



State of Texas Financial Portion of the
**Statewide Single Audit Report for the
Year Ended August 31, 2017**

February 2018

Report No. 18-555



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*Statewide Single Audit Report for the Year
Ended August 31, 2017*

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Overall Conclusion

In our audit opinion dated February 21, 2018, we concluded that the basic financial statements for the State of Texas presented fairly, in all material respects, the financial position and activities of the State for the fiscal year ended August 31, 2017. The Office of **the Comptroller of Public Accounts (Comptroller's Office)** prepared the basic financial statements and published our audit opinion as part of the Comprehensive Annual Financial Report (CAFR) for fiscal year 2017, which it intends to post on its Web site at <https://comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/>.

The consolidated financial statements provide **a comprehensive view 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. Compiling the **State's consolidated financial statements is a** major undertaking; those financial statements combine financial information for more than 200 state agencies and higher education institutions.

On August 31, 2017, the Economic Stabilization Fund balance was \$11.0 billion. That amount consisted primarily of \$8.1 billion in cash in the State Treasury, \$2.2 billion in current and non-current investments, and \$734.4 million due from the General Revenue Fund. The \$734.4 million due from the General Revenue Fund was transferred to the Economic Stabilization Fund in November 2017. The Economic Stabilization Fund is reported in the General Fund on the governmental fund financial statements and in Governmental Activities on the government-wide financial statements.

The fiscal year 2017 consolidated financial statements convey the use of approximately \$143.9 billion¹ during the fiscal year, an increase of \$3.6 billion or

Basic Financial Statements

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

- Government-wide financial statements display information about the State as a whole, except for its fiduciary activities.
- **Fund financial statements for the State's** governmental and proprietary funds provide information on the major funds individually and nonmajor funds in the aggregate. Fiduciary statements include financial information for fiduciary funds.

Source: Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

¹ The \$143.9 billion in annual expenditures exceeded the \$106.6 billion appropriated for fiscal year 2017 primarily because:

- Certain expenditures (such as higher education institutions' expenditures of funds held outside the State Treasury) are included in the Comprehensive Annual Financial Report (CAFR) but are not included in the General Appropriations Act (GAA).
- The CAFR presents actual expenditures of federal funds, while the GAA presents estimated amounts for federal funds.
- Additional pension-related expenditures were recorded in the CAFR to account for the effects of the implementation of GASB Statements Nos. 68, 71, and 73 that are not included in the GAA.

This audit was conducted in accordance with Texas Government Code, Section 403.013(c), and Title 31, United State Code, Section 7502.

For more information regarding this report, please contact Michael Clayton, Audit Manager, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.

2.6 percent since the prior fiscal year. The majority of the increase was related to general government, education, and transportation expenses. **The State's** assets on August 31, 2017, totaled \$307.9 billion, an increase of \$17.9 billion or 6.2 percent since the prior fiscal year. Net position, which increased by \$8.3 billion or 5.2 percent to \$167.7 billion in fiscal 2017, was affected by a number of factors. Cash and cash equivalents decreased by \$1.8 billion in governmental activities, but increased by \$1.4 billion in business-type activities from fiscal 2016. Unrestricted non-current investments increased by \$5.5 **billion. The State's bonded** indebtedness was \$51.0 billion, which included new issuances of \$8.3 billion in state bonds to finance new construction, housing, water conservation, and other projects. Approximately \$5.0 billion in bonded debt was retired or refunded during the fiscal year.

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—to assess the risk of material misstatement of the financial statements. Through that effort, auditors identified specific weaknesses that three agencies should correct to improve the reliability of their financial information. Those weaknesses are discussed in Chapter 2-A through Chapter 2-C of this report.

The State Auditor's Office also audited the State's Schedule of Expenditures of Federal Awards (SEFA) in relation to the CAFR for fiscal year 2017. The **Comptroller's Office prepares the SEFA by using self-**reported 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 (KPMG) audited the** processes for preparing SEFA information at 13 agencies and 12 higher education institutions. Auditors identified errors related to the SEFA information at two agencies and five higher education institutions. Those errors are discussed in Chapter 2-D of this report.

Auditors also performed prior-year finding follow-up work at two entities and determined that recommendations for one of those findings were not yet fully implemented (see the Summary Schedule of Prior Year Audit Findings).

The State Auditor's Office conducts this audit so that the State can comply with federal legislation (the Single Audit Act Amendments of 1996); state statute (Texas Government Code, Section 403.013(c)); 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 may be used by bond-rating companies, the Legislature, and federal agencies that award grants.

Summary of Management's Response

At the end of each chapter in this report, auditors made recommendations to address the issues identified during this audit. The agencies and higher education institutions agreed with the recommendations in this report.

Audit Objective and Scope

The audit objective was to determine whether the State's basic financial statements present fairly, in all material respects, the consolidated balances and activities for the State of Texas for the fiscal year ended August 31, 2017.

The Statewide Single Audit is an annual audit for the State of Texas. It is conducted so that the State complies with (1) the Single Audit Act Amendments of 1996 and Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and (2) state statute requiring that an audited CAFR be provided to the Governor (Texas Government Code, Section 403.013(c)).

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 scope of the federal compliance 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 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, in relation to its opinion on the CAFR. Information on** the federal compliance portion of the Statewide Single Audit is included in a separate report entitled *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2017*, by KPMG.

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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, 2017*

Summary of Auditor's Results

Financial Statements

- | | |
|--|------------|
| 1. Type of auditor's report issued: | Unmodified |
| 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 2017 was included in Chapter 2-D of this report. All other fiscal year 2017 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, 2017*, 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 Greg Abbott, Governor
The Honorable Glenn Hegar, Comptroller of Public Accounts
The Honorable Dan Patrick, Lieutenant Governor
The Honorable Joe Straus III, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

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 consolidated 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, 2017, and the related notes to the consolidated financial statements, which collectively comprise the State of Texas's basic financial statements, and have issued our report thereon dated February 21, 2018. Our report includes a reference to other auditors who audited the financial statements of the Department of Transportation, the Texas Lottery Commission, and the University of Texas System as described in our report on the State of Texas's consolidated financial statements. 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 other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the State'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 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 deficiency described in the accompanying schedule of findings and responses to be a material weakness.

Summary of Finding	
Agency or Higher Education Institution	Finding Number
Office of the Comptroller of Public Accounts	18-555-01

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 described in the accompanying schedule of findings and responses to be significant deficiencies.

Summary of Findings	
Agency or Higher Education Institution	Finding Numbers
Texas Workforce Commission	18-555-02
Health and Human Services Commission	18-555-03
Multiple agencies and higher education institutions	18-555-04

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State’s consolidated financial statements are free from 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*.

Auditors communicated certain issues that were not material or significant to the audit objectives in writing to the management of audited entities.

Other Work Performed by the State Auditor's Office

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

- *An Audit Report on the Audit of the Teacher Retirement System's Fiscal Year 2017 Financial Statements* (State Auditor's Office Report No. 18-005, November 2017).
- *A Report on the Audit of the Employees Retirement System's Fiscal Year 2017 Financial Statements* (State Auditor's Office Report No. 18-011, December 2017).
- *A Report on the Audit of the Department of Housing and Community Affairs' Fiscal Year 2017 Financial Statements* (State Auditor's Office Report No. 18-012, December 2017).
- *A Report on the Audit of the Permanent School Fund's Fiscal Year 2017 Financial Statements* (State Auditor's Office Report No. 18-013, December 2017).

This report, insofar as it relates to the entities listed above, 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 other auditors.

State's Responses to Findings

The State's responses to the findings identified in our audit are included in the accompanying schedule of findings and responses. The State's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Sincerely,

Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

February 21, 2018

Schedule of Findings and Responses

*State of Texas Financial Portion of the
Statewide Single Audit Report for the
Year Ended August 31, 2017*

Financial Statement Findings

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

Chapter 2-A

The Office of the Comptroller of Public Accounts Should Strengthen Certain Controls Over Financial Reporting

Issue 1

The Office of the Comptroller of Public Accounts Should Strengthen Its Processes for Reviewing Adjusting Journal Entries and Its Annual Financial Report

Reference No. 18-555-01
(Prior Audit Issues 17-555-01 and 16-555-02)

Type of finding: Material Weakness

The Office of the Comptroller of Public Accounts – Fiscal Program Department (Comptroller’s Office) had a process to review adjusting journal entries and its annual financial report. However, that process did not detect an error that resulted in materially misstated fiscal year 2017 financial

statements and financial data in the State’s accounting system. As a result, auditors concluded that there was a material weakness in the internal control processes for financial reporting at the Comptroller’s Office (see text box for additional information on material weaknesses).

Material Weakness in Internal Control

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of **an entity’s financial statements** will not be prevented, or detected and corrected, on a timely basis.

Source: American Institute of Certified Public Accountants AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.

The Comptroller’s Office misstated the fiscal year 2017 fund balances by \$4.2 billion on its fund financial statements and in the State’s accounting system. That occurred because the Comptroller’s Office incorrectly recorded in its own financial records adjusting journal entries that incorrectly

recorded \$4.2 billion in fund balance.

The Comptroller’s Office’s review process for adjusting journal entries and its annual financial report did not detect the error discussed above. In addition, the Comptroller’s Office did not identify the error before it finalized its annual financial report.

After auditors brought the issue discussed above to the Comptroller’s Office’s attention, the Comptroller’s Office corrected the balances reported on its financial statements during the preparation of the State’s Comprehensive Annual Financial Report. As a result, the issue discussed

above did not affect the accuracy of the State's Comprehensive Annual Financial Report.

Recommendation

The Comptroller's Office should continue to strengthen its process for reviewing adjusting journal entries and its annual financial report to ensure that it accurately reports balances on its financial statements.

Views of Responsible Officials

Accepted. The Comptroller has modified existing procedures for adjusting journal entries to ensure that improper entries are not made against the Fiscal Program Department's accounting records. Additional review steps will also be developed and implemented related to the review of the annual financial report to ensure its accuracy prior to completion. The additional procedure and review steps will be formalized and implemented prior to the next annual financial reporting period.

Corrective Action Plan

Agency policies and procedures will be revised to include additional adjusting journal entry procedures and independent review steps. Staff performing the review will receive additional training to ensure that they understand the new process.

Implementation Date: May 31, 2018

Responsible Person: Fiscal Integrity Manager

The Texas Workforce Commission Should Strengthen Certain Controls Over Financial Reporting

Issue 1

The Texas Workforce Commission Should Strengthen Its Financial Reporting Processes

Reference No. 18-555-02
(Prior Audit Issue 17-555-02)

Type of finding: Significant Deficiency

The Texas Workforce Commission (Commission) strengthened its process to help ensure that the financial information it reported to the State's accounting system reconciled to the Commission's internal accounting system. The Commission developed policies and procedures related to financial reporting; however, those policies and procedures did not ensure that its fiscal year 2017 financial information was accurately reported to the State's accounting system.

The Commission misclassified \$143.2 million in net position balances for the Unemployment Trust Funds that it submitted to the State's accounting system. That \$143.2 million amount was the sum of two classification errors that the Commission made. Specifically, the Commission:

- Incorrectly classified \$243.5 million in net position for one fund as unrestricted when those funds should have been reclassified as restricted for unemployment.
- Incorrectly classified a negative \$100.3 million in net position for one fund as unrestricted when those funds should have been reclassified as restricted for debt retirement.

The Office of the Comptroller of Public Accounts' (Comptroller's Office) *Reporting Requirements for Fiscal Year 2017 Annual Financial Reports of State Agencies and Universities* required each agency to ensure and certify that its financial data correctly reflected its financial position as of August 31, 2017, as recorded in the State's accounting system and the agency's internal accounting system. That included accurately classifying an agency's net position.

The Commission correctly presented the net position balances in its published fiscal year 2017 annual financial report; however, its financial reporting processes did not ensure that its net position balances were accurately reported in the State's accounting system. The Comptroller's Office uses the State's accounting system to produce the State's Comprehensive Annual Financial Report. Therefore, the submission of

incorrect financial data to the State's accounting system could lead the State to produce misstated financial statements.

To ensure that the issue discussed above did not affect the accuracy of the State's Comprehensive Annual Financial Report, the Comptroller's Office made appropriate adjustments to the net position balances during its preparation of the State's Comprehensive Annual Financial Report.

Recommendation

The Commission should continue to strengthen its process for reviewing the financial information that it submits to the State's accounting system to ensure that it submits accurate financial information.

Views of Responsible Officials

The Commission acknowledges and agrees the current procedures should be designed to ensure the net position of all funds are properly classified in the State's accounting system. Through analysis of the exception identified in the audit, the Commission's Finance staff has developed and implemented a corrective action to further improve the processes.

Both funds in question were reported correctly in the Commission's printed Annual Financial Report (AFR). However, it is now clear that TWC Finance staff should have acquired a better understanding of the adjustment process in the State's accounting system to ensure proper account classification. We also realize the state accounting system adjustment process needs to be started earlier to ensure adequate time to complete all necessary adjustments. We have modified and updated our internal procedures to ensure agreement with the agency's printed AFR and the state accounting system.

Corrective Action Plan

The Commission realizes that each year the State's accounting system will default to the incorrect account classification for some funds. We have revised our procedures to ensure the required adjustments to code the net position balances for the current year activity are entered into the State's accounting system timely. To ensure accuracy, the procedures have been revised to include this process going forward for all funds of the Commission each year during the AFR process.

Implementation Date: February 7, 2018

Responsible Person: Accountant VII

Chapter 2-C

The Health and Human Services Commission Should Strengthen Controls Over Information Technology

Issue 1

The Health and Human Services Commission Should Strengthen Controls Over Its Management and Monitoring of Certain Information Technology

Reference No. 18-555-03

(Prior Audit Issues 17-555-03, 16-555-03, 15-555-02, and 14-555-03)

Type of finding: Significant Deficiency

Auditors identified significant weaknesses in controls over the information technology that the Health and Human Services Commission (Commission) used to process claims from the Home and Community Based Services Program and the Texas Home Living Waiver Program (Programs) (see text box for additional information on those Programs and the agencies that administered them).

The Commission did not fully implement recommendations to strengthen information technology controls that the State Auditor's Office made in its audit reports starting in fiscal year 2013. Specifically, the Commission:

- **Did not consistently monitor user access.**
- **Did not consistently disable inactive user accounts.**
- **Did not consistently modify or remove inappropriate access.**
- **Did not consistently enforce the Commission's policies and procedures for passwords.**

Home and Community Based Services Program and the Texas Home Living Waiver Program (Programs)

The Department of Aging and Disability Services (Department) originally administered the Home and Community Based Services Program and the Texas Home Living Waiver Program (Programs). The Department was abolished effective September 1, 2017, and all of the **Department's functions were** transferred to the Health and Human Services Commission (Commission).

Prior to the abolition of the Department, the Commission was responsible for certain **aspects of the Department's information technology.**

Source: Senate Bill 200, 84th Legislature.

To protect the integrity of its information, the Commission should strengthen its management and monitoring of the information technology controls.

User Access

The Commission took steps to remove some inappropriate user accounts that auditors identified in the prior-year audit; however, it has not corrected

certain user access weaknesses. Conducting periodic reviews of user access is important in identifying potential unauthorized access. Not having a strong user access review process increases the risk of unauthorized or undetected access to, modification of, disclosure of, or destruction of data.

As discussed below, auditors identified various access issues related to Program operations.

Mainframe Accounts. Auditors reviewed all active user accounts associated with the mainframe that houses the ID CARE system. ID CARE is the claims adjudication system for the Programs, and the information in ID CARE feeds into the payment process. A total of 39 percent of those user accounts were inactive. Specifically:

- No individuals had ever logged into 17 percent of those user accounts.
- No individuals had logged into 22 percent of those user accounts during the 90-day period preceding October 17, 2017.

Accounts Associated with Centralized Program Operations. Auditors reviewed active user accounts discussed above that were associated with centralized Program operations. During that review, auditors identified active user accounts for individuals who were not current employees.

To minimize the risks associated with public disclosure, auditors provided the details of control weaknesses related to logical access discussed above, in addition to other logical access weaknesses, separately to the Commission in writing.

Title 1, Texas Administrative Code, Chapter 202, requires agencies to develop information technology policies and procedures. Commission information technology security standards and guidelines require user accounts to be restricted to appropriate individuals, require application owners to review user accounts at least every 12 months, and require user accounts to be disabled after 60 days of non-use for administrative accounts and after 90 days of non-use for nonadministrative accounts.

Passwords

Some passwords did not comply with the requirements in the Commission's policies and procedures for passwords. Policies and procedures provide guidance for user password requirements and not ensuring the policies and procedures are followed increases the potential risk of unauthorized access to IT systems.

Recommendations

The Commission should:

- Develop and implement a process for reviewing user access to information technology that the Programs use.
- Consistently disable user accounts in compliance with Commission policies and procedures.
- Ensure that passwords comply with requirements in the Commission policies and procedures.

Views of Responsible Officials

HHS IT acknowledges the findings, as the identified conditions did exist during the audit scope timeframe. HHS IT accepts the recommendations.

Work has been completed to resolve the issues in the first two recommendations.

Work is in progress to bring the server password configurations into compliance with the Enterprise Information Security Standards and Guidelines (EISSG).

Corrective Action Plan

The process for account access review and de-provisioning is as follows:

On a monthly basis, the Health and Human Services Commission (HHSC) application owners provide the Enterprise Identity and Access Management (EIAM) team with a list of users that have not accessed the system in the last 60 days for administrative accounts and 90 days for non-administrative accounts. HHS IT will then disable access for the users that have not accessed the system per the 60 day/90 day thresholds above. After this process, the users will no longer have access to ID CARE or Web CARE.

The HHSC EIAM team implemented the above process for account de-provisioning on December 31, 2017.

Access for four current employees was removed. These employees did not have business necessity for database administrative access. HHSC IT Administrative Applications will conduct quarterly reviews of user access going forward.

HHSC IT Data Center Services will coordinate with the DCS service provider, Atos, to update the server password configurations to be in compliance with the EISSG.

*Implementation Dates: Account Access Review - December 2017
 Access Removal - November 2017
 Passwords - April 2018*

*Responsible Persons: Director, IT Applications Management,
 Applications Management - Applications
 Support*

Director, HHS IT Administrative Applications

*IT Sourcing Management and Data Center
Services*

State Entities Should Strengthen the Preparation and Review of Their Schedules of Expenditures of Federal Awards

Reference No. 18-555-04

(Prior Audit Issues 17-555-04, 16-555-04, 15-555-05, 14-555-07, 13-555-02, 11-555-17, and 10-555-26)

Type of finding: Significant Deficiency

Schedule of Expenditures of Federal Awards (SEFA)

Each state entity that expends federal awards is required to prepare a Schedule of Expenditures of Federal Awards (SEFA) and submit it to the Office of the Comptroller of Public Accounts (Comptroller's Office). **The expenditures are to be presented in the SEFA on the same accounting basis as each state entity's fund financial statements.**

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 [Title 2, U.S. Code of Federal Regulations (CFR), Section 200.38].

Federal financial assistance includes any assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, non-cash contributions or donations of property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance [Title 2, CFR, Section 200.40].

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Comptroller's Office.

The higher education institutions and agencies discussed below did not appropriately prepare or adequately review their fiscal year 2017 Schedule of Expenditures of Federal Awards (SEFAs) (see text box for additional information). Therefore, the SEFAs that they submitted to the Office of the Comptroller of Public Accounts (Comptroller's Office) contained errors.

The higher education institutions and agencies discussed below reported \$2,646,460,940 in federal expenditures, or 5 percent of the total federal expenditures the State of Texas reported for fiscal year 2017. The errors listed below were not material to the fiscal year 2017 SEFA for the State of Texas or to the fiscal year 2017 Comprehensive Annual Financial Report for the State of Texas. However, collectively, they represent control weaknesses that could be significant to the State's SEFA.

The University of Houston

The University of Houston (U of H) incorrectly excluded from its fiscal year 2017 SEFA \$70,115 in administrative costs related to 1 Student Financial Assistance Catalog of Federal Domestic Assistance program (CFDA). That occurred because U of H did not record those expenditures as federal funds. As a result, U of H (1) understated expenditures on its SEFA by \$70,115 and (2) understated federal revenue by \$70,115 in Note 2 to its SEFA.

Recommendation

U of H should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including ensuring that it reports the appropriate administrative costs.

Views of Responsible Officials

The University of Houston agrees that administrative costs related to the Student Financial Assistance Catalog of Federal Domestic Assistant program should have been included in the Schedule of Expenditures of Federal Awards as both revenue and expense for FY2017, and will adjust business processes for the future.

Corrective Action Plan

The University will ensure that administrative costs are accounted for properly and included in the SEFA report, and will modify operating procedures to include a discussion with management in responsible areas each year to help ensure that all costs and revenues are correctly accumulated. The University will implement this action by April 30, 2018.

Implementation Date: April 30, 2018

Responsible Person: Assistant Vice President for Finance/Controller

The University of North Texas

The University of North Texas (UNT) (1) incorrectly excluded from its fiscal year 2017 SEFA \$3,516 in expenditures for 1 Student Financial Assistance CFDA program and (2) incorrectly included on its fiscal year 2017 SEFA \$415,856 in expenditures for a different Student Financial Assistance CFDA program. Those errors occurred because UNT incorrectly included on its SEFA adjustments that were not associated with fiscal year 2017 disbursement activity. As a result, UNT (1) overstated expenditures on its SEFA by \$412,340 and (2) overstated federal revenue by \$412,340 in Note 2 to its SEFA.

Recommendation

UNT should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including ensuring that it reports expenditures in the appropriate fiscal year.

Views of Responsible Officials

The University of North Texas (UNT) acknowledges and agrees with the findings. During the audit, UNT determined there was an error in adjusting fiscal year 2017 expenditures and revenues reported on the original certified SEFA. While financial aid data and general ledger reconciled, an adjustment

processed in error that resulted in an overall overstatement of expenditures and revenues in SEFA by \$412,340. UNT updated processes to ensure future reporting reports these balances in the appropriate fiscal year.

Corrective Action Plan

UNT has already implemented process improvements. The procedures have been updated to ensure proper reporting of federal expenditures in the appropriate fiscal year.

Implementation Date: *December 18, 2017*

Responsible Person: *Associate Controller*

The University of Texas at Arlington

On its fiscal year 2017 SEFA, the University of Texas at Arlington (UT-Arlington) (1) overstated federal revenue by \$1,632,899 for 1 CFDA program and (2) incorrectly included a reconciling item related to that revenue in Note 2 to its SEFA. That occurred because UT-Arlington incorrectly included \$1,632,899 in non-federal revenue as federal revenue in the notes to its fiscal year 2017 SEFA.

Recommendation

UT-Arlington should strengthen its SEFA preparation and review process to help ensure that it reports federal revenues and reconciling items correctly and only when appropriate in the notes to its SEFA.

Views of Responsible Officials

The University acknowledges and agree with the findings. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective action to further improve the processes.

Corrective Action Plan

The University continues to improve upon its review processes to ensure that it reports federal revenues and reconciling items correctly and only when appropriate in the notes to its SEFA. A thorough review of the guidelines will be performed for any prospective reconciling items to ensure they are appropriate.

Implementation Date: *Immediately*

Responsible Person: *Associate Vice President for Business Affairs and Controller*

The University of Texas at El Paso

The University of Texas at El Paso (UTEP) understated expenditures on its fiscal year 2017 SEFA by \$967,373 for 4 Student Financial Assistance CFDA programs. That occurred because UTEP (1) incorrectly excluded fiscal year 2017 expenditures from its SEFA and (2) incorrectly included prior period adjustments not associated with fiscal year 2017 disbursement activity on its SEFA. As a result, UTEP understated federal revenue by \$967,373 in Note 2 to its SEFA.

Recommendation

UTEP should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including ensuring that it reports expenditures in the appropriate fiscal year.

Views of Responsible Officials

The University acknowledges and agree with the findings. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective action to further improve the processes.

Corrective Action Plan

The University has already implemented process enhancements to ensure that the timing differences between the Student and Accounting Systems are addressed during the AFR process. Additionally, the Office of Student Financial Aid and Financial Reporting Office will identify all Federal Programs not subject to prepaid calculations to ensure the expenditures are reported accurately.

Implementation Date: *February 28, 2018*

Responsible Person: *Director Financial Reporting*

The University of Texas at San Antonio

The University of Texas at San Antonio (UTSA) understated expenditures on its fiscal year 2017 SEFA by \$198,775 for 1 Student Financial Assistance CFDA program. That occurred because UTSA incorrectly excluded fiscal year 2017 expenditures from its SEFA. As a result, UTSA understated federal revenue by \$198,775 in Note 2 to its SEFA.

Recommendation

UT-San Antonio should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including ensuring that it reports expenditures in the appropriate fiscal year.

Views of Responsible Officials

The University acknowledges and agree with the findings. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective action to further improve the processes.

Corrective Action Plan

The University will take the following actions to improve the process. The Controller's Office works closely with Student Financial Aid to reconcile the awards during the fiscal year and will continue to do so during the preparation of the SEFA. Financial Aid will ensure proper project IDs for the appropriate project year are used. To help ensure the expenditures are recorded in the fiscal year incurred, the Controller's Office will collaborate with the Accounting Office to ensure that non-exchange expenditures like TEACH are not deferred until the related academic year but are recognized at disbursement.

Implementation Date: August 31, 2018

Responsible Person: Assistant Vice President of Financial Affairs and Controller

Department of Aging and Disability Services

The Department of Aging and Disability Services (DADS) incorrectly excluded from its fiscal year 2017 SEFA \$36,975,024 in expenditures for 3 CFDA programs. That occurred because of errors related to DADS's preparation process for its SEFA. As a result, DADS (1) understated expenditures on its

SEFA by \$36,975,024 and (2) understated federal revenue by \$36,975,024 in Note 2 to its SEFA. Effective September 1, 2017, the Legislature abolished DADS and transferred all of DADS's services to the Health and Human Services Commission (HHSC).

Recommendation

HHSC should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including ensuring that it reports all expenditures for the appropriate fiscal year.

Views of Responsible Officials

Accepted. The process used to prepare the DADS SEFA was the Legacy DADS procedure which differs from HHSC process. Legacy DADS' review process did not capture the 3 CFDA's excluded from the report. HHSC has a different preparation and review process for HHSC's SEFA. The first step to completing the SEFA at HHSC is a detailed reconciliation between the SEFA data and the Agency Trial Balance. This reconciliation is completed by Comptroller Object Code and method of finance which rolls to ensure the data is all inclusive. This reconciliation method could have identified the exclusion of the \$36,975,024. There were no weaknesses or inaccuracies identified in the HHSC 2017 SEFA.

Corrective Action Plan

HHSC will continue to prepare and review HHSC's SEFA at the described level of detail to ensure all expenditures and revenues are included in the SEFA. HHSC will improve the reconciliation process of Legacy DADS data to ensure the DADS 2018 SEFA is complete.

Implementation Date: September 2018

*Responsible Persons: Deputy Director - Fund Accounting
Manager III - ARTS*

Department of Family and Protective Services

On its fiscal year 2017 SEFA, the Department of Family and Protective Services (DFPS) (1) incorrectly classified \$23,816,721 in direct expenditures as pass-through expenditures for 3 CFDA programs and (2) incorrectly classified \$1,584,882 in pass-through expenditures as direct expenditures for 1 CFDA program. That occurred because DFPS misclassified certain expenditures on its fiscal year 2017 SEFA.

Recommendation

DFPS should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including ensuring that it classifies direct and pass-through expenditures appropriately.

Views of Responsible Officials

The Department of Family and Protective Services (DFPS) agrees with the finding. Through analysis of the exceptions identified in the audit, DFPS will work to develop and implement corrective action to further improve the SEFA reporting process.

Corrective Action Plan

DFPS Finance Accounting Department and Contract Oversight Support (COS) have already begun collaborating on accurately distinguishing contractors from subrecipients. Both the Accounting Department and COS are collaborating on the development of a quarterly process to reconcile subrecipient contracts. The Accounting Department and COS are meeting frequently to appropriately identify subrecipients and so that the Accounting Department can accurately track and report subrecipient expenditures on the SEFA.

Implementation Date: August 31, 2018

Responsible Person: General Ledger Manager

Federal Award Findings and Questioned Costs

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2017 was included in Chapter 2-D of this report. All other fiscal year 2017 federal award information was issued in a separate report. See *State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2017*, 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, 2017*

Summary Schedule of Prior Audit Findings

Federal regulations (Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*) 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, 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, 2010 (State Auditor’s Office Report No. 11-555, February 2011).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2012 (State Auditor’s Office Report No. 13-555, February 2013).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2013 (State Auditor’s Office Report No. 14-555, February 2014).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2014 (State Auditor’s Office Report No. 15-555, February 2015).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2015 (State Auditor’s Office Report No. 16-555, March 2016).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2016 (State Auditor’s Office Report No. 17-555, February 2017).

The Summary Schedule of Prior Audit Findings (for the year ended August 31, 2017) has been prepared to address these responsibilities.

The Office of the Comptroller of Public Accounts Should Improve Certain Controls Over Financial Reporting

Issue 1

The Office of the Comptroller of Public Accounts Should Strengthen Its Processes for Reviewing Adjusting Journal Entries and Its Annual Financial Report

Reference No. 17-555-01
(Prior Audit Issue 16-555-02)

Type of finding: Material Weakness

The Office of the Comptroller of Public Accounts – Fiscal Program Department (Comptroller’s Office) had a process to review adjusting journal entries and its annual financial report. However, that process did not detect an error that resulted in materially misstated fiscal year 2016 financial

statements and in the State’s accounting system. As a result, auditors concluded that there was a material weakness in internal control at the Comptroller’s Office (see text box for additional information on material weaknesses).

Material Weakness in Internal Control

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of **an entity’s financial statements** will not be prevented, or detected and corrected, on a timely basis.

Source: American Institute of Certified Public Accountants AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.

The Comptroller’s Office’s financial statements misclassified fund balances by \$1.8 billion on the fund financial statements and in the State’s accounting system. Specifically, the Comptroller’s Office incorrectly classified \$1.8 billion in the fund balance for the Economic Stabilization Fund as restricted when it should have been classified as unassigned.

The Comptroller’s Office’s review process for its annual financial report did not detect the error discussed above. In addition, the Comptroller’s Office did not identify the error before it finalized its annual financial report.

To ensure that the issue discussed above did not affect the accuracy of the State’s Comprehensive Annual Financial Report, the Comptroller’s Office made appropriate adjustments to the fund balance during its preparation of the State’s Comprehensive Annual Financial Report.

Recommendation

The Comptroller’s Office should continue to strengthen its process for reviewing adjusting journal entries and its annual financial report to ensure that it prepares, presents, and submits materially accurate financial information.

Views of Responsible Officials and Corrective Action Plan

See current year finding 18-555-01.

Chapter 4-B

The Texas Workforce Commission Should Improve Certain Controls Over Financial Reporting

Issue 1

The Texas Workforce Commission Should Strengthen Its Financial Reporting Processes

Reference No. 17-555-02

Type of finding: Material Weakness

The Texas Workforce Commission (Commission) had a process to ensure that the financial information it reported to the State's accounting system reconciled to the Commission's internal accounting system. However, that process did not detect an error that resulted in the Commission submitting materially misstated fiscal year 2016 financial information to the State's accounting system. As a result, auditors concluded that there was a material weakness in internal control at the Commission. (See text box in Chapter 2-A for additional information on material weaknesses.)

As a result, the Commission misclassified the net position balances that it submitted to the State's accounting system. Specifically, the Commission incorrectly classified \$1.3 billion in net position for the Unemployment Trust Funds as unrestricted when those funds should have been classified as restricted for unemployment and restricted for debt retirement.

The Office of the Comptroller of Public Accounts' (Comptroller's Office) *Reporting Requirements for Fiscal Year 2016 Annual Financial Reports of State Agencies and Universities* required each agency to ensure and certify that its financial data correctly reflected its financial position as of August 31, 2016, as recorded in the State's accounting system and the agency's internal accounting system. That included accurately classifying an agency's net position.

The Commission correctly presented the net position balances in its fiscal year 2016 annual financial report; however, its financial reporting process did not detect the error in the State's accounting system. The Comptroller's Office uses the State's accounting system to produce the State's Comprehensive Annual Financial Report. Therefore, the submission of

incorrect financial data to the State's accounting system could lead the State to produce materially misstated financial statements.

To ensure that the issue discussed above did not affect the accuracy of the State's Comprehensive Annual Financial Report, the Comptroller's Office made appropriate adjustments to the net position balances during its preparation of the State's Comprehensive Annual Financial Report.

Recommendation

The Commission should strengthen its process for reviewing the financial information that it submits to the State's accounting system to ensure that it submits materially accurate financial information.

Views of Responsible Officials and Corrective Action Plan

See current year finding 18-555-02.

Chapter 4-C

The Health and Human Services Commission and the Department of Aging and Disability Services Should Improve Controls Over Information Technology

Issue 1

The Health and Human Services Commission and the Department of Aging and Disability Services Should Improve Their Management and Monitoring of Certain Information Technology

Reference No. 17-555-03

(Prior Audit Issues 14-555-03, 15-555-02, and 16-555-03)

Type of finding: Significant Deficiency

Auditors identified significant weaknesses in controls over the information technology that the Health and Human Services Commission (Commission) and the Department of Aging and Disability Services (Department) used to process claims from the Home and Community Based Services Program and the Texas Home Living Waiver Program (Programs). The Commission and the Department did not fully implement recommendations to improve information technology controls that the State Auditor's Office made in its audit reports for fiscal years 2013, 2014, and 2015. Specifically, the Commission and the Department:

- Did not consistently monitor user access.
- Did not consistently disable inactive user accounts.

- Did not consistently modify or remove inappropriate access.
- Did not consistently enforce the Commission's policies and procedures for passwords.

To protect the integrity of their information, the Commission and the Department should improve their management and monitoring of the information technology that the Programs use.

The Department is the owner of the Programs' data, and the Commission is responsible for administering components of the information technology that the Programs use, including user access.

User Access

The Commission and Department took steps to remove some inappropriate user accounts that auditors identified in the prior-year audit; however, weaknesses in access to the information technology the Programs use continued to exist in fiscal year 2016. Conducting periodic reviews of user access is important in identifying potential unauthorized access. Not having a strong user access review process increases the risk of unauthorized or undetected access to, modification of, disclosure of, or destruction of data.

Auditors reviewed 6,255 user accounts associated with the mainframe that houses the Intellectual Disabilities Client Assessment Registration (ID CARE) system. A total of 2,480 (40 percent) of those user accounts were inactive. Specifically:

- No individuals had ever logged into the mainframe that houses ID CARE through 792 of those user accounts.
- No individuals had logged into the mainframe that houses ID CARE in the 90-day period preceding October 18, 2016, through 1,688 of those user accounts. In addition, no individuals had logged into the mainframe that houses ID CARE in fiscal year 2016 through 901 of those 1,688 user accounts.

Auditors also reviewed user accounts that were associated with centralized Program operations and identified the following issues:

- Four (67 percent) of 6 user accounts tested had inappropriate administrative access to a database for ID CARE based on the users' job responsibilities.
- Twenty-six (55 percent) of 47 user accounts tested had inappropriate administrative access permissions based on their job responsibilities.

Title 1, Texas Administrative Code, Chapter 202, requires agencies to develop information technology policies and procedures. Commission information technology security standards and guidelines require user accounts to be restricted to appropriate individuals, require application owners to review user accounts at least every 12 months, and require user accounts to be disabled after 60 days of non-use for administrative accounts and after 90 days of non-use for nonadministrative accounts.

Passwords

The password configurations for a database and server the Programs used to process payments did not meet the minimum requirements in the Commission's policies and procedures for passwords. When entities do not require users to have strong passwords that allows users to reuse passwords frequently or make an excessive number of login attempts, which increases the risk of unauthorized access to systems and data.

Recommendations

The Commission and the Department should:

- Develop and implement a process for reviewing user access to information technology that the Programs use.
- Consistently disable user accounts in compliance with Commission policies and procedures.
- Ensure that password configurations for the databases and servers the Programs use comply with Commission policies and procedures.

Views of Responsible Officials and Corrective Action Plan

See current year finding 18-555-03.

State Entities Should Strengthen the Preparation and Review of Their Schedules of Expenditures of Federal Awards

Reference No. 17-555-04

(Prior Audit Issues 16-555-04, 15-555-05, 14-555-07, 13-555-02, 12-555-05, 11-555-17, 10-555-26, and 09-555-19)

Type of finding: Significant Deficiency

Schedule of Expenditures of Federal Awards (SEFA)

Each state entity that expends federal awards is required to prepare a Schedule of Expenditures of Federal Awards (SEFA) and submit it to the Office of the **Comptroller of Public Accounts (Comptroller's Office)**. The expenditures are to be presented in the SEFA on the same accounting basis as each state **entity's fund financial statements**.

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 [Title 2, U.S. Code of Federal Regulations (CFR), Section 200.38].

Federal financial assistance includes any assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, non-cash contributions or donations of property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance [Title 2, CFR, Section 200.40].

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, **Comptroller's Office**.

The agencies and higher education institutions discussed below did not appropriately prepare or adequately review their fiscal year 2016 Schedule of Expenditures of Federal Awards (SEFAs) (see text box for additional information). Therefore, the SEFAs that they submitted to the Office of the Comptroller of Public Accounts (Comptroller's Office) contained errors.

The agencies and higher education institutions discussed below reported \$1,840,859,646 in federal expenditures, or 3 percent of the total federal expenditures the State of Texas reported for fiscal year 2016. The errors listed below were not material to the fiscal year 2016 SEFA for the State of Texas or to the fiscal year 2016 Comprehensive Annual Financial Report for the State of Texas. However, collectively, they represent control weaknesses that could be significant to the State's SEFA.

The University of Texas at Arlington

The University of Texas at Arlington (UT-Arlington) incorrectly excluded \$727,126 from the notes to its SEFA for the beginning balance of outstanding loans for the Federal Perkins Loan Program. As a result, UT-Arlington understated the beginning and ending balance of outstanding Federal Perkins Loans by \$727,126 in the notes to its SEFA.

Views of Responsible Officials and Corrective Action Plan

Corrective action was taken.

The University of Texas at Austin

On its SEFA, the University of Texas at Austin (UT-Austin):

- Incorrectly included \$326,712 for 1 Student Financial Assistance Catalog of Federal Domestic Assistance program (CFDA) due to a miscalculation of its administrative costs. As a result, UT-Austin overstated federal revenue by \$326,712 in note 2 to its SEFA.
- Incorrectly classified \$92,853 in expenditures related to 1 generic CFDA.

Views of Responsible Officials and Corrective Action Plan

Corrective action was taken.

The University of Texas at El Paso

On its SEFA, the University of Texas at El Paso (UTEP) incorrectly included \$1,122,553 in expenditures outside of fiscal year 2016 for 2 Student Financial Assistance CFDA's and incorrectly excluded \$7,667 in expenditures outside of fiscal year 2016 for 3 Student Financial Assistance CFDA's. As a result, UTEP (1) overstated federal revenue and reconciling items by \$1,114,886 in note 2 to its SEFA and (2) overstated new loans processed for the Federal Direct Student Loans Program by \$1,011,247 in note 3 to its SEFA.

Views of Responsible Officials and Corrective Action Plan

See current year finding 18-555-04.

The University of Texas Rio Grande Valley

On its SEFA, the University of Texas Rio Grande Valley (UTRGV) incorrectly included \$1,175,524 in expenditures for 4 Student Financial Assistance CFDA's and 1 other CFDA. Specifically, it incorrectly included \$1,084,540 in expenditures that occurred prior to the start of fiscal year 2016 for 4 Student Financial Assistance CFDA's. For the remaining CFDA, UTRGV incorrectly included expenditures that it did not receive as federal funds.

As a result, UTRGV (1) overstated expenditures on its SEFA by \$1,175,524 for 5 CFDA's; (2) overstated note 2 regarding reconciliation by \$1,084,540 to its SEFA; and (3) overstated new loans processed for the Federal Direct Student Loans Program by \$796,748 in note 3 to its SEFA.

Views of Responsible Officials and Corrective Action Plan

Corrective action was taken.

The University of North Texas

On its SEFA, the University of North Texas (UNT):

- Incorrectly excluded \$1,216,691 for 1 Student Financial Assistance CFDA. As a result, UNT understated new loans processed for the Federal Direct Student Loans Program by \$1,216,691 in the notes to its SEFA.
- Incorrectly excluded expenditures for one Student Financial Assistance CFDA from the notes to its SEFA. Specifically, UNT incorrectly excluded the beginning and ending balances of outstanding Federal Perkins Loans in the notes to its SEFA. As a result, UNT (1) understated the beginning balance of outstanding Federal Perkins Loans by \$1,581,806 in the notes to its SEFA and (2) understated the ending balance of outstanding Federal Perkins Loans by \$1,535,394 in the notes to its SEFA.

Views of Responsible Officials and Corrective Action Plan

Corrective action was taken.

Higher Education Coordinating Board

On its SEFA, the Higher Education Coordinating Board (Coordinating Board):

- Incorrectly classified \$5,192,733 in pass-through expenditures as direct expenditures for 1 CFDA.
- Incorrectly classified \$496,957 in expenditures related to 2 CFDA's as part of the Research and Development cluster of federal programs.

Views of Responsible Officials and Corrective Action Plan

Corrective action was taken.

Office of the Governor

The Office of the Governor (Governor's Office) incorrectly included on its SEFA \$137,400 in pass-through expenditures to a non-state entity for 1 CFDA. As a result, it overstated federal revenue by \$137,400 in note 2 to its SEFA.

Views of Responsible Officials and Corrective Action Plan

Corrective action was taken.

During fiscal year 2017, the higher education institutions discussed below had uncorrected recommendations from issues identified during the audit of their fiscal year 2015 Schedule of Expenditures of Federal Awards (SEFAs). Auditors conducted limited procedures to follow up on the status of the findings related to those higher education institutions' preparation of their SEFAs in fiscal years 2016 and 2017. One of those higher education institutions partially implemented the recommendations from the prior audit; the other higher education institution fully implemented the recommendations from the prior audit.

Reference No. 16-555-04

(Prior Audit Issues 15-555-05, 14-555-07, 13-555-02, 12-555-05, 11-555-17, 10-555-26, and 09-555-19)

Type of finding: Significant Deficiency

The higher education institutions discussed below did not appropriately prepare or adequately review their fiscal year 2015 SEFA.

Sam Houston State University

Sam Houston State University (SHSU) incorrectly excluded expenditures for three Student Financial Assistance CFDA's from its SEFA. Specifically, it incorrectly excluded \$2,380,458 for 3 CFDA's. As a result, SHSU (1) understated expenditures on its SEFA by \$2,380,458 for 3 CFDA's; (2) understated federal revenue by \$60,651 in the notes to its SEFA; and (3) understated new loans processed for the Federal Direct Student Loans Program by \$2,319,807 in the notes to its SEFA.

Recommendation

SHSU should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.

Implementation Status

Partially implemented.

Views of Responsible Officials and Corrective Action Plan 2015

SHSU agrees with the stated findings and has established report controls to correct this deficiency and ensure the SEFA is complete and accurate when submitted to the Comptroller's Office. This includes the recognition of revenue and expenses related to administrative allowances.

Responsible Person: Interim Controller

Implementation date: January 2016

Views of Responsible Officials and Corrective Action Plan 2016

SHSU agrees with the stated findings and has established report controls to correct this deficiency and ensure the SEFA is complete and accurate when submitted to the Comptroller's Office. This includes the recognition of revenue and expenses related to administrative allowances.

Responsible Person: Interim Controller

Implementation date: Fall 2016

Views of Responsible Officials and Corrective Action Plan 2017

In FY 2015, SAO issued a finding for Sam Houston State University because 3 CFDA's totaling \$2,380,485 were excluded from the SEFA. SHSU responded that they accepted the findings and would implement report controls to correct the deficiency. The controls implemented were the creation and implementation of an automatic report that would capture all CFDA's. This report was implemented for FY 2016.

In FY 2016 SHSU implemented the report and tested the report throughout the year. Since the testing was done on mid-year data a flaw in the report logic was not discovered because mid-year lacks the volume that is characteristic of end of year. For this reason, SHSU accepted the reissue of the partial finding in FY 2016

The original finding was due to the exclusion of 3 CFDA's. All CFDA's have been included. The difference of \$158,233.00 is between the general ledger and the student AR system. The reason that this difference exists is because student financial aid is able to process aid until midnight on 8/31 of the fiscal year. After financial aid processes run, the student AR processes have to pick the information up and run the next set of processes. Finally, this information is fed to finance. However, this information will not post to the finance general ledger until 9/1 which is the next fiscal year. Since the general ledger

is the system of record for financial documents, SHSU reported the amount that was in the general ledger. The amount of \$158,233.00 was identified in the reconciliation of the general ledger to student AR that SHSU performed during the SEFA preparation. Going forward, SHSU will continue to reconcile the difference between student AR and the general ledger, however, in the future, SHSU will manually record the variance in the general ledger so that it is included in the SEFA. SHSU accepts this finding and agrees to correct it going forward.

Responsible Person: Controller

Implementation date: August 31, 2018

The University of Texas Health Science Center at San Antonio

On its SEFA, the University of Texas Health Science Center at San Antonio (UTHSC-San Antonio):

- Incorrectly included \$117,138 in expenditures for 1 CFDA. As a result, UTHSC-San Antonio overstated federal revenue by \$117,138 in the notes to its SEFA.
- Incorrectly reported expenditures in the notes to its SEFA for the ending balance for loans from prior years for two Student Financial Assistance CFDA's. Specifically, UTHSC-San Antonio incorrectly excluded \$11,700 for the Nurse Faculty Loan Program and \$143,044 for the Health Professions Student Loans Program.

Views of Responsible Officials and Corrective Action Plan

Corrective action was taken.

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 consolidated balances and activities for the State of Texas for the fiscal year ended August 31, 2017.

The Statewide Single Audit is an annual audit for the State of Texas. It is conducted so that the State complies with (1) the Single Audit Act Amendments of 1996 and Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and (2) state statute requiring that an audited Comprehensive Annual Financial Report be provided to the Governor (Texas Government Code, Section 403.013(c)).

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, published in the Comprehensive Annual Financial Report for the fiscal year ended August 31, 2017, was dated February 21, 2018.

The scope of the federal compliance 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 (KPMG) 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, in relation to its opinion on the CAFR. Information on the federal compliance portion of the Statewide Single Audit is included in a separate report entitled *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2017*, by KPMG.

Methodology

The audit methodology included collecting information, verifying certain information collected, conducting data analyses, performing selected audit

tests, and other procedures, and analyzing and evaluating the results against established criteria.

To avoid duplication of effort, the State Auditor's Office relied on KPMG's testing of the internal controls over certain systems and processes as they related to the financial portion of the Statewide Single Audit.

Auditors assessed the reliability of the State's data by (1) performing electronic tests of required data elements, (2) reviewing existing information about data and the systems that produced the data, and (3) interviewing agency and higher education institution officials knowledgeable about data. Auditors determined that the data was sufficiently reliable for the purposes of the audit.

Sampling Methodology

As part of the audit procedures performed on the SEFA, auditors used professional judgment to select a sample of generic Catalog of Federal Domestic Assistance numbers (CFDAs) to test that the correct unique identifying number was reported.

Information collected and reviewed 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, which consisted of accounting data from agency and higher education institution internal accounting systems and accounting data from the Uniform Statewide Accounting System.
- Agency and higher education institution year-end accounting adjustments.
- Agency and higher education institution fiscal year 2017 annual financial reports.
- Agency and higher education institution fiscal year 2017 SEFA submissions to the Office of the Comptroller of Public Accounts.

Information systems reviewed included the following:

- Agency and higher education internal accounting systems.
- Uniform Statewide Accounting System.

Procedures and tests conducted included the following:

- Evaluating automated systems controls.
- Performing analytical tests of account balances.
- Evaluating agency and higher education institution transactions.
- Comparing agency and higher education institution accounting practices with Office of the Comptroller of Public Accounts' reporting requirements.

Criteria used included the following:

- Texas Statutes.
- Texas Administrative Code.
- General Appropriations Act (84th Legislature).
- The Office of the Comptroller of Public Accounts' policies and procedures.
- The Office of the Comptroller of Public Accounts' *Reporting Requirements for Fiscal Year 2017 Annual Financial Reports of State Agencies and Universities*.
- Agency and higher education institution policies and procedures.
- Title 2, U.S. Code of Federal Regulations, Section 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.
- Generally accepted accounting principles as established by existing authoritative literature including, but not limited to, literature published by the Governmental Accounting Standards Board and the Financial Accounting Standards Board.

Project Information

Audit fieldwork was conducted from August 2017 through February 2018. 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. Those standards require that the State Auditor's Office and those performing the audit be independent, and that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The State Auditor's Office implemented safeguards to

maintain its independence to perform this audit. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit of the Comprehensive Annual Financial Report:

- Robert Pagenkopf, MBA, CFE (Project Manager)
- Jeannette Quiñonez Garcia, CPA (Assistant Project Manager)
- Philip Stringer, CPA (Assistant Project Manager)
- David Garcia Benitez
- Robert H. (Rob) Bollinger, CPA, CGMA, CFE
- Robert Burg, MPA, CPA, CFE
- Joseph T. Fredrick, CPA
- Lauren Futch
- Benjamin W. Hikida
- Taylor L. Huff
- Joyce Inman
- Minhaz Khan, CIA, CISA, CFE
- Jack K. Lee, CPA, CFE
- Anca Pinchas, CPA, CISA, CIDA
- Melissa M. Prompungorn
- Sarah Puerto, CGAP, CFE
- Fabienne Robin, MBA
- Adam K. Ryan
- Nakeesa Shahparasti, CPA, CFE, CISA
- Victoria Puiche Tang, MBA
- Julia Youssefnia, CPA

- Damian Zorrilla, CPA, CFE, CIA, CGAP
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Michael Owen Clayton, CPA, CISA, CFE, CIDA (Audit Manager)
- Angelica M. Ramirez, CPA (Assistant State Auditor)

The following members of the State Auditor's staff performed the audit of the Schedule of Expenditures of Federal Awards:

- Bianca F. Pineda (Project Manager)
- Lilia C. Srubar, CPA (Assistant Project Manager)
- Michael Bennett
- Adam Berry
- Rachel Berryhill
- Valerie W. Bogan, CFE
- Alexander Grunstein, CFE
- Shahpar Michelle Hernandez, CPA, M/SBT, CISA
- Thomas Andrew Mahoney, CGAP
- Sarah Rajiah
- Adam K. Ryan
- Sonya Tao, CFE
- Mary Ann Wise, CPA, CFE (Quality Control Reviewer)
- Audrey O'Neill, CFE, CGAP, CIA (Audit Manager)

Agencies and Higher Education Institutions Audited

Financial accounts were audited at the following agencies:

- Department of Aging and Disability Services.²
- Health and Human Services Commission.
- Office of the Comptroller of Public Accounts.
- Texas Education Agency.
- Texas Workforce Commission.

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.²
- Department of Agriculture.
- Department of Family and Protective Services.
- Department of Public Safety.
- Department of State Health Services.
- Department of Transportation.
- General Land Office.
- Health and Human Services Commission.
- Higher Education Coordinating Board.
- Office of the Attorney General.
- Office of the Governor (auditors performed only prior-year finding follow-up work).
- Sam Houston State University (auditors performed only prior-year finding follow-up work).

² The Department of Aging and Disability Services (Department) was abolished effective September 1, 2017, and all of the Department's functions were transferred to the Health and Human Services Commission.

- Texas A&M University.
- Texas Education Agency.
- Texas Southern University.
- Texas State University.
- Texas Tech University.
- Texas Workforce Commission.
- University of Houston.
- University of North Texas.
- The University of Texas at Arlington.
- The University of Texas at Austin.
- The University of Texas at El Paso.
- The University of Texas Health Science Center at San Antonio.
- The University of Texas Rio Grande Valley.
- The University of Texas at San Antonio.
- Water Development Board.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
The Honorable Joe Straus III, Speaker of the House, Joint Chair
The Honorable Jane Nelson, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable John Zerwas, House Appropriations Committee
The Honorable Dennis Bonnen, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Boards, Commissions, Chancellors, Executive Directors, and Presidents of the Following Agencies and Higher Education Institutions

Department of Agriculture
Department of Family and Protective Services
Department of Public Safety
Department of State Health Services
Department of Transportation
General Land Office
Health and Human Services Commission
Higher Education Coordinating Board
Office of the Attorney General
Office of the Comptroller of Public Accounts
Sam Houston State University
Texas A&M University
Texas Education Agency
Texas Southern University
Texas State University
Texas Tech University
Texas Workforce Commission
University of Houston
University of North Texas
The University of Texas at Arlington
The University of Texas at Austin
The University of Texas at El Paso
The University of Texas Health Science Center at San Antonio
The University of Texas Rio Grande Valley
The University of Texas at San Antonio
Water Development Board



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