



John Keel, CPA
State Auditor

The State Auditor's Office

Annual Report for Fiscal Year 2015

**The State Auditor's Office Annual Report
For Fiscal Year 2015**

Audit and Review Team

The Audit and Review Team completed 46 audits of and other projects related to state agencies, higher education institutions, and other entities in fiscal year 2015. The types of projects performed included:

- Financial opinion audits.
- Financial-related and compliance audits.
- Performance audits.
- Investigations.
- Other projects.

Those reports are listed below by General Appropriations Act article. Each report is hyperlinked to the full report on the State Auditor's Office's Web site.

Article I: General Government		
Report Name	Report Number	Date Released
A Report on the Audit of the Employees Retirement System's Fiscal Year 2014 Pension Schedules	15-034	6/2/2015
A Report on the Audit of the Employees Retirement System's Fiscal Year 2014 Financial Statements	15-008	11/19/2014
An Audit Report on the HealthSelect Contract at the Employees Retirement System	15-007	11/5/2014
An Audit Report on the Texas Enterprise Fund at the Office of the Governor	15-003	9/25/2014
An Audit Report on Selected Contracts at the Texas Facilities Commission	15-001	9/18/2014
Article II: Health and Human Services		
Report Name	Report Number	Date Released
An Audit Report on Capital Budgets at Health and Human Services Agencies	15-044	8/28/2015
A Report on On-site Financial Audits of Selected Residential Foster Care Contractors	15-043	8/27/2015
An Investigative Report on the Health and Human Services Commission's and the Office of Inspector General's Procurement of Services and Commodities from 21CT, Inc.	15-031	4/2/2015
An Audit Report on Procurement for Terrell State Hospital Operations at the Health and Human Services Commission and the Department of State Health Services	15-030	3/25/2015
An Audit Report on the Office of Violent Sex Offender Management	15-018	1/26/2015
An Audit Report on the Telecommunications Managed Services Contract at the Health and Human Services Commission	15-017	12/23/2014

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Article III: Education		
Report Name	Report Number	Date Released
A Report on the Audit of the Teacher Retirement System's Fiscal Year 2014 Employer Pension Liability Allocation Schedules	15-035	6/15/2015
An Audit Report on Financial Management Processes at the Higher Education Coordinating Board	15-028	3/24/2015
An Audit Report on Certification of the Permanent School Fund's Bond Guarantee Program for Fiscal Year 2014	15-026	3/10/2015
A Report on State of Texas Compliance with Federal Requirements for the Research and Development Cluster for the Fiscal Year Ended August 31, 2014	15-022	2/24/2015
A Report on State of Texas Compliance with Federal Requirements for the Student Financial Assistance Cluster for the Fiscal Year Ended August 31, 2014	15-021	2/24/2015
Accreditation Reviews Fiscal Year 2014 Entities reviewed included: <ul style="list-style-type: none"> • Texas A&M International University • Texas A&M University - Kingsville • Texas Tech University 	15-020	2/20/2015
A Report on the Audit of the Permanent School Fund's Fiscal Year 2014 Financial Statements	15-016	1/5/2015
A Report on the Audit of the Teacher Retirement System's Fiscal Year 2014 Financial Statements	15-010	11/20/2014
An Investigative Report on the University of North Texas	15-002	9/23/2014
Article V: Public Safety and Criminal Justice		
Report Name	Report Number	Date Released
A Report on State of Texas Compliance with Federal Requirements for Selected Major Programs at the Department of Public Safety and the University of Texas Medical Branch at Galveston for the Fiscal Year Ended August 31, 2014	15-023	2/24/2015
Article VI: Natural Resources		
Report Name	Report Number	Date Released
An Audit Report on Contract and Financial Management Processes at the General Land Office	15-037	7/24/2015
A Report on State of Texas Compliance with Federal Requirements for Selected Major Programs at the Water Development Board for the Fiscal Year Ended August 31, 2014	15-025	2/24/2015

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Article VII: Business and Economic Development		
Report Name	Report Number	Date Released
An Audit Report on a Construction Contract at the Department of Transportation	15-033	6/1/2015
A Report on State of Texas Compliance with Federal Requirements for the Highway Planning and Construction Cluster at the Department of Transportation for the Fiscal Year Ended August 31, 2014	15-024	2/24/2015
A Report on the Audit of the Department of Housing and Community Affairs' Fiscal Year 2014 Financial Statements	15-014	12/29/2014
Article VIII: Regulatory		
Report Name	Report Number	Date Released
An Audit Report on Performance Measures at the Optometry Board	15-041	8/21/2015
An Audit Report on Performance Measures at the Board of Professional Land Surveying	15-040	8/14/2015
An Audit Report on Inspections of Compounding Pharmacies at the Board of Pharmacy	15-039	8/12/2015
An Audit Report on Performance Measures at the Board of Examiners of Psychologists	15-038	8/5/2015
An Audit Report on Performance Measures at the Board of Chiropractic Examiners	15-029	3/25/2015
An Audit Report on the Office of Injured Employee Counsel	15-027	3/11/2015
Cross-cutting		
Report Name	Report Number	Date Released
An Audit Report on Selected State Entities' Compliance with Requirements Related to the Historically Underutilized Business Program and the State Use Program Entities audited included: <ul style="list-style-type: none"> <li style="width: 50%;">• Commission on Environmental Quality <li style="width: 50%;">• University of Houston 	15-036	7/23/2015
An Audit Report on Incentive Compensation at Selected Agencies Entities audited included: <ul style="list-style-type: none"> <li style="width: 50%;">• General Land Office <li style="width: 50%;">• Employees Retirement System <li style="width: 50%;">• Teacher Retirement System <li style="width: 50%;">• Texas Education Agency 	15-032	5/15/2015
State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2014	15-555	2/27/2015
State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2014	15-313	2/27/2015
A Report on State of Texas Compliance with Federal Requirements for Selected Major Programs at the Department of Public Safety and the University of Texas Medical Branch at Galveston for the Fiscal Year Ended August 31, 2014	15-023	2/24/2015
A Report on Recent Contracting Audits (see link to report for agencies and/or higher education institutions)	15-019	1/23/2015

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Cross-cutting (Continued)		
Report Name	Report Number	Date Released
<p>A Report on Analysis of Quality Assurance Team Projects</p> <p>Entities Included:</p> <ul style="list-style-type: none"> • Comptroller of Public Accounts • Department of Motor Vehicles • Department of Public Safety • Department of State Health Services • Department of Transportation • Texas Workforce Commission • Water Development Board 	15-015	12/22/2014
<p>A Report on the Delegation of Authority to State Entities to Contract for External Audit Services (see link to report for agencies and/or higher education institutions)</p>	15-012	12/12/2014
<p>An Audit Report on Selected Major Agreements Under the Texas Economic Development Act</p> <p>Entities audited included:</p> <ul style="list-style-type: none"> • Comptroller of Public Accounts • Texas Education Agency 	15-009	11/19/2014
<p>An Audit Report on Selected State Entities' Compliance with Requirements Related to the Historically Underutilized Business Program and the State Use Program</p> <p>Entities audited included:</p> <ul style="list-style-type: none"> • Comptroller of Public Accounts • Department of Insurance • Department of State Health Services • General Land Office • Health and Human Services Commission • Texas A&M University System • Texas Tech University • The University of Texas M.D. Anderson Cancer Center 	15-006	10/21/2014
Self-directed, Semi-independent Agencies		
Report Name	Report Number	Date Released
<p>An Audit Report on the Real Estate Commission: A Self-directed Semi-independent Agency</p>	14-037	9/19/2014
Non-state Entities		
Report Name	Report Number	Date Released
<p>A Report on On-site Financial Audits of Selected Residential Foster Care Contractors</p>	15-043	8/27/2015
<p>An Audit Report on Selected Major Agreements Under the Texas Economic Development Act</p>	15-042	8/24/2015
<p>An Audit Report on State Appropriations for the American Airpower Heritage Museum</p>	15-013	12/19/2014
<p>An Audit Report on Selected Major Agreements Under the Texas Economic Development Act</p>	15-009	11/19/2014
<p>An Audit Report on Selected Groundwater Conservation Districts</p>	15-005	10/2/2014
<p>A Summary of Financial and Performance Reports Submitted by Regional Planning Commissions</p>	15-004	9/30/2014

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Investigations and Audit Support

Investigations and Audit Support (IAS) investigates reports of alleged illegal activity and presents the results to prosecuting authorities. IAS publicly reported the results of one investigation in fiscal year 2015. That report is hyperlinked below to the full report on the State Auditor's Office's Web site. IAS also provides training and presentations to other organizations.

IAS Report Released			
Report Name	Report Number	Date Released	Outcome
A Special Investigations Unit Report - The Higher Education Coordinating Board College Access Loan Program	15-011	11/21/2014	IAS investigated allegations that the Higher Education Coordinating Board received an altered Hinson-Hazlewood College Access Loan program payment guaranty and promissory note. The investigation led to an indictment on one count of securing execution of a document by deception, which is a state jail felony.
IAS Presentation Provided			
<ul style="list-style-type: none"> IAS made a presentation on fraud, waste, and abuse to the Texas State Agency Business Administrators' Association. 			

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State Classification Team

The State Classification Team maintains the State's compensation and classification system, including the State's Position Classification Plan in the General Appropriations Act; analyzes state workforce issues; provides support to state agencies' and higher education institutions' human resources offices; and provides information on employee compensation issues to the Legislature. In fiscal year 2015, the State Classification Team released five reports. Those reports and other projects the State Classification Team completed are listed below. Each report is hyperlinked to the full report on the State Auditor's Office's Web site.

State Classification Team Reports Released		
Report Name	Report Number	Date Released
A Summary Report on Full-time Equivalent State Employees for Fiscal Year 2014	15-705	2/19/2015
Texas State Agencies' and Higher Education Institutions' Workforce Summaries	15-704	1/30/2015
An Annual Report on Classified Employee Turnover for Fiscal Year 2014	15-703	12/15/2014
A Report on the State's Law Enforcement Salary Schedule (Salary Schedule C) for the 2016-2017 Biennium	15-702	11/3/2014
A Biennial Report on the State's Position Classification Plan for the 2016-2017 Biennium	15-701	9/30/2014
Other State Classification Team Activities		
Project Description	Date Released	
Sick Leave Donation Guide	8/31/2015	
Military Crosswalk Document and Guide	8/28/2015	
New and Revised State Job Descriptions and Related Conversion Manual	8/3/2015	

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Professional Development Team

The Professional Development Team coordinates and provides continuing educational opportunities for auditors, accountants, managers, investigators, and other professional staff. During fiscal year 2015:

- 135 courses were held.
- 1,957 public and private sector employees attended the training courses.
- Employees of 105 federal, state, and local government entities and private organizations received training.

Courses That Professional Development Offered	
Internal and External Courses	
Assessing IT Risk Governance Assessing Your Protection of Personal Identifiable Information Program Audit Documentation Auditing Contracts Auditing Derivatives and Investment Strategies Auditing Essentials Auditing Microsoft Windows Server and Active Directory Audits of State and Local Governments: What You Need to Know Cloud Computing Overview Communication and Interpersonal Skills for Auditors Contract and Procurement Fraud: Are You Getting What You Paid For? Developing and Presenting Reportable Findings Emerging Issues in Grants Management Excel Power User Class for Auditors and Accountants Finding Your Strengths (offered twice) Fraud Cases and Their Impact on Government Auditors and Managers Fraud Risk Workshop How Auditors and Accountants Can Use Excel/Access to Analyze Data How to Audit Better	Increasing Auditor Effectiveness in Recognizing and Detecting Fraud Information Technology Auditing Intermediate/Advanced Excel Features Beneficial for Auditors and Accountants (offered twice) Investment Auditing Managing the Performance of Others Mastering the Root Cause Analysis in Audits Maximum Productivity: Time Management and Time Budgeting Strategies Project Management Essentials (offered twice) Risk and Control: The Foundation Sampling: Design and Analysis for Performance Auditing Supervision: The Nuts and Bolts The 5 Choices of Extraordinary Productivity (offered twice) Unconscious Bias: Unlocking Your Full Potential Understanding the Yellow Book Using Analysis Techniques to Assess Performance Using Unix/Linux Intermediate for Auditors What I Really Meant to Say: Mastering the Art of Communication

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Courses Offered by Professional Development

Internal Only Courses

<p>12 Bad Habits that Hold Good People Back</p> <p>Administering Emergency Oxygen</p> <p>Analyzing, Summarizing and Documenting Results</p> <p>Auditing the Contract Function</p> <p>Automated Control Tests for Student Financial Assistance (offered twice)</p> <p>Budgetary Accounting</p> <p>Common Pitfalls on the Projects at the SAO and How to Avoid Them</p> <p>Communicating Audit Results</p> <p>Data Analysis Process and Tools</p> <p>Developing Staff</p> <p>Effective Communication and Public Speaking Techniques</p> <p>Fiduciary Fund Types and Transactions</p> <p>GASB 68: Accounting and Auditing Issues (Webinar)</p> <p>GASB Review Webinar</p> <p>Governmental Accounting Overview</p> <p>Governmental Financial Statements</p> <p>Governmental Fund Types and Transactions</p> <p>Government-Wide Entity Accounting</p> <p>How to Use EZ Quant for Student Financial Assistance Sampling (offered twice)</p> <p>Introduction to Student Financial Assistance (offered twice)</p> <p>Introduction to the Statewide Single Audit (offered twice)</p>	<p>IT Audit at the SAO</p> <p>IT Audit Boot Camp</p> <p>IT Systems in Texas Government</p> <p>Managing IT Related Issues on Your Audit</p> <p>Navigating Your Career (offered twice)</p> <p>New Auditor Training (13 courses)</p> <p>New Auditor Training (15 courses - offered twice)</p> <p>Open Records and Confidential Information (offered twice)</p> <p>Performance Feedback at the SAO</p> <p>Personnel Law</p> <p>Planning an Audit</p> <p>Proprietary Fund Types and Transactions</p> <p>Public College and University Accounting</p> <p>Report Referencing</p> <p>Reporting Findings</p> <p>Reviewing Audit Documentation (offered twice)</p> <p>Roles and Responsibilities of the Assistant Project Manager</p> <p>Sampling at the SAO (offered twice)</p> <p>Testifying Before the Legislature</p> <p>Texas Budget Systems (offered twice)</p> <p>Transitioning from Team Member to Leader</p> <p>Understanding Program Processes (offered three times)</p>
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Other Events That Professional Development Coordinated

- The State Auditor's Office hosted the 2015 Audit Conference at the Thompson Conference Center. A total of 212 employees from state and local governments attended the two-day conference, which offered 26 sections regarding essentials, contracting, and other specialties related to auditing.
- The State Auditor's Office coordinated with the Texas Procurement and Support Services Division (TPASS) at the Office of the Comptroller of Public Accounts to host a *State of Texas Contract Management Guide* overview for auditors.
- The State Auditor's Office instructed courses for other state agencies, including:
 - Project Management for Leaders for the Health and Human Services Commission (offered twice).
 - Tips for Communicating Under Pressure for the Health and Human Services Commission.
 - Fuel Your Fire for the Office at the Office of Consumer Credit Commissioner Annual All State Conference.
 - Building Trust for the Department of Family and Protective Services annual conference.

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Other Activities

The State Auditor's Office conducts other work authorized or required by general law and by provisions of the General Appropriations Act—including participation in various workgroups and committees, performing research, and reviewing and monitoring agency activities—in addition to other activities of this Office. The following is a list of those activities.

Other Activities
<p>Audit Delegation and External Audit Contracting</p> <ul style="list-style-type: none">• Conducted activities related to state agencies' and higher education institutions' delegated audit authority.• Monitored the external auditor's performance of a segment of the federal compliance portion of the Statewide Single Audit.
<p>Internal Audit Activities</p> <ul style="list-style-type: none">• Notified small agencies of their statutory responsibility, pursuant to the Texas Internal Auditing Act, to conduct a formal, annual risk assessment as part of their risk management process. Also developed the guidelines and format for the annual risk assessment and reviewed the agencies' submissions (Texas Government Code, Sections 2102.013 and 2102.014).• Notified mid-sized and large state agencies and higher education institutions regarding guidelines for completing their 2015 internal audit annual reports. Prescribed the form and content of the internal audit annual reports and the time and manner in which internal audit plans and annual reports should be posted on state agency and higher education institution Web sites pursuant to the Texas Internal Auditing Act (Texas Government Code, Sections 2102.009 and 2102.015), and reviewed all internal audit reports submitted during the year.• Prescribed the methodology for higher education institution internal audits of benefits proportional by fund.• Presented information to the members of the State Agency Internal Audit Forum at a quarterly meeting.
<p>Monitoring</p> <ul style="list-style-type: none">• Obtained the implementation status of outstanding recommendations contained in audit reports issued by the State Auditor's Office from higher education institutions, agencies, and other audited entities.• Monitored developments associated with the funding that the State will receive in connection with the Deepwater Horizon oil spill.• Conducted a survey of state entity compliance with audit requirements under bond covenants, credit agreements, and financial agreements.
<p>Participation on Committees, Work Groups, and Task Forces</p> <ul style="list-style-type: none">• Participated in Contract Advisory Team activities in a non-decision making role.• Participated in Quality Assurance Team activities in a non-decision making role.• Participated on the Records Management Interagency Coordinating Council as a nonvoting member.• Participated on the Medicaid and Public Assistance Fraud Oversight Task Force in a non-decision making role.
<p>Review and Comment</p> <ul style="list-style-type: none">• Reviewed reports from the Health and Human Services Commission's Office of Inspector General.• Reviewed tax settlement information provided by the Office of the Comptroller of Public Accounts.

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Other Activities (Continued)

Participation on National Audit Organizations

- Eight representatives from the State Auditor's Office serve on committees of the National State Auditors Association (NSAA). Those committees are:
 - The Audit Standards and Reporting Committee, which monitors, responds to, or proposes changes to generally accepted accounting principles, auditing standards, and government auditing standards to foster improvements in state government.
 - The Auditor Training Committee, which identifies issues that affect current and future operations of state audit organizations. That committee also examines the types of educational programs or other resources that can help auditors address issues, and it plays an active role in developing and overseeing quality, timely programs for NSAA conferences to enhance the professional proficiency of auditors.
 - The E-Government Committee, which tracks the evolution of e-government and communicates relevant information to NSAA members regarding the emerging use of e-government in state governments.
 - The Excellence in Accountability Awards Committee, which coordinates the NSAA awards program to recognize state audit organizations that have furthered NSAA's vision and objectives by assisting their states in managing resources and achieving program goals and/or by promoting the value of the audit function as a key factor in providing accountability of public funds.
 - The Human Resources Committee, which works to promote best practices in the recruitment, advancement, and retention of staff within state audit organizations.
 - The Peer Review Committee, which exercises responsibilities over the operations of the NSAA Peer Review Program. Those responsibilities are to develop policies and procedures for performing and reporting on reviews, resolve potential disputes that may arise in the review process, ensure the consistency of reviews, and coordinate with the American Institute of Certified Public Accountants and various federal agencies to ensure the adequacy of the NSAA Quality Control Review Committee Roster.
 - The Performance Audit Committee, which enhances the quality and impact of performance audits by sharing information, coordinating state audit initiatives, educating government decision-makers, reviewing training opportunities, facilitating opportunities to benchmark performance, and recognizing outstanding performance audit practices.
 - The Single Audit Committee, which represents NSAA on matters pertaining to Single Audit laws and regulations and provides a forum for NSAA members to exchange inquiries and best practices on Single Audits.

Presentations

- An Assistant State Auditor and Auditor answered questions about the role and function of the State Auditor's Office at the orientation session for new members of the 84th Legislature.
- An Assistant State Auditor made a presentation on the role and function of the State Auditor's Office to Senator Ellis's Texas Legislative Internship Program.
- The Chief of Staff/General Counsel participated in a panel discussion on legal considerations for audits and evaluations at the National Legislative Program Evaluation Society's Professional Development Seminar.
- An Assistant State Auditor addressed a delegation of Honduran Congress members and staff. The visitors were participants in a program facilitated by the U.S. Department of Treasury's Office of Technical Assistance.
- A member of the State Classification Team made two presentations on military occupational specialty codes for state agency employment at a primer event and legislative update hosted by the Veterans Commission.
- Nine managers and auditors presented at the 2015 State Auditor's Office Audit Conference. Presentations included:
 - Contracting: A Look at How We Got Here.
 - An Introduction to Auditing Contracts.
 - Auditing Contracts: Planning.
 - Auditing Contracts: Procurement and Formation.
 - Auditing Contracts: Contract Oversight.

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Award

The State Auditor's Office received a service award, which is described below.

Award

In July 2015, the National Legislative Program Evaluation Society (NLPES) announced that the State Auditor's Office would receive an NLPES Impact Award for *An Audit Report on the Texas Enterprise Fund at the Office of the Governor* (State Auditor's Office Report No. 15-003, September 2014). That award will be presented at the NLPES professional development seminar in October 2015.

Copies of this report have been distributed to the following:

84th Legislature

All members of the 84th Legislature

Office of the Governor

The Honorable Greg Abbott, Governor



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