as these did not have the CFDA number published on the Notice of Awards. We will now give higher scrutiny to these types of awards. Additionally our cross check process will include verification of CFDA numbers to the most current tables issued by OMB.

Implementation Date: April 30, 2011

Responsible Person: Director, Accounting and Financial Reporting

Finding: The previous year's Perkins Loan balance was omitted from Note 3 of the SEFA.

The University concurs with the finding. Chapter 8 of Reporting Requirements for Annual Financial Reports of State Agencies and Universities will be reviewed in order to create a checklist of requirements for the SEFA. This checklist will be used to create and review the SEFA prior to submission.

Implementation Date: April 30, 2011

Responsible Person: Director, Accounting and Financial Reporting

Management's Response from the University of Texas - Pan American

The University of Texas - Pan American concurs with the findings. All the data, including the Notes, uploaded to the SEFA Web application will be verified to the SEFA excel spreadsheet to ensure that the data is accurate.

Implementation Date: October 10th and annually thereafter

Responsible Person: Grants and Contracts Supervisor

Management's Response from the University of Texas Health Science Center at Houston

UTHSC-Houston will revisit its quality control processes related to SEFA preparation. Since the review, we have added to our procedure a more descriptive outline of how these fields are to be completed and from where the data is to be retrieved. This data will be double checked at submission.

Implementation Date: January 2011

Responsible Person: Senior Vice President, Finance and Business Services

Management's Response from the University of Texas Health Science Center at San Antonio

The SAO's finding, related to The University of Texas Health Science Center at San Antonio's 2010 Statement of Expenditures of Federal Awards (SEFA) report, discovered 2 out of 958 grant awards that were improperly clustered. The two awards identified as incorrectly clustered represent an error rate of .017% of all awards reported and reviewed. Expenditures reported in the SEFA for these two awards totaled \$35,132.36 out of \$198,424,224.49. The error rate indicates that the HSC classification and review process is operating as intended in identifying any material differences in expenditure clustering. We will add a final review step in the SEFA preparation process to scrutinize the cluster assignment of small federal grants or contracts with unusual or infrequently used CFDA numbers to ensure that these are correctly classified in future reports.

Implementation Date: September 30, 2011

Responsible Person: Director of Accounting

Management's Response from the University of Texas M D. Anderson Cancer Center

The Cancer Center will implement an adequate review process to ensure that the SEFA information submitted to the Comptroller's Office is accurate. The Cancer Center will review the SEFA information periodically to ensure the accuracy of the information and process corrections as needed.

Implementation Date: March 2011

Responsible Person: Director of Grants and Contracts

Management's Response from the University of Texas Medical Branch at Galveston

UTMB will review its procedures for classifying federal awards by cluster.

Additionally, the Office of Sponsored Programs will work with both Finance and the Office of Student Financial Aid to review the accounting process for administrative cost recovery on Federal loans to ensure it is properly reflected in Note 3.

Implementation Date: August 31, 2011

Responsible Person: Director, Sponsored Programs Finance

Management's Response from the University of Texas Southwestern Medical Center at Dallas

The Medical Center agrees with the findings and the recommendation and has taken the following actions to address the issue.

- *With regard to the program classification issue, the Medical Center has revised the program used to produce the SEFA to include the functional code to insure proper classification of activities in federal program clusters.*
- *Regarding the error in the notes to the SEFA of not providing the prior year ending balance on two accounts, we have revised our year-end procedures to include a separate verification to ensure this information is included.*

Implementation Status: Implemented

Implementation Date: February 2011

Responsible Person: Assistant Vice President Office of Accounting

Management's Response from the University of Houston

The University will implement additional reviews and procedures when creating the award information in our financial system to help ensure that the correct CFDA is associated with each Federal award. As we prepare the Annual Financial Report we will perform an additional review of the SEFA submission to help ensure that expenses are reported under the correct CFDA.

Implementation Date: April 30, 2011

Responsible Person: Executive Director, Financial Reporting

Management's Response from the University of Houston - Downtown

The University will implement additional reviews and procedures when creating the award information in our financial system to help ensure that the correct CFDA is associated with each Federal award. As we prepare the Annual Financial Report we will perform an additional review of the SEFA submission to help ensure that expenses are reported under the correct CFDA.

Implementation Date: April 30, 2011

Responsible Person: Assistant Vice President for Business Affairs

Management's Response from the University of North Texas Health Science Center at Fort Worth

Management agrees with the findings of the audit, that certain expenditures were improperly clustered as Research and Development.

Corrective actions will be implemented with the next SEFA filing for fiscal year 2011.

Implementation Date: November 2011

Responsible Persons: Director of Accounting and Director Grants and Contracts

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