Overview

The State Auditor’s Office Annual Report highlights audit work and other activities our office performed during fiscal year 2017. As the independent auditor for Texas state government, our mission is to actively provide government leaders with useful information that improves accountability.

This report is designed to provide information on the activities our office performed during the year in carrying out our annual audit plan, pursuant to Texas Government Code, Chapter 321. It is organized by team within our office: Audit and Review, State Classification, Investigations and Audit Support, Professional Development, and Other Activities. Our audit work is performed in accordance with generally accepted government auditing standards and includes statutorily required and risk-based audits.

Fiscal year 2017 marked the first full year using the ratings system our office implemented on March 28, 2016. That ratings system was implemented to provide more context for the findings in our performance audit reports. This report includes an update on the ratings that Audit and Review issued during fiscal year 2017, including a count of issues by rating: low, medium, high, and priority. Ratings issued within each audit report can also be found in the Audit and Review section.

In addition, this report includes information regarding the national recognition the State Auditor’s Office received for our audit work released during the year.

Each report is hyperlinked to the full report on the State Auditor’s Office’s Web site: https://www.sao.texas.gov.

For more information regarding this report, please contact Verma Elliott, Assistant State Auditor, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.
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Auditors use professional judgement to rate the audit findings identified in certain audit reports. For each report, the issue ratings are summarized in the report chapters/subchapters. Auditors determine the ratings based on the degree of risk or effect of the findings in relation to the audit objective(s).

The audit identified strengths that support the audited entity’s ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.

Issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

Issues identified present risks or effects that if not addressed could substantially affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

Issues identified present risks or effects that if not addressed could critically affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Ratings Issued in Fiscal Year 2017

- **LOW**
  - 59 ratings
- **MEDIUM**
  - 22 ratings
- **HIGH**
  - 10 ratings
- **PRIORITY**
  - 53 ratings
The Audit and Review Team completed 51 reports from audits of and other projects related to state agencies, higher education institutions, and other entities in fiscal year 2017. The types of projects performed included:

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

Those reports are listed beginning on the following page by General Appropriations Act article; self-directed, semi-independent agencies (SDSI); and non-state entities. Each report is hyperlinked to the full report on the State Auditor’s Office’s Web site. See the figures below for report information regarding the project type and article(s) addressed.
# Audit and Review

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<tr>
<td>An Audit Report on Selected Contracts at the Commission on State Emergency Communications</td>
<td>17-041</td>
<td>07/27/2017</td>
<td>⬤ ⬤</td>
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<td>An Audit Report on Selected Contracts at the Office of the Attorney General</td>
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<td>An Audit Report on Selected Contracts at the Department of Information Resources</td>
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<td>An Audit Report on Financial Processes at the Commission on the Arts</td>
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<td>An Audit Report on the Texas Facilities Commission’s Compliance with Requirements Related to the Historically Underutilized Business and State Use Programs</td>
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<td>A Report on the Audit of the Employees Retirement System’s Fiscal Year 2016 Pension Schedules</td>
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<td>An Audit Report on the Texas Multiple Award Schedule (TXMAS) Contracts Program at the Office of the Comptroller of Public Accounts</td>
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## Article II: Health and Human Services

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<td>An Audit Report on Medicaid Managed Care Contract Processes at the Health and Human Services Commission</td>
<td>17-007</td>
<td>10/13/2016</td>
<td>★★★</td>
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<td>A Report on Health and Human Services Commission Contracts</td>
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<td>10/04/2016</td>
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## Article III: Education

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<td>An Audit Report on Selected Contracts at Stephen F. Austin State University</td>
<td>17-042</td>
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<td>An Audit Report on the Audit of Teacher Retirement System’s Fiscal Year 2016 Employer Pension Liability Allocation Schedules</td>
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<td>An Audit Report on the University of Texas Medical Branch at Galveston’s Compliance with Requirements Related to the Historically Underutilized Business and State Use Programs</td>
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<td>A Report on State of Texas Compliance with Federal Requirements for the Student Financial Assistance Cluster for the Fiscal Year Ended August 31, 2016</td>
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<td>An Audit Report on Certification of the Permanent School Fund’s Bond Guarantee Program for Fiscal Year 2016</td>
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Article III: Education (continued)

An Audit Report on the University of Texas at El Paso’s Compliance with Benefits Proportional Requirements 17-022 02/01/2017 ⚫ ⦿ ⦿

A Report on the Audit of the Permanent School Fund’s Fiscal Year 2016 Financial Statements 17-019 01/13/2017

Entities audited:
- Texas Education Agency
- General Land Office


An Audit Report on Selected Texas Education Agency Contracts and Grant with Education Service Centers 17-013 11/30/2016 ⦿ ⦿ ⦿ ⦿

An Audit Report on the Texas Education Agency’s Procurement and Oversight of Texas Virtual School Network Contracts 17-002 09/12/2016 ⦿ ⦿ ⦿ ⦿

Article IV: The Judiciary

An Audit Report on Financial Processes at the Office of Court Administration 17-048 08/31/2017 ⦿ ⦿ ⦿ ⦿

Article V: Public Safety and Criminal Justice

An Audit Report on Financial Processes at the Alcoholic Beverage Commission 17-044 07/28/2017 ⦿ ⦿ ⦿ ⦿

An Audit Report on Selected Contracts at the Department of Criminal Justice 17-032 05/02/2017 ⦿ ⦿ ⦿ ⦿
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<td>An Audit Report on Financial Processes at the Department of Licensing and Regulation</td>
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# Annual Report for Fiscal Year 2017

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<td><strong>Self-directed, Semi-independent Agencies</strong></td>
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<td>An Audit Report on the Department of Savings and Mortgage Lending: A Self-directed, Semi-independent Agency</td>
<td>17-034</td>
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<td>An Audit Report on the Credit Union Department: A Self-directed, Semi-independent Agency</td>
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<td>A Summary of Financial and Performance Reports Submitted by Regional Planning Commissions</td>
<td>17-006</td>
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<td>An Audit Report on the Lower Colorado River Authority</td>
<td>17-001</td>
<td>09/01/2016</td>
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Cross-cutting

A Report on Analysis of Quality Assurance Team Projects 17-047 08/29/2017

Entities included:
- Department of Public Safety
- Department of Transportation
- Health and Human Services Commission

An Audit Report on Selected Major Agreements Under the Texas Economic Development Act 17-043 07/31/2017

Entities audited:
- Office of the Comptroller of Public Accounts
- Corrigan-Camden Independent School District
- Port Arthur Independent School District


(see the report for the self-reported status of recommendations issued from September 1, 2015, through June 30, 2016)

Entities included:
- Office of the Comptroller of Public Accounts
- Employees Retirement System
- Department of Agriculture
- Department of Transportation
- Department of Public Safety
- Texas Lottery Commission
- Texas Board of Nursing


(see the report for the agencies and higher education institutions audited)


(see the report for the agencies and higher education institutions audited)

A Report on State Agency Reporting Requirements for Local Governments 17-026 02/21/2017

(see the report for the agencies and/or higher education institutions included)
### Cross-cutting (continued)

An Audit Report on HealthSpring Life and Health Insurance Company, Inc., a Medicaid STAR+PLUS Managed Care Organization  

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<td>17-025</td>
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Entities audited:
- Health and Human Services Commission
- HealthSpring Life and Health Insurance Company, Inc.

A Report on the Delegation of Authority to State Entities to Contract for External Audit Services  

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(see the report for the state entities included)

An Audit Report on Selected Major Agreements Under the Texas Economic Development Act  

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<td>17-009</td>
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Entities audited:
- Office of the Comptroller of Public Accounts
- Sabine Pass Independent School District
- Clyde Consolidated Independent School District
- Port Neches-Groves Independent School District

An Audit Report on the Department of Public Safety’s Compliance with Requirements Related to the Historically Underutilized Business and State Use Programs  

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<td>17-008</td>
<td>10/13/2016</td>
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</table>

Entities audited:
- Office of the Comptroller of Public Accounts
- Department of Public Safety
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 (HR) offices; and provides information on employee compensation issues to the Legislature. In fiscal year 2017, the State Classification Team released or revised 13 reports and additional resources, which are listed on the following pages. Each report is hyperlinked to the full report on the State Auditor’s Office’s Web site. See the figure below for information regarding the use of resources available on the State Classification Team Web site.

Classification Web Site Hits by Resource Category
1.2 Million Hits

- HR Statutes Inventory/Guides/Holiday Schedule
  439,270 Hits (36%)
- Job Descriptions
  437,657 Hits (35%)
- Online Systems
  129,302 Hits (11%)
- Reports
  189,240 Hits (15%)
- Workforce Analysis
  39,524 Hits (3%)

State Classification Team Web site: http://www.hr.sao.texas.gov
## Classification

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<td>Workforce Planning Guide</td>
<td>17-708</td>
<td>08/29/2017</td>
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<td>A Report on Salary Supplements at Public Higher Education Institutions and State Agencies</td>
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<td>03/17/2017</td>
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<tr>
<td>Texas State Agencies’ and Higher Education Institutions’ Workforce Summaries</td>
<td>17-706</td>
<td>02/17/2017</td>
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<td>A Summary Report on Full-time Equivalent State Employees for Fiscal Year 2016</td>
<td>17-705</td>
<td>12/22/2016</td>
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<td>A Classification Compliance Audit Report on State Cemetery Positions at the State Preservation Board</td>
<td>17-703</td>
<td>11/14/2016</td>
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Other State Classification Team Activities

**Job Descriptions**
- **New and Revised Job Descriptions for the 2018-2019 Biennium**
- **Job Description Guide**

Job descriptions are reviewed and updated biennially to address changes to the State’s Position Classification Plan, clarify duties and responsibilities, and incorporate feedback from state agencies on their use of the job descriptions.

**Position Classification Plan**
- **Conversion Manual**
- **Conversion Manual Guide**

The conversion manual assists agencies with changes the Legislature makes to the State’s Position Classification Plan each legislative session and provides guidance on the necessary payroll actions agencies must make prior to the start of each biennium.

**Military Crosswalk**
- **Military Crosswalk Guide**

The Military Crosswalk Guide assists state agencies with using the military crosswalk, which matches the Military Occupational Specialty (MOS) codes from each branch of the U.S. Armed Forces to each job classification series in the State’s Position Classification Plan, if applicable.

**Agency Assistance**
- Provided assistance to state agencies’ and higher education institutions’ human resources staff on a variety of topics related to human resources, including employment regulations, exit interview survey assistance, full-time equivalent reporting, workforce planning, classification and compensation, and turnover rates.
Investigations and Audit Support (IAS) investigates reports of alleged impropriety and illegal acts affecting state resources and presents the results to prosecuting authorities when warranted. In addition, IAS operates and maintains phone, Internet, and mail-based reporting mechanisms for fraud, waste, and abuse of state resources. IAS also provides training and presentations.


IAS activities are conducted in accordance with Texas Government Code, Sections 321.013, 321.0136 and 321.022.
The Professional Development Team coordinates and provides continuing professional education (CPE) opportunities for auditors, accountants, managers, investigators, and other professional staff. During fiscal year 2017:

- A total of 83 courses were held.
- A total of 1,565 public and private sector employees attended the training courses.
- Employees of 81 federal, state, and local government entities and private organizations received training.
- A total of 11,212 CPE hours were earned through courses open to external participants.

See the figures below for information regarding the course subject matter and the number of CPE hours earned by entity type for courses open to external participants.
Courses Offered by Professional Development
Internal and External Courses

Auditing Essentials
Auditing the IT Outsourced Environment
Beyond Excel to the Max
Critical Thinking for Auditors
Effective Audit Interviewing
Effective Contract Auditing
Forensic Accounting and Financial Statement Fraud Analysis
Fraud Issues and Answers for Government Auditors
How Auditors and Accountants Can Use Access
Increasing Auditor Effectiveness in Recognizing and Detecting Fraud
Intermediate/Advanced Excel Features Beneficial for Auditors and Accountants (offered twice)
Interviewing Techniques for Auditors and Inspectors
IT Audit Boot Camp
Leadership, Collaboration and Influence Skills for Auditors
Leading for Productivity
Linux as an Audit Target...and as an IT Audit Tool
Managing Fraud Risks in Government Procurement and Contracting
Maximum Productivity: Time Management and Time Budgeting Strategies
Navigating Internal Controls Basics
Powerfully Presenting Audit Results
Project Management Essentials
Project Management Skills for Auditors
Root Cause Mastery in Audits
Statistical Data Analysis for Risk Assessment, Fraud, Waste and Quick Response Audits
The 5 Choices of Extraordinary Productivity
Understanding and Auditing Alternative Investments
Understanding the Yellow Book
Using Data Analysis to Detect Fraud and Error

View the current course schedule on the State Auditor’s Office’s Web site: https://www.sao.texas.gov/Training
Courses Offered by Professional Development

Internal Only Courses

Active Directory
Arbutus Analyzer Introductory Training
Crafting an Effective Report Outline
Evaluating Cloud
Expediting the Teambuilding Process
File System Permissions
GASB’s Financial Reporting Model Improvements: Government Funds (Webinar)
How Do I Communicate Bad News to the Client?
How Do I Determine the Data to Request That Will Address the Project Objective?
How Do I Know When to Apply What’s Happening/Being Done On Other Audits Or in the Office To My Audit? (Learning Lab)
How Do I Look for Access Controls in Systems I’ve Never Seen?
How Does the Risk Assessment Drive the Audit Program?
How Is the Conclusion Different than the Results?
How Much General Control Work Is Too Much to Support My Project Objectives? (Learning Lab)
IT Audit at the SAO
Legislative Testimony and Briefings
Making Analytics Real: Government Case Studies (Webinar)
Making the Most Out of Your Project Status Meetings
Managing Teams with Diverse Communication Needs
Microsoft SharePoint Security for Auditors
Microsoft SQL Server - Security and Control
New Auditor Training - 15 courses
Performance Feedback at the SAO
Personnel Law
Practical SQL Language for Auditors: Beyond the Basics (offered twice)
Project Budgeting
Project Management Tools, Tips and Technology (Project Management Roundtable)
Records Management, Open Records, and Confidential Information
Reporting Findings
Researching Law: Selecting Criteria
Reviewing Audit Documentation
Roles and Responsibilities of the Assistant Project Manager
Roles and Responsibilities of the Project Manager
Texas Budget Systems
The Leadership Pipeline (Webinar)
The People Side of Project Management
Understanding Program Processes
What and How Can I Use USAS Data on My Audit?
When Can I Rely on Testimonial Evidence?
Other Professional Development Activities

Audit Conference

The State Auditor’s Office hosted the 2017 Audit Conference at the Joe C. Thompson Conference Center in August 2017. A total of 187 employees from federal, state, and local governments and private organizations attended the 2-day conference. The conference offered 2 general sessions and 18 breakout sessions regarding auditing essentials and other specialties, including information technology audit, leading audit, and improving the audit process.

Know the State

The State Auditor’s Office hosted executives from five state agencies for the “Know the State” series, which featured one-hour information sessions about those agencies for State Auditor’s Office personnel. Those state agencies included: the Office of the Secretary of State, the State Office of Risk Management, the Texas Education Agency, the Texas Lottery Commission, and the Texas Workforce Commission.

Other Instruction

Professional Development instructed the following courses for other organizations, including various state agencies, the Texas State Agency Business Administrators’ Association (TSABAA), and the National Association of State Auditors, Comptrollers and Treasurers (NASACT):

- Embracing the Power of Your Unique Productivity Style.
- Finding Your Strengths.
- How Organizations Provide Leadership Training.
- Increasing Efficiencies through Productivity Work Styles.
- Project Management for Leaders.

*Professional Development Team activities are conducted in accordance with Texas Government Code, Section 2102.012.*
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 pages list those activities.

Audit and External Audit

- Conducted activities related to state agencies’ and higher education institutions’ delegated audit authority.¹
- Monitored an external auditor’s performance of a segment of the federal compliance portion of the Statewide Single Audit.²

Committees, Work Groups, and Task Forces

- Participated in Contract Advisory Team activities as a technical advisor in a non-decision making role.³
- Participated in Quality Assurance Team activities in a non-decision making role.⁴
- Participated on the Records Management Interagency Coordinating Council as a nonvoting member.⁵
Other Activities (continued)

Internal Audit Activities

- Notified mid-sized and large state agencies and higher education institutions regarding guidelines for completing their 2017 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 and reviewed all internal audit reports submitted during the year. (See the figure below for additional information on the periodic internal audit reports the State Auditor’s Office received during fiscal year 2017.)

- 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. Developed the guidelines and format for the annual risk assessment and reviewed the agencies’ submissions.

- Prescribed the methodology for higher education institution internal audits of benefits proportional by fund requirements.

Periodic Internal Audit Reports Received by Article

- I: 562
- II: 45
- III: 40
- IV: 93
- V: 29
- VI: 67
- VII: 120
- VIII & SDSI: 45

(See the figure below for additional information on the periodic internal audit reports the State Auditor’s Office received during fiscal year 2017.)
Other Activities (continued)

Monitor and Review

- 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.9

- Reviewed internal audit reports from higher education institutions regarding the higher education institutions’ compliance with contracting requirements in the Texas Education Code, Section 51.9337.10

- Reviewed reports from the Health and Human Services Commission’s Office of Inspector General and Office of Independent Ombudsman for State Supported Living Centers.11

- Reviewed the fiscal impact information and justification for rate increases that the Health and Human Services Commission provided.12

- Reviewed tax settlement information provided by the Office of the Comptroller of Public Accounts.13

- Reviewed ethics policies of the School Land Board, upon request.14

- Analyzed law enforcement agencies’ asset forfeiture expenditure data.15

- Testified and/or served as a resource witness on State Auditor’s Office work for 11 committees and subcommittees of the Senate and the House of Representatives.16

- State Auditor’s Office personnel gave 15 presentations to the following entities on various audit-related topics, including auditing essentials and standards, common audit findings, and the federal single audit:
  - Office of the Comptroller of Public Accounts.
  - Department of Family and Protective Services.
  - Health and Human Services Commission.
  - Southwest/Southeastern Intergovernmental Audit Forums (SWIAF/SEIAF).
  - State Auditor’s Office Audit Conference.
  - Teacher Retirement System.
  - Texas Association of College and University Auditors (TACUA).
  - Texas Association of Student Financial Aid Administrators (TASFAA).
  - Texas State Agency Business Administrators’ Association (TSABAA).
  - University of Houston System.
  - The University of Texas at Austin – McCombs School of Business.
State Auditor’s Office personnel participated on audit organizations remotely, via conference call, to coordinate with our peers from across the United States, enhance skills development, and further advance the practice of government auditing. Specifically:

- The First Assistant State Auditor served on the executive committee of the Southwest Intergovernmental Audit Forum (SWIAF), which promotes communication, coordination, and cooperation among the federal, state, and local audit agencies throughout the region to foster effectiveness and efficiency of governmental operations.

- The Quality Control Manager participated on the American Institute of Certified Public Accountants’ (AICPA) Governmental Audit Quality Center (GAQC), which promotes the importance of quality governmental audits and the value of such audits to purchasers of governmental audit services.

- Eleven representatives from the State Auditor’s Office served on committees of the National State Auditors Association (NSAA), which cooperatively addresses government financial management issues. Those committees are:
  - The Audit Standards and Reporting Committee.
  - The Auditor Training Committee.
  - The E-Government Committee.
  - The Excellence in Accountability Awards Committee.
  - The Human Resources Committee.
  - The Peer Review Committee.
  - The Performance Audit Committee.
  - The Single Audit Committee.
Other Activities (continued)

State Auditor’s Office personnel hold 196 professional certifications related to audit and financial, classification and human resources, investigations, information technology, and other advanced skills.

See the figure below for information regarding the number of certifications held by category. In addition, the following page details the certifications within each category. The number of certified employees is listed in bold when more than one individual holds the certification.

Certifications by Category

Audit and Financial: 148
Investigations: 7
Classification and Human Resources: 3
Information Technology: 27
Other: 11
Other Activities (continued)

Certifications (continued)

**Audit and Financial**
- Certification in Risk Management Assurance
- Certified Fiduciary & Investment Risk Specialist
- Certified Financial Services Auditor
- Certified Fraud Examiner (38)
- Certified Government Auditing Professional (27)
- Certified Government Financial Manager (2)
- Certified Information Systems Auditor (15)
- Certified Internal Auditor (19)
- Certified Internal Controls Auditor
- Certified Investments and Derivatives Auditor (3)
- Certified Public Accountant (40)

**Classification and Human Resources**
- Certified Compensation Professional (2)
- Professional in Human Resources (5)
- SHRM Certified Professional (4)

**Investigations**
- Certified Electronic Evidence Collection Specialist
- Certified Forensic Computer Examiner
- Certified Forensic Interviewer

**Information Technology**
- A+ Service Technician Certification (2)
- Certificate of Cloud Security Knowledge
- Certified Information Systems Security Professional
- Certified Network Telephony Engineer (2)
- Certified Novell Administrator (2)
- Citrix Certified Administrator
- CompTIA A+
- CompTIA Security+ (3)
- Enterprise Desktop Support Technician on Windows 7
- Microsoft Certified IT Professional (3)
- Microsoft Certified Professional
- Microsoft Certified Solutions Associate
- Microsoft Certified Solutions Expert (2)
- Microsoft Certified Systems Administrator
- Microsoft Certified Systems Engineer (2)
- Microsoft Certified Technology Specialist Network+ (2)

**Other**
- Certified Records Manager
- Digital Archives Specialist
- Licensed by the State Bar of Texas (3)
- Project Management Professional
- SAS Certified Base Programmer for SAS 9
Other activities that the State Auditor’s Office performed were conducted in accordance with the following:

2. Title 31, United States Code, Section 7502.
4. Texas Government Code, Section 2054.158.
5. Texas Government Code, Section 441.203.
8. Rider 8, page III-41, the General Appropriations Act (84th Legislature).
10. Texas Education Code, Section 51.9337.
11. Texas Health and Safety Code, Sections 552.102, 552.103, 555.059, and 555.102.
12. Section 43, pages II-131 through II-133, the General Appropriations Act (84th Legislature).
14. Texas Natural Resources Code, Section 51.408.
The State Auditor’s Office received an award from a national organization, which is described below.

In June 2017, 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 Medicaid Managed Care Contract Processes at the Health and Human Services Commission* (State Auditor’s Office Report No. 17-007, October 2016). That award, which is given to state audit offices whose work demonstrates a public impact within their respective states, was presented at the NLPES professional development seminar in September 2017.
Copies of this report have been distributed to the following:

85th Legislature
All members of the 85th Legislature

Office of the Governor
The Honorable Greg Abbott, Governor
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