



John Keel, CPA  
State Auditor

A Report on  
**The Audit of the Permanent School Fund's  
Fiscal Year 2013 Financial Statements**

January 3, 2014

Members of the Legislative Audit Committee:

In our audit report dated December 20, 2013, we concluded that the Permanent School Fund's (Fund) basic financial statements for fiscal year 2013 were materially correct and presented in accordance with accounting principles generally accepted in the United States of America. The Fund published our audit report as part of its basic financial statements, which it intends to post on its Web site at [www.tea.state.tx.us](http://www.tea.state.tx.us).

We also issued a report on internal control over financial reporting and on compliance and other matters as required by auditing standards (that report, including responses from management, is presented in the attachment to this letter). In that report, auditors identified a deficiency in the Texas Education Agency's information resource change management process that was reported as a significant deficiency in the Fund's internal control.

Our procedures were not intended to provide an opinion on internal control over financial reporting or to provide an opinion on compliance with laws and regulations. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance with laws and regulations.

Auditors communicated certain issues that were not material or significant to the audit objectives in writing to the Fund's management.

As required by auditing standards, we will also communicate to the State Board of Education and the School Land Board certain matters related to the conduct of a financial statement audit.

We appreciate the Fund's cooperation during this audit. If you have any questions, please contact Verma Elliott, Audit Manager, or me at (512) 936-9500.

Sincerely,

John Keel, CPA  
State Auditor

SAO Report No. 14-014

cc: Members of the State Board of Education

Ms. Barbara Cargill, Chair  
Mr. Thomas Ratliff, Vice Chair  
Mrs. Mavis B. Knight, Secretary  
Mr. Lawrence A. Allen, Jr.  
Ms. Donna Bahorich  
Mr. David Bradley  
Mr. Ruben Cortez, Jr.  
Dr. Martha Dominguez  
Ms. Patricia Hardy  
Mr. Tom Maynard  
Ms. Sue Melton-Malone  
Mr. Ken Mercer  
Ms. Geraldine Miller  
Ms. Marisa Perez  
Ms. Marty Rowley

Texas Education Agency

Mr. Michael Williams, Commissioner of Education  
Mr. Holland Timmins, CFA, Executive Administrator and Chief Investment Officer, Permanent  
School Fund

General Land Office and School Land Board

The Honorable Jerry Patterson, Land Commissioner and Chairman of the School Land Board  
Mr. David S. Herrmann, School Land Board Member  
Mr. Thomas Orr, Jr., School Land Board Member  
Mr. Larry L. Laine, Deputy Land Commissioner and Chief Clerk



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

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9500 (Voice), (512) 936-9400 (FAX), 1-800-RELAY-TX (TDD), or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

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

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

# Attachment



## 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

### Independent Auditor's Report

Members of the State Board of Education  
Members of the School Land Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Permanent School Fund (Fund) as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated December 20, 2013.

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

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

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. 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.

Robert E. Johnson Building  
1501 N. Congress Avenue  
Austin, Texas 78701

P.O. Box 12067  
Austin, Texas 78711-2067

Phone:  
(512) 936-9500

Fax:  
(512) 936-9400

Internet:  
[www.sao.state.tx.us](http://www.sao.state.tx.us)

SAO Report No. 14-313

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

Summary of Findings and Responses
Finding Number
2013-1

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund'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*.

#### **The Fund's Response to Findings**

The Fund's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### **Purpose of this Report**

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

John Keel, CPA  
State Auditor

December 20, 2013

## Schedule of Findings and Responses

### Section 1

### **The Texas Education Agency Should Ensure That It Has Adequate Change Management Controls Over Its General Ledger System**

---

Reference No. 2013-1

#### **Type of Finding: Significant Deficiency**

The Texas Education Agency (Agency) does not have adequate change management controls for its general ledger system, the Integrated Statewide Administrative System (ISAS). Specifically, programmers who make programming changes have the ability to migrate the changes they make to the production environment.

Title 1, Texas Administrative Code, Sections 202.20 and 202.25, require changes to be made in an authorized manner and for state agencies to use a process for protecting systems from improper modification before, during, and after system implementation.

Proper segregation of duties should be in place to prevent a programmer who makes programming changes from migrating the code to production. Not having adequate change management controls, such as proper segregation of duties, increases the risk that the Agency's programmers could make unintended and/or unauthorized programming changes to the Agency's general ledger system.

#### **Recommendation**

The Agency should establish a formal change management process that prevents programmers from migrating code changes they make to the production environment.

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

*Management agrees with the finding and recommendation.*

*To remediate, a new account role (TECH\_PROMOTE) will be created in ISAS for a designated Technical Programmer to use to promote code to production. Promotions to production will be tracked by date, who performed, and the list of software change requests (SCR's) migrated. Due to limited ISAS support resources, the production code promotion responsibility will rotate amongst the team members (4) on a monthly basis at which time the TECH\_PROMOTE account password will be reset so only the designated*

*programmer will know the password. Also, the ISAS change management process and document will be updated to reflect the new TECH\_PROMOTE role, responsibilities and process. All remediation efforts will be implemented and complete by November 30, 2013. The individual responsible for implementing corrective action is the CIO/CDO/IRM, of Information Technology Services & Statewide Education Data Systems.*