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# Key Points of Report

## The 2000 Statewide Single Audit Report

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April 2001

### Overall Conclusion

In general, state agencies and universities do a good job of controlling financial resources and complying with state and federal laws and regulations. However, we found some serious exceptions.

The annual Statewide Single Audit includes procedures to ensure the accuracy of the State's annual financial report and compliance with requirements of major federal programs. The 39 federal programs audited represent 81 percent of \$19.6 billion of fiscal year 2000 federal funding.

### Key Facts and Findings

- Material weaknesses were identified in the accounting and financial reporting systems at the Texas Education Agency and the Texas Department of Health. These two agencies accounted for expenditures of approximately \$22.6 billion during fiscal year 2000, which includes \$7 billion in federal funds.
- Contract administration continues to be a material weakness at the Department of Housing and Community Affairs and the Texas Education Agency. Despite improvements, monitoring of contracts is still not adequate to ensure the State receives agreed-upon services. In fiscal year 2000, these two agencies paid contractors over \$2.2 billion in federal funds to provide services to citizens.
- A material weakness continues to exist in the payroll system at Texas Southern University. There is no assurance that payroll charges to Research and Development federal programs are allowable.
- The Commission on Alcohol and Drug Abuse and the Department of Protective and Regulatory Services made significant improvements to address prior year weaknesses in contract administration.
- There were no findings for the Department of Transportation or the Teacher Retirement System in any of the areas tested. In addition, we had no findings for 19 of 20 agencies and universities we audited for compliance with bond covenant requirements.

### Contact

Susan A. Riley, CPA, Audit Manager, (512) 936-9500



## Office of the State Auditor

Lawrence F. Alwin, CPA

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*The State Auditor's Office conducted this audit in accordance with Government Code, Section 321.013(c).*

# **Auditor's Reports**

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The 2000 Statewide Single Audit Report



## STATE AUDITOR'S OFFICE

ROBERT E. JOHNSON BUILDING  
1501 N. CONGRESS AVENUE, SUITE 4.224  
AUSTIN, TEXAS 78701

LAWRENCE F. ALWIN, CPA  
State Auditor

February 23, 2001

### Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Rick Perry, Governor  
and  
Members of the Texas State Legislature  
State of Texas

Ladies and Gentlemen:

We have audited the financial statements of the State of Texas as of and for the year ended August 31, 2000, and have issued our report thereon dated February 23, 2001. Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We have chosen not to comply with a reporting standard that specifies the wording to be used in discussing restrictions on the use of the report. We believe this wording is not in alignment with our role as a legislative audit function.

#### Compliance

As part of obtaining reasonable assurance about whether the State's general purpose financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

#### Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or

operation of the internal control over financial reporting that, in our judgment, could adversely affect the State's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

The reportable conditions at the Department of Human Services, the Texas Education Agency (TEA), and the Texas Department of Health (TDH) are described in the accompanying Schedule of Findings and Questioned Costs as items 01-555-18, 01-555-52, and SAO Audit Report No. 01-021, respectively. We consider the reportable conditions at TEA and TDH to be material weaknesses.

## Work Performed by Other Auditors

The State Auditor's Office did not audit the following entities and funds. These entities were audited by other auditors:

Entities Audited by Other Auditors	Scope of Work Performed
Texas Guaranteed Student Loan Corporation	An audit of the consolidated balance sheets was conducted for the years ended September 30, 2000 and 1999; an audit of the compliance requirements in the <i>OMB Circular A-133 Compliance Supplement</i> was conducted for the year ended September 30, 2000.
Texas Workers' Compensation Insurance Fund	An audit of the balance sheets and the related statements of income and comprehensive income, changes in capitalization and retained earnings, and cash flows was conducted for the years ended December 31, 1999 and 1998.
State Bar of Texas	An audit of the general purpose financial statements was conducted for the year ended May 31, 2000.
Texas Local Government Investment Pool	An audit of the statements of assets and liabilities and the related statements of operations and changes in net assets was conducted for the years ended August 31, 2000 and 1999.
Texas Prepaid Higher Education Tuition Board	An audit of the general purpose financial statements was conducted for the year ended August 31, 2000.
Employees Retirement System	An audit of the general purpose financial statements and the combining financial statements of the pension plans was conducted for the year ended August 31, 2000.
Department of Housing and Community Affairs	An audit of the general purpose financial statements was conducted for the year ended August 31, 2000; an audit of the balance sheet of the Revenue Bond Enterprise Fund was conducted for the year ended August 31, 2000.
Texas Lottery Commission	An audit of the general purpose financial statements was conducted for the year ended August 31, 2000.

Entities Audited by Other Auditors	Scope of Work Performed
Permanent University Fund	An audit of the investment assets and liabilities, the comparison summary of investment in securities, the related statements of operations and the statements of changes in net investment assets was conducted for the years ended August 31, 2000 and 1999. An audit of the schedule of changes in cost of investments and investment income was conducted for the year ended August 31, 2000.
The University of Texas System Long Term Fund	An audit of the statements of assets and liabilities, and the comparison summary of investment in securities and the related statements of operations and changes in net assets was conducted for the years ended August 31, 2000 and 1999.
The University of Texas System Short Intermediate Term Fund	An audit of the statements of assets and liabilities, including the schedule of investment in securities and the related statements of operations and changes in net assets was conducted for the years ended August 31, 2000 and 1999.

This report, insofar as it relates to those entities, is based solely on the reports of the other auditors.

### Other Work Performed by the State Auditor's Office

We released *An Audit of the Financial Statements of the Teacher Retirement System of Texas for Fiscal Year Ended August 31, 2000* (SAO Report No. 01-014). *An Audit of the Financial Statements of the Permanent School Fund for the Fiscal Year Ended August 31, 2000* (SAO Report No. 01-384) has also been released. *An Audit of the Office of the Fire Fighters' Pension Commissioner Fiscal Year 2000 Financial Statements* will be released in late April 2001.

This report is intended solely for the information and use of the Governor, the Legislature, audit committees, boards and commissions, management, and all federal and pass-through entities from which federal assistance was received. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Lawrence F. Alwin, CPA  
State Auditor



## STATE AUDITOR'S OFFICE

ROBERT E. JOHNSON BUILDING  
1501 N. CONGRESS AVENUE, SUITE 4.224  
AUSTIN, TEXAS 78701

LAWRENCE F. ALWIN, CPA  
State Auditor

February 23, 2001

### Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With *OMB Circular A-133*

The Honorable Rick Perry, Governor  
and  
Members of the Texas State Legislature  
State of Texas

Ladies and Gentlemen:

#### Compliance

We have audited the compliance of the State of Texas with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2000. The State's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of management at each state entity. Our responsibility is to express an opinion on the State's compliance based on our audit.

The State of Texas general purpose financial statements include the operations of the Texas Guaranteed Student Loan Corporation and the Texas A&M University System Research Foundation, which received \$25,113,990 and \$60,860,463, respectively, in major federal programs which are not included in the Schedule of Findings and Questioned Costs during the year ended August 31, 2000. Our audit, described below, did not include the operations of the Texas Guaranteed Student Loan Corporation and the Texas A&M University System Research Foundation. These entities engaged other auditors to perform an audit in accordance with *OMB Circular A-133*.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our

opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

We have chosen not to comply with a reporting standard that specifies the wording to be used in discussing restrictions on the use of the report. We believe this wording is not in alignment with our role as a legislative audit function.

In our opinion, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2000. The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with *OMB Circular A-133* and which are described in the accompanying schedule of findings and questioned costs as SAO Audit Report No. 01-021 and as items:

1	6	12	17	23	28	34	39	44	49
2	7	13	19	24	29	35	40	45	50
3	8	14	20	25	30	36	41	46	51
4	9	15	21	26	31	37	42	47	55
5	10	16	22	27	33	38	43	48	

*(Only the last digit(s) of each finding reference number is listed. The first five digits of each reference number are 01-555.)*

## Internal Control Over Compliance

Management at each state entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with *OMB Circular A-133*.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs. Reportable conditions include all the items listed above in the compliance section of this report and also items:

11	18	32	52	53	57
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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions listed above, we consider findings at the Department of Housing and Community Affairs (finding 24), Texas Southern University (finding 42), the Texas Education Agency (findings 51 and 52), and the Department of Health (SAO Audit Report No. 01-021) to be material weaknesses.

### **Work Performed by Other Auditors**

The State Auditor's Office did not audit several of the entities and funds of the State. These entities were audited by other auditors, as stated in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

This report is intended solely for the information and use of the Governor, the Legislature, audit committees, boards and commissions, management, and all federal and pass-through entities from which federal financial assistance was received. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Lawrence F. Alwin, CPA  
State Auditor

# **Our Compliments**

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The 2000 Statewide Single Audit Report



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## Our Compliments to Agencies With no Findings

We are pleased to report that the following entities had no findings in the areas tested. The management of these entities have established systems to ensure compliance with the state, federal, and/or bond regulations examined during the audit. While we recognize this accomplishment, it is important to understand that we may have only audited a very specific portion of the entity's operations. The scope of our audit work at these entities is described below.

### Comptroller of Public Accounts (Comptroller)

The primary focus of our audit at the Comptroller's Office was the statewide consolidation process for preparing the 2000 *Comprehensive Annual Financial Report* (CAFR). We performed procedures to determine if the CAFR is materially accurate and presented in conformity with generally accepted accounting principles. We gained an understanding of the internal control structure for the consolidation process. We also tested the accuracy of the compilation of the annual financial reports for more than 200 state agencies, universities, and component units.

### Department of Transportation (Department)

The primary focus of our audit was the Department's compliance with the federal requirements for four programs: *Highway Planning & Construction* (CFDA 20.205), *Airport Improvement Program* (CFDA 20.106), *Formula Grants for Other Than Urbanized Areas* (CFDA 20.509), and *Highway Safety Cluster* (CFDA 20.600 and 20.601). Total expenditures for these programs in fiscal year 2000 were \$1,831,973,422. Specific procedures were used to test for compliance with the major federal program requirements.

### Teacher Retirement System (System)

The scope of the audit included expressing an opinion on the System's financial statements. For the third consecutive year, we reported no significant audit recommendations in the area of financial reporting. The System's pension plan remains fully funded for the third consecutive year and current assets together with future contributions required by law will be sufficient to pay benefits to retirees and to current active members when they retire.

## Bond Compliance Audits

The primary focus of our audit was each entity's compliance with significant bond covenants and the presentation of bond-related disclosures in their 2000 Annual Financial Reports. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related "Notes to the Financial Statements" for fairness of presentation and conformity with reporting guidelines. As of August 31, 2000, the State had \$12.3 billion in bonds outstanding.

Agencies and Universities With No Bond Compliance Findings	
Agency or University Name	Total Amount of Bond Issues Outstanding as of August 31, 2000 (In Thousands)
Criminal Justice, Department of	\$ 0
Economic Development, Texas Department of	99,335
General Land Office and Veterans' Land Board	1,901,244
Higher Education Coordinating Board	596,031
Housing and Community Affairs, Department of <sup>a</sup>	1,276,409
Midwestern State University	14,995
Military Facilities Commission	18,715
Public Finance Authority	2,860,200
Southwest Texas State University	35,385
Stephen F. Austin State University	30,930
Texas A&M University System	881,039
Texas Southern University	61,180
Texas State Technical College	7,020
Texas State University System	171,075
Texas Tech University System	163,060
Texas Woman's University	34,765
The University of Texas System	1,502,230
University of Houston System	134,680
University of North Texas System	80,732
<b>Total</b>	<b>\$ 9,869,025</b>

<sup>a</sup> External auditors performed the bond compliance audit work.

# **Schedule of Findings and Questioned Costs**

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The 2000 Statewide Single Audit Report



The *Office of Management and Budget (OMB) Circular A-133* requires the reporting of significant instances of noncompliance and questioned costs. This schedule includes a detailed list of findings and costs questioned as a result of the Fiscal Year 2000 Statewide Single Audit. Questioned costs are amounts charged to a federal program that may be unallowable. These costs result from noncompliance with requirements set by the federal grantor or federal legislation. The federal grantor will make the final determination as to the allowability of the costs. Unallowable costs may need to be returned to the federal grantor or program.

The findings, which make up Section 3 of this schedule, are organized by state agency or university. Each finding is identified by a unique reference number.

Section 1:

## Summary of Auditor's Results

### Financial Statements

1.	Type of auditor's report issued:	Unqualified
2.	Internal control over financial reporting:	
	a. Material weakness(es) identified?	Yes
	b. Reportable conditions identified not considered to be material weaknesses?	Yes
	c. Noncompliance material to financial statements noted?	No

### Federal Awards

1.	Internal Control over major programs:	
	a. Material weakness(es) identified?	Yes
	b. Reportable condition(s) identified not considered to be material weaknesses?	Yes
2.	Type of auditor's report issued on compliance for major programs?	Unqualified
3.	Any audit findings disclosed that are required to be reported in accordance with <i>OMB Circular A-133</i> , Section 510(a)?	Yes
4.	Dollar threshold used to distinguish between Type A and Type B programs:	\$30 million
5.	Auditee qualified as low-risk auditee?	No



6. Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.239	HOME Investment Partnerships Program
16.575	Crime Victim Assistance
16.579	Byrne Formula Grant Program
17.225	Unemployment Insurance
17.245	Trade Adjustment Assistance - Workers
17.255	Workforce Investment Act
20.106	Airport Improvement Program
20.205	Highway Planning and Construction
20.509	Formula Grants for Other Than Urbanized Areas
66.000	Colonia Wastewater Treatment Assistance Program
66.458	Capitalization Grants for State Revolving Funds
83.543	Individual and Family Grants
83.544	Public Assistance Grants
83.552	Emergency Management Performance Grants
84.002	Adult Education - State Grant Program
84.010	Title I Grants to Local Educational Agencies
84.011	Migrant Education - Basic State Grant Program
84.048	Vocational Education - Basic Grants to States
84.186	Safe and Drug-Free Schools and Communities - State Grants
84.276	Goals 2000 - State and Local Education Systemic Improvement Grants
84.318	Technology Literacy Challenge Fund Grants
93.268	Childhood Immunization Grants
93.556	Promoting Safe and Stable Families
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.658	Foster Care - Title IV-E
93.917	HIV Care Formula Grants
93.940	HIV Prevention Activities - Health Department Based
93.959	Block Grants for Prevention and Treatment of Substance Abuse
Cluster	Child Care
Cluster	Child Nutrition
Cluster	Fish and Wildlife
Cluster	Employment Service
Cluster	Job Training Partnership Act
Cluster	Highway Safety
Cluster	Special Education
Cluster	Medicaid
Cluster	Research and Development
Cluster	Student Financial Assistance

Section 2:

## Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*. For fiscal year 2000, there were three findings related to financial statements.

### Texas Education Agency (Agency)

Reference No. 01-555-52

A material weakness continues to exist in the accounting and reporting controls at the Agency. (For more detail on this finding, see Section 3 of the Schedule of Findings and Questioned Costs, Texas Education Agency.)

### Department of Health (Department)

SAO Report No. 01-021

The Department has failed to provide a foundation of fiscal and administrative oversight to ensure that it is complying with applicable laws, properly accounting for funds, and implementing safeguards to protect its resources. (For more detail on this finding, see *An Audit Report on Financial Management at the Department of Health*, SAO Report No. 01-021, March 2001.)

### Department of Human Services (Department)

Reference No. 01-555-18

The Department overstated its total expenditures by at least \$46.7 million in its fiscal year 2000 Annual Financial Report. (For more detail on this finding, see Section 3 of the Schedule of Findings and Questioned Costs, Department of Human Services.)

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## Federal Award Findings and Questioned Costs Contents

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Section 3:

## Federal Award Findings and Questioned Costs

This section identifies reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, as required to be reported by *Office of Management and Budget Circular A-133*, Section .510(a). This section is organized by state agency or university.

### Commission on Alcohol and Drug Abuse

Reference No. 01-555-20

#### Continue to Improve Monitoring of Subrecipients

(Prior Audit Issue - 00-555-52, 99-555-31, 99-555-33, 98-323-01)

#### CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse Contract/Award - N/A

The Commission on Alcohol and Drug Abuse (Commission) improved its monitoring of subrecipients. The Commission paid \$110.1 million in federal block grant funds to more than 200 subrecipients in fiscal year 2000. The Commission addressed most of the issues we identified last year by developing policies and procedures to:

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

- Identify high risk providers.
- Move providers to the unit rate method.
- Oversee provider fiscal reporting.
- Disallow cash advances.
- Review programs for contract renewal.
- Track provider information.

These policies and procedures were all adopted by August 2000.

However, two issues are still outstanding:

- During fiscal year 2000, the Commission did not ensure that subrecipient financial status reports were received and reviewed in a timely manner. The Commission developed new policies and procedures for fiscal year 2001 to address this issue. Timely review of financial reports could help the Commission quickly identify and recover any misspent funds or excess payments.
- Although the Commission developed a centralized manual system for maintaining provider information, that information is not kept current. The information most frequently absent includes performance measure information, funding information, and team meeting information. Incomplete and non-current documentation can lead to incorrect evaluations of provider performance and financial condition.

A related State Auditor's Office report, *Contract Management at the Commission on Alcohol and Drug Abuse* (SAO Report No. 01-012, December 2000), indicated that the Commission still needs to increase monitoring efforts throughout the contracting process to improve oversight of service providers. The Commission's response indicates that it has implemented or partially implemented the recommendations in this report.

Recommendation:

The Commission should ensure that financial status reports are received and reviewed in a timely manner. In addition, the Commission should keep centralized provider information up-to-date.

Management's Response and Corrective Action Plan:

*During the FY 2001 contract year, submission of provider financial status reports, formerly due on a quarterly basis, is being transitioned to a monthly basis. Regular, periodic reviews of financial status reports will occur on a quarterly basis. Status reports for management are being developed that will provide timely information to assure that the review process is functioning as conceived. Implementation will be complete no later than 6/30/01.*

*TCADA Management will take steps to ensure that established procedures are followed regarding the centralized manual system for maintaining provider information.*

*Implementation Date: June 30, 2001*

*Responsible Person: Finance and Administration Deputy*

Reference No. 01-555-31

**Identify Priority Population Expenditures for Level of Effort Requirements for Woman's Services**

**CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse  
Contract/Award - N/A**

The Commission did not collect sufficient client information to identify expenditures for substance abuse treatment for pregnant women, women with dependent children, and women seeking the custody of their children (priority population). Therefore, it cannot be determined whether the Commission met its level of effort requirements for the *Block Grants for Prevention and Treatment of Substance Abuse*.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

To report the level of effort amount, the Commission used total expenditures for specialized female treatment programs designed specifically to comply with the block grant woman's services requirements. Under certain conditions, these programs treated women who were not in the priority population specified in the block grant. Because the Commission cannot separate the priority clients from other clients, it included expenditures for the non-priority population clients in its reported \$14 million level of effort amount. Therefore, the reported level of effort amount was probably overstated. The overall impact of this deficiency is unknown.

The *Block Grant for Prevention and Treatment of Substance Abuse* program requires that the Commission spend at least \$13.9 million annually for specialized substance abuse treatment for pregnant women, women with dependent children, and women seeking the custody of their children. Noncompliance with these level of effort requirements may result in the loss of federal funds.

Recommendation:

The Commission should develop a process to identify priority population expenditures to satisfy the level of effort requirements for women services.

Management's Response and Corrective Action Plan:

*The issue will be addressed by a contractual change requiring those providers of treatment services to project, budget and report services and associated expenditures under service types for specialized female services.*

*Providers of adult and youth treatment who serve members of the specialized female priority population in any treatment environment and provide the minimum service requirements for specialized female services will be able to capture that information through the billing and reporting of client services. This reporting process will provide a mechanism for tracking expenditures to the appropriate population. Program and compliance reviews will validate that populations served and services delivered meet expected criteria.*

*Due to the timing of this recommendation, please note that this issue cannot be resolved during this current contracting period (FY 2001). New contractual requirements will be included in the contracts that are effective September 1, 2001, for services to be performed in fiscal year 2002.*

*Implementation Date: September 1, 2001*

*Responsible Person: Finance and Administration Deputy*

Reference No. 01-555-32

**Improve Disaster Recovery Plan**

(Prior Audit Issue - 00-555-59, 99-555-39)

**CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse Contract/Award - N/A**

The Commission's Disaster Recovery Plan, though improved, still lacks critical components and does not provide adequate assurance that the Commission could quickly resume operations to provide services to the public after a disaster, such as a fire or tornado. Information technology standards require that a plan be in place so that, in the event of a disaster, the agency can prevent the loss of critical data and resume operations quickly.

Questioned Cost: \$ 0.00

U.S. Department of Health  
and Human Services

A review of the plan found the following:

- The Disaster Recovery Critical Hardware Inventory does not identify what hardware is required to recover specific applications.
- The procedures for critical tasks are so general that they have limited use.
- The contact information for recovery teams is out-of-date.
- Responsibilities were not assigned and tasks not prioritized for each recovery team.

Recommendation:

The Commission should complete its disaster recovery plan so that it adequately describes how to respond to a disaster in a well-organized, coordinated manner. The plan should:

- Identify the computer hardware and software necessary for core operations.
- Describe critical tasks that information technology and business functions must perform.



- Update contact information for recovery teams, which should include information technology staff and representatives of each critical business function.
- Assign responsibilities and prioritize the tasks for each recovery team.

*Management's Response and Corrective Action Plan:*

*The Information Technology Department finished several projects essential to the implementation of prior SAO recommendations. Such projects include:*

- *Completion of the Revenue subsystem used to track all Agency revenue such as state and federal funds and money owed by providers due to overpayments or disallowed costs.*
- *Development of the Query Reporting System (QRS Central) which is a report portal to the data warehouse maintained on the TCADA Intranet.*
- *Creation of standard reports for QRS Central related to the Agency budget; contractor budgets and expenditures; contractor Financial Status Reports (FSRs); and performance measure reports.*
- *Development of technical documentation for the SMS functions.*
- *Establishment of processes designed to improve computer security.*

*The Disaster Recovery Plan is scheduled for completion by March 31, 2001 and will include those components listed in the State Auditor's recommendation.*

*Implementation Date: March 31, 2001*

*Responsible Person: Finance and Administration Deputy*

## Office of the Attorney General

Reference No. 01-555-43

### Ensure That Medical Support Enforcement Actions Are Complete and Accurate

(Prior Audit Issue - 00-555-01)

#### CFDA 93.563 - Child Support Enforcement Contract/Award - N/A

The Office of the Attorney General (Office) did not meet the 75 percent required compliance rate for enforcement of non-custodial parents' medical support obligations. Thirteen of 45 case files (28.9 percent) had procedural errors in processing the medical support enforcement actions, and there was no record that medical support was obtained for those 13 cases. Procedural errors included failing to complete all appropriate entries on administrative enforcement forms.

Questioned Cost: \$ 0.00

U.S. Department of Health  
and Human Services

We reported in *The 1999 Statewide Financial and Compliance Audit* that the Office had a 31.1 percent error rate. While management stated that it implemented an automated system enhancement to correct the problem, procedural errors still occurred.

The Code of Federal Regulations, Title 45, Section 305.20, stipulates that the Office cannot have an error rate of more than 25 percent. Without complete and accurate enforcement processing, the opportunities for obtaining medical support may be missed.

The *Child Support Enforcement* program handled more than one million child support cases in fiscal year 2000. More than 450,000 of those cases had medical support obligations.

#### Recommendation:

The Office should review the automated system enhancement developed to process medical support enforcement actions and implement a quality review process to ensure that appropriate medical support enforcement actions are present, complete, and accurate.

#### Management's Response and Corrective Action Plan:

*The OAG is confident that the corrective actions initiated in the latter months of FY 2000 are providing the desired results. The SAO report reflects the decrease in the reported error rate; therefore the agency will continue to monitor the effects of its correct actions. As of September 2000, those new cases that historically would have been impacted by the above-referenced procedural error are being coded properly by the automated system. It should be noted that the procedural errors reported may or may not reflect the actual opportunities for obtaining medical support.*

*Implementation Date: October 31, 2001*

*Responsible Person: Deputy Director of Field Operations*

Reference No. 01-555-44

**Use Appropriate Resources to Establish Child Support Obligations****CFDA 93.563 - Child Support Enforcement  
Contract/Award - N/A**

The Office did not use all appropriate resources in its efforts to locate non-custodial parents to establish child support obligations. Although the Office used other sources for locating the parent, it did not use the Federal Parent Locator Service (FPLS) in 10 out of 25 cases (40 percent) tested. In those 10 cases, the non-custodial parent was not located and therefore child support obligations were not established.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

The Code of Federal Regulations, Title 45, Section 303 (b)(3), requires the agency to access all appropriate location sources within 75 days whenever location is necessary. This includes, at a minimum, all the following locate sources as appropriate: custodial parent, FPLS, U.S. Postal Service, state employment security agency, unemployment data, Department of Motor Vehicles, and credit bureaus.

**Recommendation:**

The Office should follow federal guidelines for the establishment of child support obligations by using all available resources to locate non-custodial parents.

**Management's Response and Corrective Action Plan:**

*Historically, the FPLS service has not proven to be the best and/or the most appropriate tool for locating non-custodial parents. Nonetheless, the agency has completed programming tests, and anticipates that by the spring of 2001, all individuals in need of locate will be automatically forwarded to the Federal Parent Locator Service.*

*Implementation Date: October 31, 2001*

*Responsible Person: Deputy Director of Field Operations*

**Texas Education Agency**

Reference No. 01-555-51

**Strengthen Controls Over Subrecipient Monitoring**

(Prior Audit Issue - 00-555-46, 99-555-89)

- CFDA 10.555 – National School Lunch Programs
- CFDA 84.010 – Title I Grants - Local Educational Agencies
- CFDA 84.011 – Migrant Education - Basic State Formula Grant Program
- CFDA 84.027 – Special Education State Grants
- CFDA 84.048 – Vocational Education - Basic Grants to States
- CFDA 84.173 – Special Education - Preschool Grants
- CFDA 84.186 – Safe and Drug-Free Schools - State Grants
- CFDA 84.318 – Technology Literacy Challenge Fund Grants
- Contract/Award - N/A

A material weakness continues to exist in the subrecipient monitoring function at the Texas Education Agency (Agency). If subrecipients such as school districts and charter schools do not spend federal funds as required, then students and other targeted beneficiaries might not receive the intended

Questioned Cost:	\$ 0.00
U.S. Department of Agriculture	
U.S. Department of Education	

**Material weakness means:**

- An agency does not have a system to ensure that the significant provisions in applicable laws, regulations, contracts, and grants are followed.
- There is a risk that significant noncompliance with applicable laws, regulations, contracts, and grants could occur and not be detected in a timely manner during the normal course of business.

benefits. Furthermore, noncompliance with federal requirements could result in a loss of federal funding. The Agency distributed more than \$2 billion in federal funds to more than 1,000 subrecipients in fiscal year 2000. We did not find any significant instances of noncompliance by subrecipients.

Source: American Institute of Certified Public Accountants Statement of Position 98-3, March 17, 1998, Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards

After this material weakness was identified in the *1998 Statewide Financial and Compliance Audit*, the Agency developed an agency-wide monitoring plan on December 8, 2000. However, the decentralized monitoring function in place for the period under audit, fiscal year 2000, was not sufficient to ensure effective monitoring of all subrecipients. Significant subrecipient monitoring issues noted in the prior audits that continue to exist include:

- A lack of a consistent, systematic approach to identify and monitor on an interim basis the significant compliance requirements according to *Office of Management and Budget (OMB) Circular A-133*. For example, the District Effectiveness and Compliance Division reviews 12 indicators for the Vocational Education Program but only four are related to the nine federal compliance requirements applicable to the Vocational Education Program. This has led to a conclusion that subrecipients are in compliance when in fact, the Agency has not looked at all significant compliance requirements. For example, during one monitoring visit, staff improperly documented a significant compliance indicator as not applicable for the Carl D. Perkins funds and reported that the subrecipient complied with all federal and state requirements. In a similar instance, staff stated that the subrecipient had complied with all federal and state requirements, even though five of the compliance indicators were improperly noted as not applicable and therefore not tested.
- A lack of sufficient and proper documentation of subrecipient monitoring visits. For example, 10 out of 10 Migrant Education monitoring files that we reviewed did not have adequate documentation to support a conclusion that the subrecipients were in compliance. The primary documentation was a checklist but there was no documentation of staff interviews, time and effort reports, payroll ledgers, student surveys, and other student information such as certificates of eligibility.

- The District Effectiveness and Compliance Division relies heavily on the School District Financial Audit Division's review of subrecipients' independent audits, which limits on-site monitoring by the District Effectiveness and Compliance Division.

According to *OMB Circular A-133*, Subpart D, Section 400 (d), the Agency should monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes and that performance goals are met. In addition, Title 34 of the Code of Federal Regulations, Section 80.40, requires that the Agency monitor each "program, function, or activity" that is supported by federal funds to ensure that subrecipients comply with federal requirements and meet performance goals.

Recommendation:

The Agency should take the following steps to strengthen controls over subrecipient monitoring:

- Implement a consistent, systematic approach to identify and monitor on an interim basis the significant compliance requirements according to *OMB Circular A-133*. The Agency may consider creating a Program Coordinator position to provide input on the critical requirements and serve as a central point of contact. Additionally, training should be provided to management and staff on federal compliance requirements.
- Prepare and maintain sufficient and proper documentation of subrecipient monitoring visits.
- Coordinate and share information between Agency Divisions and the School District Financial Audit Division.

Management's Response and Corrective Action Plan:

*The Agency appreciates the acknowledgement that no significant instances of non-compliance by subrecipients have been found. The agency-wide monitoring plan was completed during the Spring of 2000 and implemented in the Fall of 2000. The monitoring plan includes a process of regularly reviewing implementation and evaluating progress. The plan will continue to be a living/working document and will be revised as necessary.*

*The first recommendation in the audit report has been reviewed. The Division of Accountability Evaluations does have a systematic approach to identify and monitor compliance requirements. The District Effectiveness and Compliance (DEC) selection process is now developed on the basis of both program risk indicators and a cycle system to ensure (1) that the districts with highest need for monitoring are identified and (2) that all districts in the state are included on the cycle, thereby ensuring that no school district visits are postponed indefinitely. The factors that play into the selection process are comprehensive, well researched, and complex. Specific indicators developed for use in monitoring federal programs are provided, in many cases, by the Agency program staff responsible for those programs. One such example is Career and Technology Education, referred to in the audit report as Vocational Education. We believe that the Agency currently complies with monitoring requirements in *OMB Circular A-133* but will consider expanding the scope of DEC reviews to include additional compliance indicators contained in said document. The Division has determined that an additional "coordinator" position can be considered at some future date; a much more vital need currently is additional team members for on-site visits. The Division strives for consistency through ongoing staff development so that the visiting team members can remain knowledgeable about changing federal regulations, state laws, and Agency rules. Emphasis in upcoming staff development will be placed on providing training on *OMB Circular A-133*.*

*The second recommendation also has been reviewed. The Agency agrees with the recommendation to complete additional documentation of subrecipient monitoring visits. Concerted efforts are made to document the evidence reviewed during on-site visits. Visiting team members are required to note on the monitoring checklist the type of documentation reviewed.*

*The third and final recommendation has been reviewed. Teamwork across the divisions of the Agency allows us to effectively use the expertise of program staff, auditors, and on-site monitors. Just as we rely on Agency program staff for monitoring indicators, we rely on the Division of School Financial Audits for reviewing and sharing with us*

*the results of independent audits of districts. For the past three years, the Audits division has shared information with each DEC team, prior to the on-site visit, regarding the district financial audit. We will consider the advisability of noting this review in the text of future monitoring reports. The agency-wide monitoring plan includes the development of an information-sharing system, which will facilitate sharing information among all divisions with monitoring responsibilities. The Agency agrees that the development of this system, and current means of communication across divisions, should continue.*

**Implementation Date:** March 1, 2002

**Responsible Person:** Associate Commissioner for Accountability and Accreditation

Reference No. 01-555-52

### **Strengthen Controls Over Accounting System**

(Prior Audit Issue - 00-555-47, 99-555-95, 99-555-94, 97-348-01)

**CFDA - All CFDA's**

**Contract/Award - N/A**

Questioned Cost: \$ 0.00

Department of Education

A material weakness continues to exist in the accounting and reporting controls at the Agency. This weakness increases the risk that material errors could exist in the Agency's financial data and not be detected in a timely manner. Errors in financial data can lead to inaccurate reports to external parties, such as the Legislature, and inappropriate decisions about funding. In fiscal year 2000, the Agency administered and reported more than \$2 billion in federal funds.

**A material weakness means:** There is a risk that material misstatements of amounts in the financial statements could occur and not be detected in a timely manner during the normal course of business.

Source: American Institute of Certified Public Accountants Statement of Position 98-3, March 17, 1998, Audits of States, Local Governments, and Not-for Profit Organizations Receiving Federal Awards

Since 1996, the Agency has taken measures to address significant accounting and reporting weaknesses identified during each Statewide Financial and Compliance Audit. For example, the Agency now has procedures for reconciling its primary accounting system to various external and sub-systems. Current year issues include a lack of proper controls over the accounting and reporting of error corrections and adjustments. The combined effect of these control weaknesses did not result in a material misstatement of the Agency's reported expenditure balances.

### **Journal Voucher Accounting System**

Control weaknesses were identified in the accounting and reporting of adjustments and error corrections. Journal vouchers are primarily used to make adjustments, correct errors, and reverse entries directly into the Agency's accounting system. The following weaknesses were identified.

- Three journal vouchers were accounted for in fiscal year 2000 and were also reflected as 2001 transactions in a table that stores the journal voucher detail (not the general ledger). The three vouchers total \$7 million.
- The automated journal voucher numbering system is being overridden with manually developed numbers.
- Journal voucher numbers are being re-used to record and account for different transactions at different times and for different amounts.
- The accounting system cannot be used to trace or retrieve deleted journal vouchers. We identified at least 96 journal vouchers that were deleted.
- The accounting system cannot be used to detect duplicate entries. We identified 46 unique journal voucher numbers that resulted in 107 entries. The amounts related to the duplicate entries could not be determined and were not adjusted in the financial statements.

## Year-End Accruals and Reversals and Prior Period Adjustments

Certain current year balances related to year-end expenditure accruals and reversals lacked adequate support to explain the purpose of the adjustments. (Accruals are used to recognize expenditures that have been obligated for future payment and reversals are used to cancel the accrual when the payment is actually made.) The reasons for making the following accruals and reversals were not adequately explained:

- An accrual of \$2.6 million in CFDA 84.276 - *Goals 2000 State and Local Systemic Improvement Grants*
- Some undetermined portion of \$4.8 million in CFDA 84.318 - *Technology Literacy Challenge Fund Grants* was a year-end accrual
- A reversal of \$1.1 million in CFDA - 10.560 *State Administrative Expenses for Child Nutrition*
- A reversal of \$1.3 million in CFDA - 84.196 *Education for Homeless Children and Youth*

In addition, transactions that relate to prior periods were not properly recorded in the following examples:

- A \$12 million expenditure accrual was recorded in three federal programs in fiscal year 1999 that should have been recorded entirely to one. In fiscal year 2000, the Agency recorded this transaction to the correct program in a new entry but did not reverse the original accrual entry. This leaves the accounting records for fiscal years 1999 and 2000 in error.
- Expenditures of \$458,064 were recorded in the *Vocational Education Program* that should have been recorded and reported in the *Statewide State Implementation Grants*. This occurred because the original grant award was erroneously set up in prior years to the wrong CFDA number. As of January 31, 2001, the Agency had not corrected the error.

### Recommendation:

We recommend that the Agency strengthen controls over its accounting system by ensuring that:

- Journal vouchers reflect the appropriate fiscal year in which they are accounted for.
- The journal voucher numbering system cannot be overridden with manually developed numbers.
- Journal vouchers are used for one transaction and cannot be re-used to record and account for different transactions at different times and for different amounts.
- The accounting system can trace and retrieve deleted journal vouchers.
- The accounting system can detect duplicate entries.
- Year-end accruals and reversals are adequately supported.
- Prior period adjustments are properly recorded.

### Management's Response and Corrective Action Plan:

*TEA appreciates the State Auditor's noting that TEA has taken measures to address previous accounting and reporting weaknesses and recognizes the need for further improvement in strengthening accounting internal controls. Specific responses to each recommendation and additional controls that are being implemented are detailed below.*

### *Journal Voucher Accounting System*

- *These three journals were only posted to the fiscal year 2000 general ledger and were properly presented in the fiscal year 2000 annual financial report. A computer bug that caused the journal table to incorrectly state fiscal 2001 was identified by TEA and has been fixed so that the journal table now correctly shows these as fiscal year 2000 journals. In addition to fixing the journals impacted, TEA added additional programming to prevent this from happening again and has shared that programming with the statewide ISAS team so they can fix it at the statewide level. (Implementation date - January 2001)*
- *TEA uses a combination of automatically generated journal voucher numbers, logically numbered interface journals, and manually assigned numbers (usually for corrections to embed the original document number into the journal number assigned). The manually assigned numbers are in addition to the generated numbers; they do not wipe out a generated number. In the future, TEA will monitor the assignment of generated journal numbers and will research any missing gaps to determine and fix the cause. We do have business needs for assigning manual journal numbers. However, we will review our current procedures and modify them where appropriate to tighten the controls over journal numbers and prepare a detailed procedure explaining exactly how journal numbers are assigned. The procedure will address additional controls over the assignment of manual journal numbers. Duplicate manual journal numbers will not be allowed. We will add a step for the preparer to query existing journal numbers before assigning a manual journal number to ensure no duplicates occur. This will also be verified by the approver of the journal, and as we monitor the assignment of automated journal numbers, we will also review to ensure compliance with the procedures on assigning manual journal numbers. (Implementation date - December 2001)*
- *TEA's financial system was designed to allow a journal number to be reused. The system uses the combination of business unit, journal number, journal date, and unpost sequence as the key fields to determine if a journal is unique. If all four elements are the same, the journal cannot be saved because it is considered a duplicate. There are three scenarios where the same journal number will be generated by the system with either a different journal date or unpost sequence: (1) Automated reversals of accrual journals, (2) liquidations of USPS payroll entries, and (3) automated unposting of journals. This cross-referencing is a strength rather than a weakness as it provides an audit trail to easily see that a reversal or liquidating entry has been processed. Except for these three scenarios, which are automatically generated, TEA will ensure that manually assigned journal numbers are not reused according to the revised procedure discussed in the preceding bullet. In addition, we will build an exception report to identify if any duplicates occur. (Implementation date - December 2001)*
- *TEA will implement procedures to track deleted journals as part of our procedure to monitor the automatic generation of journal voucher numbers. However, it's important to note that once a journal has posted to the general ledger, it cannot be deleted. For additional controls, TEA will implement a procedure to reconcile the journal table to the general ledger on a recurring basis. (Implementation date - March 2001)*
- *As mentioned in the third bullet above, none of these 46 journals were duplicate entries because the journal dates or unpost sequences of the subsequent entries were different in the key fields. Therefore, we believe the accounting system can detect duplicate entries and there are no duplicate entries reflected in the financial statements.*

### *Year-End Accruals and Reversals and Prior Period Adjustments*

- *TEA believes it made great progress in estimating and documenting year-end accruals for FY2000 and will continue it's efforts to ensure year-end accruals and prior year reversals are adequately supported. (Implementation date - During preparation of FY2001 AFR)*
- *TEA agrees that two adjustments were miscoded to the wrong CFDA and both have been fixed as of February 2001. We will strive to eliminate these types of errors in the future. (Implementation date - During preparation of FY2001 AFR)*

*Implementation Date: December 31, 2001*

*Responsible Person: Fiscal Managing Director*



## Office of the Governor

Reference No. 01-555-48

### Implement a Process to Verify the Quarterly Financial Status Report

CFDA 16.575 – Crime Victim Assistance  
 CFDA 16.579 – Byrne Formula Grant Program  
 Contract/Award – N/A

Expenditures for the quarter ending June 30, 2000, reported on the Quarterly Financial Status Report in the amount of \$1,179,234.07 could not be validated for accuracy. At the time of the audit, the Criminal Justice Division (Division) of the Office of the Governor was unable to produce a report that supported the detail information submitted on the Quarterly Financial Status Reports to the U.S. Department of Justice. The Department of Justice uses the Financial Status Reports to monitor the status of funds given to the State.

Questioned Cost: \$ 0.00

U.S. Department of Justice

In March 2000, the Division implemented a new Grant Tracking System that is instrumental in the preparation of the Quarterly Financial Status Reports. The detail expenditure information is in the Grant Tracking System and in the accounting system. However, the Division was unable to provide the support that would identify specific transactions included in the reported amounts on the Financial Status Reports. As a result, we were unable to verify the completeness and accuracy of the amounts reported.

According to the *Office of Management and Budget Circular A-133*, an agency is required to submit accurate financial status reports.

#### Recommendation:

We recommend that the Division implement a process to obtain the support from the Grant Tracking System and verify the Quarterly Financial Status Reports.

#### Management's Response and Corrective Action Plan:

*The Division has implemented a process to obtain the support from the Grant Tracking System and to verify the Quarterly Financial Status Reports. Actual cumulative figures as of 12/31/2000, which include the audited quarter, have been submitted to the Department of Justice and supporting detail has been produced and verified.*

*The Division was fully aware of the temporary situation involving our computer system that affected our ability to print the reports at the time. The Division took appropriate action by requesting and then following guidance from the federal government before the reports were due. At no time was our ability to administer federal funds adversely affected.*

*Implementation Date: January 26, 2001*

*Responsible Person: Director of Accounting - CJD*

## Health and Human Services Commission

Reference No. 01-555-35

### Investigate Questioned Costs to Determine Allowability

CFDA 93.778 - Medical Assistance Program

Contract/Award - N/A

The Department of Health (Department) paid \$10,458.30 (7.24 percent of amount tested) in questioned Medicaid costs from September 1, 1999, to November 30, 1999. The federal portion of the questioned costs totals approximately \$6,484. These costs were questioned for the following reasons:

<p>Questioned Cost: \$6,484.00</p> <p>U.S. Department of Health and Human Services</p>
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- Provider did not document services billed.
- Provider failed to furnish medical records upon request.
- Provider billed services at a higher rate than allowed.

We based our results on our review of a study conducted by the Comptroller of Public Accounts (Comptroller) to identify potential overpayments or fraud in Medicaid acute care expenditures. The Comptroller reviewed a sample of 1,609 services from September 1, 1999, to November 30, 1999.

State and federal regulations require providers to retain appropriate records and furnish them upon request. If a provider fails to produce records as requested, the State may withhold payment for the services in question and impose sanctions.

#### Recommendation:

- The Health and Human Services Commission, in conjunction with the Department, should investigate the questioned costs to determine allowability and to recover any overpayments.
- The Department should emphasize proper billing and medical record documentation practices in its Medicaid provider education workshops and publications. The Department should also work with its claims processing contractor, National Heritage Insurance Company, to improve pre-payment screening processes to prevent improper payments.

#### Management's Response and Corrective Action Plan:

*For all cases identified in the study conducted by the Comptroller of Public Accounts (Comptroller), the Commission will take one, or more of the following actions:*

- *Provider did not document services billed. Records from study will be reviewed. In addition, an on-line analysis of provider patterns will be conducted. Actions will be taken to include recoupment, provider education and/or referral to Medicaid Program Integrity.*
- *Provider failed to furnish medical records upon request. Efforts by Commission staff resulted in 96% of providers submitting records as requested. Providers were advised that failure to furnish medical records would result in recoupment of services for the sample date. Actions to be taken will include recoupment and education letter.*

- *Provider billed services at a higher rate than allowed. Actions to be taken will include analysis of provider patterns, recoupment, provider education, and/or referral to Medicaid program integrity.*

*The Texas Department of Health (TDH), as part of the current Claims Administrator Contract with the National Heritage Insurance Company (NHIC), negotiated a new educational program, Success with Medicaid. - This Program educates newly enrolled providers on basic claims filing. In addition, during the first six months of their enrollment, NHIC monitors the providers' claims and assists them with issues dealing with proper billing and documentation. Established providers receive education through the Medicaid 2000 program. During fiscal year 2000, Provider Relations at NHIC conducted 404 workshops with 10,907 in attendance. The same number is projected for fiscal year 2001. In addition, NHIC will offer TDHConnect workshops, to assist providers with electronic claim filing and client eligibility verification.*

*TDH will continue to work with NHIC to improve the effectiveness of pre-payment edits and audits. Many of the errors identified by the Comptroller's study were identified only after the receipt and review of medical records. Edits and audits are designed to identify conflicts within the claim, rather than verify the completeness or accuracy of medical records.*

*Implementation Date: August 31, 2002*

*Responsible Person: Associate Commissioner, Investigations and Enforcement*

## Department of Health

**State Auditor's Comment:** *The State Auditor's Office (SAO) released a report (An Audit Report on Financial Management at the Department of Health, SAO Report No. 01-021, March 2001) that provides additional information.*

The issues identified in the audit report affect the Department of Health's (Department) accountability and hinder its ability to provide reliable financial information. The Department has not fully met all state and federal requirements and lacks an effective compliance monitoring process. Other concerns include the recurrent use of adjustments to correct accounting errors, incorrect expenditure coding, and inadequate information systems.

**A material weakness means:** There is a risk that significant misstatements of amounts in the financial statements could occur and not be detected in a timely manner during the normal course of business.

Source: American Institute of Certified Public Accountants Statement of Position 98-3, March 17, 1998, Audits of States, Local Governments, and Not-for Profit Organizations Receiving Federal Awards

- The Board of Health (Board) delegates its oversight responsibility by authorizing the Department to adjust appropriation transfers at the Department's discretion to meet the financial obligations of the Department. As a result, the Department has made million-dollar adjustments to approved appropriation transfers without additional review.
- The Department may have incurred an interest liability under the federal Cash Management Improvement Act as a result of its handling of federal funds.
- Errors in the Department's Indirect Cost Recovery Plan for fiscal year 2001 may result in overcharges to the federal government.
- The Department makes recurrent adjustments to its accounting systems to correct bookkeeping errors. The need to make recurrent corrections raises concerns about the accuracy of other accounting transactions.
- Inadequate maintenance of user access for both the Department's and the State's accounting systems could result in intentional or unintentional damage to financial information.

### **Summary of Management's Response provided by the Department of Health:**

*The Texas Department of Health (TDH) believes that the State Auditor's Office (SAO) has conducted a thorough Financial Management Review. We would like to emphasize that these findings do not by themselves substantially increase the risk to TDH. This review focuses on some appropriately noted areas where there are opportunities for improvement. As always, TDH is committed to addressing each of the individual SAO findings and implementing appropriate corrective action.*

*As noted in [SAO Report No. 01-021] Appendix 2 as well as in multiple State Auditor reports, the Department has taken appropriate corrective action to address the findings in the various audit reports. TDH is very complex in terms of number and type of programs, as well as in the number of funding sources, and is therefore thoroughly audited. TDH is committed to ensuring accountability, efficiency, and integrity as evidenced by the progress the Department has made toward the replacement of our administrative systems to address many of the issues brought up over time. The Department is further demonstrating this commitment by doing risk analysis and benchmarking our existing processes against those of other health and human services agencies and the new administrative systems software. Our intent is to change our business processes to conform to best practice.*

### **Summary of State Auditor's Follow-Up Comments:**

The Department is entrusted with substantial public resources. Therefore, it is responsible for establishing and maintaining controls to ensure that appropriate goals and objectives are met; resources are safeguarded; laws and regulations are followed; and reliable information is obtained, maintained, and fairly disclosed. The Department is solely responsible for its operations and must be proactive in determining how to comply with laws and regulations.

It is critical that the Department establish financial and business practices to ensure that its operations are efficient, effective, and in compliance with requirements. Addressing individual findings in isolation does little to ensure that comprehensive and long-term policy, operational, and technical changes are made to address recurrent problems.

Reference No. 01-555-36

### Strengthen Controls Over Financial Monitoring

CFDA 93.268 - Childhood Immunization Grants

CFDA 93.917 - HIV Care Formula Grants

CFDA 93.940 - HIV Prevention Activities - Health Department Based  
Contract/Award - N/A

A weakness exists in the controls over financial compliance monitoring of subrecipients at the Department. According to *Office of Management and Budget (OMB) Circular A-133* Subpart D, Section 400(d)(3), the Department must monitor subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, and that performance goals are achieved.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

While the Grants Management Division (Division) has adequate policies and procedures in place, they are not consistently implemented. Because the Division's procedures are not always followed and because of perpetual vacant staff positions necessary to conduct monitoring visits, there is a risk that the Department may not address subrecipient problems in a timely manner. This weakness places the Department at risk of paying subrecipients for unallowable costs, which could cause the Department to lose federal funding.

Our review of the Immunization and HIV program files did not reveal any evidence that subrecipients had incurred unallowable costs. However, the Department faces an increased risk of noncompliance and questioned costs if it does not take action to strengthen the implementation of monitoring controls. There is also an increased risk that the Department will not recover questioned costs in a timely manner. The following conditions are indications of the need to strengthen controls:

- Eleven percent (2 of 18) of the subrecipients tested had not received a financial compliance review other than Single Audit in the past five years. The Division's policies and procedures require financial compliance review visits at a minimum of every four years.
- Seventy-two percent (13 of 18) of the files tested revealed that monitoring reports and corrective action plans are not being submitted in a timely manner. The Division's procedures require that the results of the monitoring visit be submitted to the provider within 30 days and that corrective action plans be received by the recipient within 30 days. Our review identified cases where each process took anywhere from six months to more than a year to complete. Furthermore, there is no standard organization to the files; therefore, it is difficult to review files quickly and determine the status of a given file. Because the monitors must adhere to time constraints, the lack of standardization may be impeding their ability to review files quickly.

#### Recommendation:

The Department should enforce controls over subrecipient monitoring by taking the following steps:

- Continue their efforts to develop a standard format for the monitoring files that makes them easier to review.
- Ensure that Department staff members follow financial monitoring procedures. All levels of management should help to ensure that monitoring policies and procedures are enforced in a timely manner and that corrective action is taken when needed.

Management's Response and Corrective Action Plan:

A standard format for the organization of documents in the monitoring files has been implemented by the TDH as of February 1, 2001.

The TDH has employed risk assessments where the focus is placed on subrecipients that are at the highest monitoring priority level and risk. In addition to on-site monitoring visits, desk reviews are also being conducted. The TDH also receives and reviews single audit reports of subrecipients, which are conducted in accordance with OMB Circular A-133. Monitoring procedures are thorough and effective, evidenced by the fact that the review did not reveal any instances of subrecipients incurring unallowable costs.

While a risk assessment function is currently in use, we will document any changes to that process on an ongoing-basis.

The TDH's Monitoring Section has experienced significant vacancies and has engaged in practices that result in the maximum utilization of available resources. The TDH's ability to attract qualified applicants has been hampered by a competitive job market. As part of an effort to address monitoring position vacancies, a recent job audit has resulted in a reclassification of these positions to a higher pay grade. It is hoped that the higher pay grade will draw the interest of qualified candidates.

Implementation Date: February 1, 2001

Responsible Person: Deputy Commissioner for Administration

Reference No. 01-555-37

**Improve Tracking of Program Monitoring Activity**

CFDA 93.917 - HIV Care Formula Grants  
CFDA 93.940 - HIV Prevention Activities - Health Department Based  
Contract/Award - N/A

The Bureau of HIV and Sexually Transmitted Disease Prevention (Bureau) at the Department does not accurately track its program monitoring activity for the *HIV Care Formula Grants* and the *HIV Prevention Activities* grant. According to *Office of Management and Budget (OMB) Circular A-133* Subpart D, Section 400(d)(3), the Department must monitor subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements and that performance goals are achieved.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

The Bureau has procedures in place to monitor subrecipients; however, our test results indicate that they are not consistently documenting the results of monitoring visits. Seventy percent (7 of 10) of the Bureau's monitoring files tested lacked support of program monitoring activity in their tracking documents. In addition, there was no documentation to explain why monitoring did not occur as required by policy. The lack of documentation could hinder the Bureau's ability to ensure that subrecipients are in compliance with federal program requirements.

Recommendation:

The Bureau should develop and consistently use a process to track monitoring activity. This process should reflect the date, type, and results of the monitoring activity. Based on this information, the Bureau will be able to determine the time frame for the next monitoring visit. If for some reason a monitoring visit cannot be performed as scheduled, the reason should be documented in the monitoring file as per agency policy.

Management's Response and Corrective Action Plan:

The TDH has been developing a (computerized) Contractor Performance System (CPS) that performs the functions recommended by the SAO since 1999. The Bureau of HIV and Sexually Transmitted Disease (STD) Prevention pilot tested this system because of our extensive experience in developing comprehensive contractor monitoring systems. During the interim, the Bureau had designed and implemented manual tracking systems, which the SAO has found to be inadequate.

The HIV staff has been successfully using the new CPS since March 1, 2001.

While a risk assessment function is currently in use, we will document any changes to that process on an ongoing basis.

Implementation Date: March 1, 2001

Responsible Person: Associate Commissioner for Disease Control and Prevention

Reference No. 01-555-38

**Ensure Certification of Suspension and Debarment From Wholesale Drug Provider**

CFDA 93.917 - HIV Care Formula Grants

Contract/Award - N/A

The Department did not obtain suspension and debarment certification from the medication wholesale company contracted to supply medication under the *HIV Care Formula Grants*. The contract amount is more than \$100,000 for fiscal year 2000.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

The Code of Federal Regulations, Title 45, Part 76, requires that the Department obtain certification from contractors with contracts for \$100,000 or more that they are not debarred or suspended from participating in federal assistance programs.

Recommendation:

The Bureau of HIV and Sexually Transmitted Disease Prevention should request that the General Services Commission obtain the required certification from the wholesale drug company that supplies medication under the *HIV Care Formula Grants* program.

Management's Response and Corrective Action Plan:

The Bureau of HIV and STD Prevention will request that the General Services Commission obtain the required certification from the wholesale drug company that supplies medication under the *HIV Care Formula Grant* program.

Implementation Date: March 1, 2001

Responsible Person: Associate Commissioner for Disease Control and Prevention

## Department of Housing and Community Affairs

Reference No. 01-555-24

### Improve Subrecipient Monitoring Process

(Prior Audit Issue - 00-555-42, 99-555-22)

#### CFDA 14.239 - HOME Investment Partnerships Program Contract/Award - N/A

A material weakness continues to exist in the Department of Housing and Community Affairs' (Department) subrecipient monitoring process for the *HOME Investment Partnerships Program (HOME)*. Although the Department has begun to address the issues we identified last year, there is still a need to improve the areas of risk assessment, monitoring procedures, and data accuracy. As we reported in December 2000, significant weaknesses in contract management hinder the Department's ability to ensure funds are awarded objectively and distributed in a timely manner to meet housing needs (*An Audit Report on the Department of Housing and Community Affairs*, SAO Report No. 01-009).

Questioned Cost: \$ 0.00

U.S. Department of Housing  
and Urban Development

#### Material weakness means:

- An agency does not have a system to ensure that the significant provisions in applicable laws, regulations, contracts, and grants are followed.
- There is a risk that significant noncompliance with applicable laws, regulations, contracts, and grants could occur and not be detected in a timely manner during the normal course of business.

Source: American Institute of Certified Public Accountants Statement of Position 98-3, March 17, 1998, Audits of States, Local Governments, and a Not-for-Profit Organizations Receiving Federal Awards

In fiscal year 2000, subrecipients received \$47.5 million in federal *HOME* program funds. Subrecipients include municipalities, non-profit agencies, and for-profit and public housing agencies. Because the Department does not monitor subrecipients effectively, all of these funds were at risk of being spent on unallowable costs, which could lead to lost federal funding. (There is no evidence that subrecipients have incurred significant unallowable costs.)

According to *Office of Management and Budget Circular A-133* Subpart D, Section 400(d)(3), the Department must monitor subrecipients to ensure that federal awards are used for authorized purposes and that performance goals are achieved. To ensure compliance with federal requirements, the Department must continue to address the following

issues:

- Although the Department has developed a risk assessment process, it has not been fully documented or used. Therefore, there is no assurance that the Department visits subrecipients with the greatest risk of noncompliance. For example, in fiscal year 1999, we reported that the Department visited three subrecipients several times in one year without noting any compliance problems.
- While the Department has developed a new monitoring checklist, there are no guidelines detailing checklist use or required documentation. This increases the risk that noncompliance with federal requirements will not be detected in a timely manner. For example, management indicated that questioned costs were not identified as a result of on-site monitoring reviews. But with the lack of documentation, we were unable to determine if questioned costs should have been identified in these reviews.
- Subrecipients still do not have supporting documentation for *HOME* funds requested to pay for incurred administrative costs. Although we did not identify questioned costs in fiscal year 2000, we questioned \$14,600 in fiscal year 1999. Additionally, in a related report, the U.S. Department of Housing and Urban Development questioned \$408,491 because the Department did not have acceptable support for certain administrative charges made to the *HOME* program (*HOME Investment Partnerships Program Administrative Costs*, January 27, 2000).
- The Department still does not have accurate information about its monitoring efforts which impairs management's ability to conduct proper oversight. In December 2000, we reported on several instances in



which data critical for monitoring and reporting purposes was inaccurate or unavailable in the Department's contracting system (GENESIS database). For example, the Department could not provide accurate information on the status of \$12 million in unexpended balances for contracts that expired between 1997 and May 2000.

Recommendation:

We recommend that the Department:

- Implement the risk-assessment tool for the *HOME* program. The Department should ensure the risk assessment is used to identify and direct monitoring resources to subrecipients with the highest risk of noncompliance. The risk assessment should include, but not be limited to, factors such as Single Audit results, amount of award, activity type, past performance, subrecipient experience with the *HOME* program, and the results of other monitoring. All decisions affecting subrecipient monitoring should be formally documented. Any variations from the risk assessment should also be justified and documented. In the absence of resources to perform on-site visits, the Department should develop other monitoring techniques to ensure subrecipient compliance with significant requirements.
- Revise monitoring checklists to clearly indicate the results of the review and include supporting documentation. For example, the monitoring procedures used and documents reviewed should be clearly documented. Once the checklist is revised, formal policies and procedures for monitoring should be developed, implemented, and communicated to responsible staff. These should include the documentation and sampling techniques required of the monitor and instructions for handling unsupported/questioned costs.
- Document and maintain support for *HOME* funds requested to pay for administrative costs incurred by subrecipients.
- Accurately document monitoring information in the *HOME* program's contracting system. The information entered in the GENESIS contracting system by monitors and regional coordinators should be reviewed for accuracy.

Management's Response and Corrective Action Plan:

- *The Department agrees with the recommendation for the HOME Program to implement a risk assessment tool to direct monitoring resources to subrecipients with the highest risk of noncompliance. The recommendation is the responsibility of the Compliance Division and the Housing Finance Programs Division and was implemented December 2000.*

*In March 2000, the HOME program staff completed a risk assessment survey developed by TDHCA's Compliance Division. As previously reported to the SAO, a program monitoring section (created as of May 1, 2000 within the Compliance Division) is now responsible for monitoring certain aspects of the HOME program.*

*The Department-wide risk assessment process identified high risk subrecipients based on factors including amount of funding, type of funding, single audit status, time since last on-site visit, results of previous monitoring visits, status of monitoring responses, and timeliness in submitting reports. Justifications for variations from the risk assessment are documented by the Compliance Division and HOME Program staff. The risk factors of subrecipients, along with other considerations such as allegations of mismanagement, program and public complaints, other unanticipated risks indicators and geographic concentration, are considered when selecting subrecipients for on-site monitoring visits by the Compliance Division's program monitors. Additionally, the Department continues to identify appropriate performance and monitoring factors that will be considered in the risk assessment process. For example, problems or exceptions noted in the contract administrator's draw request will also be considered.*

*Implementation Date: December 31, 2000*

*Responsible Person:* Director of Compliance Division / Director of Housing Finance Programs Division

- *The Department agrees with the recommendation to revise the HOME monitoring checklist and policies and procedures to clearly indicate the results of monitoring reviews and to include documentation standards. The recommendation is the responsibility of the Compliance Division and was implemented December 2000.*

*The monitoring checklists revised by HOME staff in October 1999 to address previous audit findings have been expanded by the Compliance Division to help ensure subrecipient compliance with the HOME program rules and Federal laws and regulations, including the 14 general compliance requirements of OMB Circular A-133. The Compliance Division's monitoring standard operating procedures have been enhanced to include HOME monitoring procedures and provide guidance and direction regarding the monitoring and contract close-out processes.*

*Implementation Date:* December 31, 2000

*Responsible Person:* Director of Compliance Division

- *The Department agrees with the need to document and maintain support for HOME funds requested to pay for administrative costs incurred by subrecipients. The recommendation is the responsibility of the Housing Finance Programs Division. While the recommendation has been implemented, the Department's target date to provide additional support pursuant to HUD's request is April 1, 2001.*

*HOME staff provided support documentation to HUD on the \$408,491 questioned costs and HUD accepted all but \$80,267 for subrecipient administrative costs. HUD asked HOME staff to review the remaining 40 contracts that were part of the original HUD sample and provide supporting documentation for the related administrative draws to HUD by April 1, 2001.*

*Procedures have been established to document and support subrecipient administrative costs paid for with HOME funds. HOME staff has clarified the HOME contract language regarding allowable administrative expenditures and draw down procedures. The HOME Implementation Manual has been enhanced to better clarify the required documentation necessary to support administrative expenditures in compliance with the OMB Circulars. HOME Management also made it a requirement, with the 2000 awards, that all administrators attend our HOME Implementation Training Workshops. In addition, subrecipients are now required to provide administrative draw backup with each draw in an effort to properly document the request prior to release of the funds. HUD has approved these changes.*

*Implementation Date:* November 30, 2000

*Responsible Person:* Director of Housing Finance Programs Division

- *The Department agrees with the need for monitoring information to be accurately documented. Procedures are in place within the Compliance Division to ensure that monitoring related documentation is accurately documented. These procedures include the addition of a monitoring tracking page to the existing Genesis database. The monitoring page includes fields to track Compliance monitoring visit dates, monitoring results, and other related monitoring information. Each monitor is responsible for entering appropriate information. Reports are available for review by program staff and provides the Department compliance status at a glance.*

*The Housing Finance Programs Division is responsible for accurate information accumulated and maintained by the HOME Program staff. The HOME Program staff has implemented a manual system to ensure monitoring information is accurately documented and has longer term plans for the development of an automated central database. The manual system is used by the HOME staff for tracking the current contract performance as well as a tool for awarding future contracts.*

*The \$12 million referred to by the State Auditor's Office was never drawn down from the Federal Treasury and has never been at risk of lapsing. Approximately \$8.1 million of the \$12 million has been deobligated from the*

*Department's subrecipients. The Department has developed work plans for the use of these funds. The balance of the \$12 million, approximately \$3.9 million, is being deobligated from expired contracts as the contracts are properly closed.*

*In an effort to close expired contracts, program administrators have been requested to provide the Department all outstanding draws, along with their close-out forms, by February 28, 2001. Going forward, the HOME guidelines requiring outstanding draws be received by the Department within 60 days of contract expiration will be strictly enforced so that close-out and deobligation procedures will be more timely.*

*Implementation Date: February 28, 2001*

*Responsible Person: Director of Compliance Division / Director of Housing Finance Programs Division*

## Department of Human Services

Reference No. 01-555-18

### Strengthen the Expenditure Conversion Process

CFDA 10.561 – State Administration Matching Grants for Food Stamp Program

CFDA 93.558 – Temporary Assistance for Needy Families

CFDA 93.767 – State Children’s Insurance Program

CFDA 93.778 – Medical Assistance Program

Contract/Award – N/A

The Department of Human Services (Department) overstated its total expenditures by at least \$46.7 million in its fiscal year 2000 Annual Financial Report (AFR). Additionally, the Department overstated its total expenditures by an estimated \$125.5 million in its fiscal year 1998 AFR. The federal portion of these overstated expenditures for the above listed programs was approximately \$27.4 million in fiscal year 2000 and approximately \$61.9 million in fiscal year 1998. Errors in reporting may cause users of the financial information to make decisions based on inaccurate data.

Questioned Cost: \$ 0.00

U.S. Department of  
Agriculture

U.S. Department of Health  
and Human Services

Although the Department’s process to determine its expenditures appears reasonable, the conversion of expenditures from the strategy structure, used to prepare the Department’s Legislative Appropriation Request (LAR), to the appropriation structure, used to prepare the AFR, was not performed properly. Consequently, for AFR reporting purposes, certain cost pools and leasing expenditures were included twice, while payroll benefit expenditures were omitted. The Department’s LAR was not affected by these errors.

#### Recommendation:

We recommend that the Department:

- Review the expenditure conversion process for calculating expenditures for AFR purposes and identify additional internal controls that should be established to prevent future errors.
- Perform an account fluctuation analysis to detect these types of errors prior to the release of the AFR.
- Adjust the AFR to reflect the correct amount of expenditures. The Department should also make a corresponding adjustment to correct the Schedule of Federal Expenditures.

#### Management’s Response and Corrective Action Plan:

- *Prior to preparation of the FY 2001 AFR, DHS will review the expenditure adjustment process used to calculate A/P for AFR purposes as recommended.*
- *DHS will perform an account fluctuation analysis as recommended prior to the release of future AFR’s.*
- *DHS will make an adjustment to the FY 2000 AFR A/P and Schedule of Federal Expenditures to reflect the correct amounts as recommended. We will coordinate this adjustment with the State Comptroller’s office prior to FY 2001 end.*

*Implementation Date: September 1, 2001*

*Responsible Person: Budget Process Director*

Reference No. 01-555-34

**Establish a Program for Conducting Periodic Risk Analyses and Security Reviews of Automated Data Processing Systems**

(Prior Audit Issue - 00-555-20, 99-555-48)

**CFDA 93.778 - Medical Assistance Program  
Contract/Award - N/A**

The Department has not established and maintained a program for conducting periodic risk analyses and security reviews of the automated data processing systems it uses in the administration of Medicaid.

Questioned Cost:	\$ 0.00
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U.S. Department of Health and Human Services
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In response to a prior year recommendation, the Department prepared a Request for Offer (RFO) to obtain professional services for a security review and risk analysis, but as of November 2000 the RFO had not been posted. We first reported in the *1998 Financial and Compliance Audit* that the Department had not conducted a security review since June 1995.

The Code of Federal Regulations, Title 45, Section 95.621, requires that state agencies establish and maintain a program for conducting periodic automated data processing risk analyses to ensure that appropriate, cost-effective safeguards are incorporated into new and existing systems. State agencies must also perform risk analyses whenever significant system changes occur.

Recommendation:

The Department should establish and maintain a program for conducting periodic risk analyses and security reviews of the automated data processing systems it uses in the administration of Medicaid. The Department should review the automated data processing system security installations on a biennial basis. At a minimum, the reviews should include an evaluation of physical and data security operating procedures and personnel practices. The Department should report on its biennial system security reviews and maintain supporting documentation.

Management's Response and Corrective Action Plan:

*TDHS is currently negotiating final contract terms and conditions with a contractor to perform the required biennial ADP security review. The tentative start date is February 12, 2001 and the work is estimated to take four months. TDHS will ensure the reviews continue to be performed biennially as required by 45CFR 95.621. TDHS MIS will maintain the contractor's report and supporting documentation for on-site HHS or SAO review.*

*Implementation Date: August 31, 2001*

*Responsible Person: MIS Audit Coordinator*

Reference No. 01-555-33

**Strengthen Controls Over Quality Assurance of Client Eligibility Files**  
(Prior Audit Issue - 00-555-18)

**CFDA 93.778 - Medical Assistance Program**  
**Contract/Award - N/A**

During fiscal year 2000, the Department did not formally document its efforts to correct client eligibility file deficiencies found in the Program Integrity Assurance (PIA) process or the Quality Assurance Management System (QAMS). Additionally, the Department has not provided formal training on the QAMS review process since 1992. Lack of error correction documentation and QAMS training limit the Department's ability to ensure accurate client eligibility file information and timely correction of errors.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

In response to a prior recommendation, the Department initiated appropriate action to improve management oversight and documentation of work performed by reviewers and caseworkers. However, the recommendation also requested that the Department implement a mechanism for monitoring error correction on a periodic basis.

The Code of Federal Regulations, Title 42, Section 431.806, requires the State to have a Medicaid eligibility quality control system. The Code of Federal Regulations, Section 431.820, further requires the state agency to take corrective action when errors are found. Appropriate documentation of eligibility determination and the quality control process ensures adherence to required policies and procedures.

**Recommendation:**

We recommend the Department continue its efforts to strengthen the quality assurance process to ensure accurate information in client eligibility files. The Department should:

- Train quality assurance personnel to document case files appropriately and review the files for required documentation. The Department could also consider alternatives to training, such as using standardized case review procedures and technology (i.e. bulletin boards, discussion groups, and computer-based training).
- Implement a mechanism for periodic monitoring of error corrections.

**Management's Response and Corrective Action Plan:**

*Project response and deliverables completed regarding training include:*

- *Case Reading Instruments (01/01) - A new case reading guide and example guide have been developed in order to provide staff with uniform and standardized case review procedures.*
- *Documentation Standards (12/00) - Appendices for the policy and procedures handbook have been updated with notice and documentation requirements.*
- *Form 1217 (12/00) - A revised case reading form has been developed which includes the reporting of case error causes.*
- *Web Access (12/00) - The case reading guide, example guide and updated appendices are now immediately accessible to all departmental staff through the Intranet.*
- *Training (01/01) - Designated regional staff were provided case reading training on January 10, 2001. These representatives will then conduct training sessions for all other applicable staff.*

- *Implementation (01/01) - The new case reading guide was tested during the January 2001 Validation Session. An expanded second test will occur in April 2001. In July of 2001, the validation session will be completed using the new case reading form with accompanying performance standards.*

*Project response and deliverables completed regarding implementing a mechanism for periodic monitoring of error corrections include:*

- *Regional Tracking Plan (11/00) - All Regions have submitted a Regional Error Tracking Plan. A review is in progress.*
- *QAMS Reporting (11/00) - Technical modifications have been completed by Program staff which will ensure that error corrections be completed by the required due dates. The system will now provide automatic prompts to regional staff that alerts them to cases requiring clearance. OPI staff will complete additional prompting if required.*

*Deliverables scheduled for FY 2001 include:*

- *Development of new Validation Report to include regional and statewide error trends.*
- *Assess and revise Long Term Care performance plan expectations.*
- *Development of Performance Improvement Plan module including corrective action requirements.*

*Implementation Date: August 31, 2001*

*Responsible Person: Director, Quality Assurance, Office of Program Integrity*

Reference No. 01-555-19

**Request Sufficient Federal Funds to Minimize the Use of State Monies**

(Prior Audit Issue - 00-555-17)

**CFDA 10.561 - State Administration Matching Grants for Food Stamp Program**

**CFDA 93.558 - Temporary Assistance for Needy Families**

**Contract/Award - N/A**

The Department did not draw sufficient federal funds to cover ongoing program expenditures, although it is requesting funds more frequently as recommended. For fiscal year 2000, the *Temporary Assistance for Needy Families and State Administrative Matching Grant* clearance patterns are negative 0.85 and 0.89 days, respectively. A negative clearance pattern means the Department is using state monies to fund expenditures that should be paid with federal monies, which causes the State to lose interest income and can diminish cash flow.

Questioned Cost:	\$ 0.00
U.S. Department of Agriculture	
U.S. Department of Health and Human Services	

In fiscal year 2000, the use of state funds to cover federal program expenditures cost the State approximately \$26,853 in lost interest. However, this amount is a considerable improvement from the \$239,859 in interest income the State lost in fiscal year 1999.

The Code of Federal Regulations, Title 31, Part 205, Section 7(b), requires the State to minimize the time elapsing between the transfer of funds between the United States Treasury and the pay out of funds for program purposes whether the transfer occurs before or after the pay out. The optimal result to minimize the State's interest liability is for clearance patterns to be as close as possible to zero without being negative.

Recommendation:

We recommend that the Department request sufficient federal funds to cover program expenditures. This procedure will limit the use of state monies and ensure an adequate cash flow.

Management's Response and Corrective Action Plan:

*The negative period one clearance patterns for the TANF and Food Stamp State Administrative Matching grants are a result of the method the Department of Human Services used to handle fringe expenditures. Fringe expenditures were paid, with payroll, on the first business day of the month. The request for federal funds to cover fringe expenditures occurred several days later, because the expenditures were non-cash on the internal system and were not included on the daily reports. The difference in days between the payment of the fringe expenditures and the receipt of federal funds to cover these expenditures was enough to cause the period one calculation to be negative.*

*In FY 2001, fringe is handled in the same manner as payroll. That is, fringe expenditures are paid on the first business day of the month while the request for federal funds is made on the last business day of the preceding month for deposit on payday. The result is that the expenditure is paid and the funds are deposited to cover the fringe payment on the same day. The difference between the payment of the expenditure and the deposit of federal funds is zero days.*

*Furthermore, as of October 2000 the Department of Human Services has increased the frequency in which we request federal funds. The draw patterns are closely monitored and adjustments made to insure minimal use of state funds.*

*Implementation Date: December 1, 2000*

*Responsible Person: Accountant VI, Fiscal*



## Lamar University

Reference No. 01-555-55

### Report Pell Payment Data in a Timely Manner

CFDA 84.063 - Federal Pell Grant Program

Contract/Award - N/A

Lamar University (University) does not report payment data for the *Federal Pell Grant Program* to the U.S. Department of Education (Department) as required. The University failed to report data in a timely manner on 2 of 15 (13.33 percent) students. A university that submits incomplete records, or does not submit the required records on time, may have its Pell allocation reduced and may be fined.

Questioned Cost: \$ 0.00

U.S. Department of  
Education

Timely reporting of payment data ensures that federal funds will not remain at a university when its students do not need the funds. It further ensures that if a student transfers to another university, Pell payments to that student through the new university will not be blocked.

The Federal Register, Volume 64, Page 41707, July 30, 1999, states that a university must report student payment data within 30 calendar days after the university makes a payment or becomes aware of the need to make an adjustment to previously reported disbursement data.

#### Recommendation:

The University should report *Federal Pell Grant Program* payment data within 30 calendar days after making a payment, or after it becomes aware of the need to make an adjustment to previously reported disbursement data. The University may report once every 30 calendar days or bi-weekly, or it may set up its own system to ensure that changes are reported in a timely manner.

#### Management's Response and Corrective Action Plan:

*We concur with the audit findings, one instance was reported within 31 days and the other was reported within 36 days.*

*We have implemented the practice of reporting Pell payment data within 30 days of payment or after we become aware of the need to make an adjustment to previously reported disbursement data.*

*Implementation Date: October 31, 2000*

*Responsible Person: Director of Financial Aid*

## Department of Mental Health and Mental Retardation – Central Office

Reference No. 01-555-49

### Comply With Independent Peer Review Requirements

(Prior Audit Issue - 00-555-21, 99-555-11)

#### CFDA 93.958 - Block Grant for Community Mental Health Services

Contract/Award – N/A

The Department of Mental Health and Mental Retardation (Department) does not have a process to ensure that independent peer reviews of funded treatment programs are performed as required by the *Block Grant for Community Mental Health Services* program. Noncompliance with this requirement may result in the loss of federal funds.

Questioned Cost: \$ 0.00

U.S. Department of Health  
and Human Services

The Department's Austin-based mental health quality management teams monitor the quality and appropriateness of the clinical care provided by the Community Centers for Mental Health and Mental Retardation. However, these teams cannot conduct peer reviews because they are not independent of the entities needing review.

The United States Code, Title 42, Section 300X-53, requires the State to ensure that independent peer reviews are performed for at least 5 percent of the entities it funds to provide treatment services. The entities reviewed must be representative of all the entities the Department uses to provide treatment services. Peer reviewers must be independent. Therefore, the State must ensure reviewers do not review their own programs and the peer review is not part of the licensing or certification processes.

#### Recommendation:

As reported in *The 1999 Statewide Single Audit Report* (SAO Report No. 00-555, May 2000), we recommend the Department develop and implement an independent peer review process for entities that provide treatment services during the grant award period. However, we support the Department's effort to obtain clarification of this requirement from the Center for Mental Health Services.

#### Management's Response and Corrective Action Plan:

*The Department gratefully acknowledges the support of the State Auditor's Office regarding the importance of obtaining clarification from the federal Center for Mental Health Services (CMHS) regarding implementation for the federal law pertaining to independent peer reviews (USC 42 300X-53).*

*As required by federal law and the rules of the Texas Department of Mental Health and Mental Retardation (TDMHMR), the TDMHMR office of Quality Management currently conducts independent peer review and oversight of mental health services that are funded, in part, by the federal mental health block grant (MHBG). The Department believes that the procedures currently used to conduct peer review and oversight of community mental health services adequately address the requirements of the applicable federal law.*

*The Department adequately addresses the requirements of the federal law in that the department requires (TDMHMR Mental Health Quality Management Administrative Procedure: MH Block Grant Independent Peer Review) that "peer reviewers are independent by ensuring that the peer review does not involve reviewers reviewing their own programs and the peer review is not conducted as part of the licensing or certification process" (Draft OMB A-133 Compliance Supplement). In further compliance with the federal law (42 USCA 300x-53 (a)(1)(A) and (B)), the Department's mental health peer review process assesses the "quality, appropriateness, and efficacy of treatment services" and ensures that "at least five percent" of the mental health service providers are reviewed each fiscal year.*

*The Department believes that the current mental health peer review process and the current Quality Management peer reviewers are sufficiently independent of the providers of community mental health services, both organizationally and professionally, that no conflict of interest exists. The TDMHMR mental health quality management peer reviewers are highly qualified and have extensive expertise in the various professional mental health disciplines utilized by the providers of mental health services; hold current Texas licenses in the relevant professional disciplines; participate in continuing education to maintain their skills; are not directly involved in the operation of the services providers; and do not conduct the peer reviews as part of any licensing or certification activities.*

**Implementation Date:** N/A

**Responsible Person:** Coordinator, Mental Health Programs Statistics and Planning

**State Auditor’s Follow-Up Comment:**

The regulation relating to Independent Peer Review will be updated Spring 2001. The agency has decided to wait for a clarification to the regulation before taking further action. The Austin-based mental health quality management teams conducting the independent peer reviews are part of the Department’s Community Services Division. This Division has oversight responsibilities over the programs that have peer review requirements.

Reference No. 01-555-50

**Strengthen Controls Over Cash Management Processes**

**CFDA 93.778 - Medical Assistance Program**

**Contract/Award - N/A**

The Department needs to strengthen controls over its cash management processes to ensure compliance with federal requirements. The Department has made improvements in its process for drawing federal funds. However, we noted the following issues during our review:

Questioned Cost: \$ 0.00  
U.S. Department of Health and Human Services

- Although the Department’s Period I calculation was accurately calculated some discrepancies were noted between the Period I transactions and supporting documentation. These included inaccurate deposit and disbursement dates. These specific discrepancies did not result in an inaccurate Period I calculation. However, there is a risk that an error could occur in the calculation if the supporting data is not entered correctly. Such errors could potentially result in the State paying an incorrect amount of interest to the federal government.
- Formalized policies and procedures have not been developed and implemented for the cash management process. Errors could occur in the cash management process without policies and procedures to provide guidance. Policies and procedures are especially important due to the recent turnover of the Department’s cash management personnel.
- Funding techniques used by the Department are not accurately reflected in the Cash Management Improvement Act (CMIA) Treasury-State Agreement (Treasury-State Agreement). The Treasury-State Agreement indicates that the current funding technique for the Medical Assistance Program is Pre-Issuance. However, the fiscal year 2000 CMIA Annual Report identifies two different funding techniques, Pre-Issuance and Zero Balance Accounting, that should be used for the program’s direct costs. Additionally, the report indicates that the Monthly Draw technique should be used for the program’s indirect costs. Title 31 of the Code of Federal Regulations, Section 205.9, requires that a Treasury-State Agreement indicate all the funding techniques to be applied to a federal program.

Recommendation:

The Department should strengthen its internal controls to ensure compliance with the Cash Management Improvement Act (CMIA) requirements. The Department should:

- Review the data used in cash management processes to ensure prompt detection and correction of errors. These processes should include reviews of data entry to ensure accuracy.
- Develop and implement formal cash management policies and procedures. Policies and procedures should include definitions for administrative, direct and indirect costs. They should also include a description of the overall cash management process and responsible parties.
- Update the Treasury-State Agreement to accurately reflect the funding techniques for the *Medical Assistance Program*. This update should clarify which components of the *Medical Assistance Program* use the Pre-Issuance technique, which components use the Zero Balance Accounting technique, and which use Monthly Draws.

Management's Response and Corrective Action Plan:

*The department has implemented new cash management procedures effective April 1, 2000 with the consolidation of central office and statewide accounting. These procedures have resulted in significant improvements in the Cash Management Improvement Act calculations. Reviews of the data used in cash management processes to ensure prompt detection and correction of errors are being performed. As part of the reorganization, the department identified the need to develop written procedures that will include a description of the overall cash management process and responsible parties. The department has already begun to develop these procedures.*

*The department will work with the State-Treasury to clarify techniques used by the department and update the Treasury State Agreement accordingly.*

*Implementation Date: December 31, 2001*

*Responsible Person: Director, Fiscal Management*

## Parks and Wildlife Department

Reference No. 01-555-45

### Develop a Process for Tracking Sport Fishing and Hunting License Revenues

CFDA 15.605 - Sport Fish Restoration

CFDA 15.611 - Wildlife Restoration

Contract/Award - N/A

Questioned Cost: \$ 0.00

U.S. Department of the  
Interior

It could not be determined if the Parks and Wildlife Department (Department) is using sport fishing and hunting license revenues as required for the administration of state fish and wildlife programs (excluding law enforcement activities for predator, animal, and rodent control). License revenues are commingled with other funds in Fund 9 (Game, Fish and Water Safety). Because detailed expenditure information for that Fund does not exist, we were unable to determine if the license revenues were spent appropriately. The Department is at risk of spending license revenues on unallowable costs and could lose \$16 million in federal funds for not being in compliance with federal regulations regarding the use of license revenue.

The Code of Federal Regulations, Title 50, Section 80.3, allows a state to participate in the Sport Fish and Wildlife program only after it passes legislation for fish and wildlife conservation. This legislation must include a prohibition against using sport fishing and hunting license fees for purposes other than administration of the fish and wildlife agency. In addition, the *Office of Management and Budget Circular A-133 Compliance Supplement* states that administration of the state fish and wildlife agency consists only of those functions required to manage the state's fish and wildlife resources. Law enforcement activities for predator, animal, and rodent control are not considered fish and wildlife administration.

#### Recommendation:

The Department should develop a tracking system to ensure that all hunting and sport fisherman license revenues are spent only on fish and wildlife program administration (excluding law enforcement activities for predator, animal, and rodent control).

#### Management's Response and Corrective Action Plan:

*While detailed expense information is captured for each expenditure made, we agree that we do not track the revenue source which funds every expenditure. Even so, revenue from source other than recreational hunting and fishing licenses that are deposited into the Game, Fish and Water Safety Account 9 are sufficient to cover non-fishery and wildlife related Account 9 expenditures.*

*The Parks and Wildlife Code requires that license revenues, along with many other revenue sources such as boat registration and titling fees, be deposited in Account 9. In FY00 approximately \$33.7 million in state revenues other than recreational fishing and hunting licenses were deposited in the Game, Fish and Water Safety Account 9.*

*The Parks and Wildlife Code also details the uses of Account 9. Some of these uses, although allowed by the Code, are not fish and wildlife related. For example, water safety enforcement activities, boat registration functions, and boat ramp construction and maintenance.*

*In order to address the specific concern stated, we will explore options to code these types of expenditures to ensure that these expenditures are within the range of non-recreational fishing and hunting license revenues.*

**Implementation Date:** December 31, 2001

**Responsible Person:** Chief Financial Officer

## Department of Protective and Regulatory Services

Reference No. 01-555-39

### Strengthen Controls Over the PMS 272 Federal Cash Transactions Report

CFDA 93.556 - Promoting Safe and Stable Families  
 CFDA 93.558 - Temporary Assistance for Needy Families  
 CFDA 93.645 - Child Welfare Services - State Grants  
 CFDA 93.658 - Foster Care - Title IV-E  
 Contract/Award - N/A

The Department of Protective and Regulatory Services (Department) does not have a review process in place for the Payment Management System 272 Federal Cash Transactions Report (PMS 272 Report). An error in the Department's PMS 272 Report for the quarter ending June 30, 2000, resulted in an overstatement of its net disbursements of \$906,358.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

There is no independent detailed review of the PMS 272 Report to ensure its accuracy and completeness. The overstatement resulted from the inadvertent inclusion of a prior quarter disbursement total for the *Child Welfare Services - State Grants* program. The Department has subsequently corrected the error through an adjustment decreasing the cumulative disbursements for the *Child Welfare Services-State Grants* program by \$906,358 on the PMS 272 Report for the quarter ending September 30, 2000.

The Code of Federal Regulations, Title 45, Section 74.52, states that the federal government uses the PMS 272 Report to obtain disbursement information for each agreement with recipients. An error in the report may result in an overstatement or an understatement of disbursements and may not give an accurate picture of the State's cash position.

#### Recommendation:

The Department should strengthen controls over the PMS 272 Report by establishing a detailed review to ensure the report's accuracy and agreement with accounting records.

#### Management's Response and Corrective Action Plan:

*We will establish a review process for the PMS 272 Report. We would like to emphasize that these costs were claimed correctly on Child Welfare Services expenditure report and that no Federal funds were drawn as a result of the clerical error on the PMS 272 Report. The review process will be established by the General Ledger Manager by April 1, 2001.*

*Implementation Date: April 1, 2001*

*Responsible Person: Director of Accounting*

Reference No. 01-555-40

**Perform Reconciliations for Foster Care Income**  
(Prior Audit Issue - 00-555-33, 98-318-02)

CFDA 93.658 - Foster Care - Title IV-E  
Contract/Award - N/A

While significant efforts have been made to improve the current control environment over the income received on behalf of foster care children, the Department has not yet performed a full reconciliation of this income for fiscal years 1999 and 2000.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

The Department has taken certain actions to improve controls, which include obtaining banking services to consolidate the handling of income received on behalf of foster care children and instituting controls designed to help ensure proper treatment of this income. On June 19, 2000, the Department issued Protective Services Action Memo #00-087, which required the staff to perform reconciliations between the income distributed to foster care providers and the income recorded in the billing system to offset the cost of each child's foster care for fiscal year 1998 service months. The Department reports that these 1998 reconciliations have been completed.

The Department also reports that it has compiled the necessary data to initiate a similar reconciliation process for fiscal years 1999 and 2000. However, at the time of our audit, the reconciliation had not yet occurred.

As a result, there is a risk that in fiscal years 1999 and 2000, foster care providers may have received inaccurate payments for the cost of a child's foster care and that the inaccurate payments were undetected and uncorrected. In addition, federal and state funds could have been inaccurately claimed. The total income used to offset the cost of *Foster Care - Title IV-E* in fiscal year 2000 was approximately \$657,000 while the income used to offset the cost of State-Paid Foster Care was approximately \$5.9 million.

*Office of Management and Budget (OMB) Circular A-87*, Attachment A, requires that the costs charged to federal programs be net of all applicable credits, which would include income received on behalf of foster care children.

Recommendation:

The Department should complete reconciliations between the income distributed to foster care providers and the income recorded in the billing system to offset the cost of each child's foster care. These reconciliations should be completed for fiscal years 1999 and 2000 and on an ongoing basis. Any errors identified in payments or claims should then be corrected within a reasonable time frame.

Management's Response and Corrective Action Plan:

*We will complete the statewide reconciliations of children's income against cost of care for fiscal years 1999 and 2000 by August 31, 2001. We are confident that the current implementation of stronger preventive controls (including standardization of local accounting processes and the provision of automation tools to confirm the accuracy of the amount of payment, the payee, and the deduction from the cost of care before the payment is made), and periodic child-specific reconciliations initiated at the local level will take eliminate the need for future statewide reconciliations.*

*Implementation Date: August 31, 2001*

*Responsible Person: Program Specialist*

Reference No. 01-555-41

**Strengthen Controls Over Accounting for Overpayments**

CFDA 93.556 - Promoting Safe and Stable Families

CFDA 93.558 - Temporary Assistance for Needy Families

CFDA 93.658 - Foster Care - Title IV-E

Contract/Award - N/A

The Department had known overpayments of about \$370,000 to vendors as of December 19, 2000, but had not reported these overpayments accurately in the general ledger or in federal financial reports. As a result, the Department is not in full compliance with federal reporting guidelines that require expenditures be reported net of all applicable credits and overpayments. Our testing indicated that:

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	

- Overpayments to vendors that require a refund check are not recorded in the proper general ledger account or reported on federal financial reports until a refund check is received.
- Overpayments are not researched to determine which federal grants are affected until a refund check is received.

The Department is not fully using report Form 8102 Accounting List, which identifies outstanding overpayments recorded in the Child and Adult Protective System (CAPS) that have been outstanding for more than four months. This report allows the accounting staff to determine the amount of overpayments in CAPS that require a refund and an adjustment to the federal reports.

*Office of Management and Budget Circular A-87 Cost Principles for State, Local and Indian Tribal Governments* requires that financial reports be net of all applicable credits and overpayments.

**Recommendation:**

The Department should strengthen its controls over accounting for overpayments by taking the following steps:

- Review the Form 8102 Accounting List report for overpayments on a monthly basis.
- Research overpayments to determine the general ledger coding of these outstanding overpayments on a monthly basis.
- Create a monthly journal entry to record a credit against the overpayments so that the federal financial reports properly reflect the net effect of overpayments.

**Management's Response and Corrective Action Plan:**

*We will review the "8102 Accounting List" monthly and compare it to the individual 8102's and request for payment letters submitted by field staff. We will follow-up with the field if we do not receive any feedback from them. We will research the overpayments and, monthly, record an adjustment to credit the appropriate Federal funding sources for the overpayment. The new procedures will be established by the General Ledger Manager by April 1, 2001.*

*Implementation Date: April 1, 2001*

*Responsible Person: Director of Accounting*



## Department of Public Safety

Reference No. 01-555-14

### Complete All Reporting and Related Monitoring

CFDA 83.544 – Public Assistance Grants

Contract/Award - N/A

The Department of Public Safety (Department) is not in compliance with the Federal Emergency Management Agency (FEMA) requirement for quarterly reporting and related monitoring. Our testing indicated that there were no quarterly reports or related monitoring completed for large projects associated with disaster testing during fiscal year 2000.

Questioned Cost: \$ 0.00

U.S. Federal Emergency  
Management Agency

Without the monitoring support, quarterly reports cannot be developed for submission. As a result, the Department cannot ensure that all large projects will be in compliance and eligible for FEMA funding, and the Department's subrecipients are at risk of losing reimbursements for approximately 75 percent of the project recovery costs.

Multiple disaster events and resource limitations have affected the Department's ability to perform monitoring and reporting. The Department suspends monitoring and the quarterly reporting of large projects when confronted with emergency disaster events so that it may focus resources on the disaster situation. While required monitoring and quarterly reporting is intended to resume when the environment normalizes, that did not occur after the disaster testing that was conducted in 2000.

In addition, the Department reviews all small projects for compliance certification. FEMA, however, does not require the review of all the small projects.

*Office of Budget and Management (OMB) No. 3067-0151*, requires that the Department submit quarterly financial and progress reports to the FEMA Regional Director. The reports should describe the status of large projects for which final payment has not been made. The reports should outline any problems or circumstances expected to result in noncompliance with the approved grant conditions (Code of Federal Regulations, Title 44, Section 206.204(f)). Grantees are required to report on all large projects. (Reporting and monitoring also required in Code of Federal Regulations, Title 44, Section 13.40.)

*FEMA Public Assistance Policy Digest* (page 102; reference: Code of Federal Regulations, Title 44, Section 206.205) requires that the Department certify small projects' compliance with applicable laws, regulations, and FEMA requirements. In order to attest to compliance, the State may review some, if not all, of the small projects.

#### Recommendation:

The Department should comply with quarterly reporting and related monitoring requirements by taking the following steps:

- Complete the related monitoring of all large projects so that the quarterly reports can be completed.
- Develop and use an accurate statistical method for certifying compliance without reviewing every small project. The Department should randomly select small projects to review when complexities require the use of permanent staff.
- Submit a written notice and request for wavier from quarterly reporting and related monitoring requirements to FEMA when disaster events do not permit compliance.
- Document compliance and FEMA approved release from requirements (waivers).



Management's Response and Corrective Action Plan:

*This finding relates to conducting quarterly project reviews for large (greater than \$50,600) projects. I agree with the recommendation. As a result of the four major disaster events in Texas during 1998 along with other disaster events during 1999 and 2000, the quarterly visits are indeed delinquent. A schedule has been developed to accomplish the remaining reviews. According to current records, a total of 53 quarterly project reviews are required not later than January 31, 2001. All available public assistance staff in our Recovery Section have been scheduled to conduct these reviews. This schedule will be subject to other disasters that may occur prior to January 31st. We are currently staffing a Disaster Field Office in Texarkana due the major disaster declaration issued on January 8, 2001 as a result of the Christmas ice storm. At present, it appears we will be able to meet the schedule. If circumstances change, we will request a written waiver from Region VI of the Federal Emergency Management Agency.*

*Implementation Date: January 31, 2001*

*Responsible Person: Assistant State Coordinator*

Reference No. 01-555-16

**Perform Timely Reviews of A-133 Audit Reports**

CFDA 83.544 – Public Assistance Grants

CFDA 83.552 – Emergency Management Performance Grant

Contract/Award - N/A

The Department has not performed timely reviews of *A-133* audit reports submitted by its subrecipients. As a result, the Department has not been able to address potential questioned costs and control weaknesses.

Questioned Cost: \$ 0.00

U.S. Federal Emergency  
Management Agency

The Department does track subrecipients that receive \$300,000 or more in federal funding from the Department and does disclose to subrecipients the requirement to obtain an audit if total federal funding exceeds \$300,000. However, the Department did not review the *A-133* audit reports submitted by its subrecipients during fiscal year 2000.

*OMB Circular A-133*, Subpart D, Section 400(d) requires all pass-through entities to ensure that any subrecipient that expends more than \$300,000 in total federal funds obtains an audit report. The pass-through entity is required to perform a review within six months of receipt of the audit reports.

Recommendation:

The Department should perform the report review within six months of receiving the *A-133* audit report.

Management's Response and Corrective Action Plan:

*The Department agrees with the recommendation. Similarly, the disaster activity in 1998, 1999, and 2000 precluded these audit reviews within the prescribed time. Currently, we are attempting to fill a recently approved temporary auditor position to assist the one Recovery Auditor on staff. Once this position is filled and the current commitments at the Disaster Field Office are completed, a schedule will be developed to conduct the audit reviews and address any issues, if necessary. Current records indicate there are approximately 200 delinquent reviews.*

*Implementation Date: July 31, 2001*

*Responsible Person: Assistant State Coordinator*

Reference No. 01-555-17

**Develop a System to Track Expenditures for Planning and Administration**

CFDA 20.600 – State and Community Highway Safety

CFDA 20.604 – Seat Belt Employment Enforcement Incentive Grants

Contract/Award – N/A

The Department's controls over the tracking of planning and administration costs do not ensure compliance with the federal earmarking requirement.

Questioned Cost: \$ 0.00

U.S. Department of  
Transportation

Our testing indicated that controls are not in place to ensure compliance with the federally mandated earmarking requirement because the Department does not have a system in place to track planning and administrative costs. For fiscal year 2000, it was not possible to ascertain whether the amount of federal funds expended for planning and administration exceeded the allowable 10 percent limit. As a result, the Department cannot ensure that it is in compliance with federal earmarking requirements.

The Code of Federal Regulations, Title 23, Section 1,252.4, states that the federal contribution for planning and administration activities shall not exceed 10 percent of the total funds the State receives under United States Code, Title 23, Section 402.

**Recommendation:**

The Department should strengthen controls over federal funds by taking the following steps:

- Develop a system to track planning and administration expenditures.
- Develop procedures for monitoring the tracking system to ensure that expenditures do not exceed 10 percent of the funds received by the State.

**Management's Response and Corrective Action Plan:**

*The Department agrees that the current tracking process should be modified. These expenditures are now identified on the financial spreadsheets maintained in Grant Accounting for the 2001 federal grants. Information is being recorded off reports provided by our Information Management Service section. The data presented on these reports is extracted from the State's Uniform Statewide Payroll System. This process will insure that the balance reflected on our financial reports is analyzed by Accountants reconciling these spreadsheets. Management will also be able to analyze these balances during the approval of funding requests. By implementing this process, the Department should be in compliance with The Code of Federal Regulations, Title 23, Section 1, 252.4.*

*Implementation Date: October 1, 2000*

*Responsible Person: Contract & Grant Administrator*

Reference No. 01-555-15

**Certify Suspension and Debarment**

CFDA 83.544 – Public Assistance Grants

Contract/Award - N/A

The Department did not comply with the federal suspension and debarment requirement. Our testing showed that the Department does not obtain certification

Questioned Cost: \$ 0.00

U.S. Federal Emergency  
Management Agency

from contractors or from subrecipients indicating that their organizations and/or their principals have not been suspended or debarred.

The Department uses a general statement about compliance in its applications and certifications of completion for contractors and subrecipients. However, this statement does not comply with specific suspension and debarment certification requirements. As a result, the Department is increasing the risk that ineligible parties may obtain federal funds.

The Code of Federal Regulations, Title 44, Part 13, requires the Department to obtain certifications from contractors that indicates that they are not debarred or suspended from participating in federal assistance programs.

Recommendation:

The Department should comply with suspension and debarment requirements by modifying the application and the certification of completion to specifically include the required suspension and debarment certifications.

Management's Response and Corrective Action Plan:

*The Department agrees with the recommendation. Previously, this assurance was covered during documentation briefings to all potential applicants. A change was implemented on January 8, 2001, requiring applicant certification when a public assistance project is initially approved as well as at the time the project is closed. The certification will state the applicant reviewed the contractor debarment list and did not utilize any contractor on the list for any project involving federal funds provided for that particular disaster.*

*Implementation Date: January 22, 2001*

*Responsible Person: Public Assistance Program Manager*

## Southwest Texas State University

Reference No. 01-555-3

### Ensure Students Meet All Eligibility Criteria

CFDA 84.032 - Federal Family Education Loans

CFDA 84.268 - Federal Direct Loan

Contract/Award - N/A

Southwest Texas State University (University) does not ensure that students meet all eligibility criteria for the *Federal Family Education Loans* and the *Federal Direct Loan* program. In 1 of 19 student records tested (5.26 percent), the student was not enrolled at least half-time before receiving federal assistance. As a result, the University had \$2,667.50 in questioned costs.

Questioned Cost: \$2,667.50

U.S. Department of  
Education

The Code of Federal Regulations, Title 34, Section 668.32 (a) (2), requires a student to be enrolled at least half-time in order to receive title IV, Higher Education Act (HEA) program assistance, including a *Federal Family Education Loan* or a *Federal Direct Loan*.

#### Recommendation:

The University should ensure that all students receiving a *Federal Family Education Loan* or a *Federal Direct Loan* are enrolled at least half-time. Before releasing the loan check, the University should verify that the student is enrolled at least half-time.

#### Management's Response and Corrective Action Plan:

*There is a procedure in place to verify enrollment of at least half time before a check release is issued to a student.*

*A review of our procedures indicated a need for further training of our student employees, specifically those who do not routinely assist with our check release system. In addition to strengthening our training efforts, we have placed written reminders to our employees regarding the half-time minimum. Further, we have instituted a quality control system whereby check releases will be randomly reviewed.*

*Reimbursement to the lender was made on November 17, 2000 for the one check that was released to an ineligible student.*

*Implementation Date: November 10, 2000*

*Responsible Person: Assistant Director for Financial Assistance*

Reference No. 01-555-4

### Report Pell Payment Data in a Timely Manner

CFDA 84.063 - Federal Pell Grant Program

Contract/Award - N/A

The University is not reporting payment data for the *Federal Pell Grant Program* to the U.S. Department of Education as required. The University failed to report data in a timely manner on 2 of 19 (10.53 percent) students. A university that submits incomplete records, or does not submit the required records on time, may have its Pell allocation reduced and may be fined.

Questioned Cost: \$ 0.00

U.S. Department of  
Education

Timely reporting of payment data ensures that federal funds will not remain at a university when its students do not need the funds. It further ensures that if a student transfers to another university, Pell payments to that student through the new university will not be blocked.

The Federal Register, Volume 64, Page 41707, July 30, 1999, states that a university must report student payment data within 30 calendar days after the university makes a payment or becomes aware of the need to make an adjustment to previously reported disbursement data.

**Recommendation:**

The University should report *Federal Pell Grant Program* payment data within 30 calendar days after making a payment, or after it becomes aware of the need to make an adjustment to previously reported disbursement data. The university may report once every 30 calendar days or bi-weekly, or it may set up its own system to ensure that changes are reported in a timely manner.

**Management's Response and Corrective Action Plan:**

*Management concurs that reporting Pell payment data and changes should be made in a timely manner and appropriate action has taken place to ensure all future submissions will be within thirty days. However, fiscal year 2000 was out of the ordinary. The U.S. Department of Education implemented a new Pell Grant reporting system (Recipient Financial Management System (RFMS)) for the 1999-2000 award year without a pilot test. As a result, it was not uncommon for schools to experience problems with Pell Grant origination and expenditure records being reported correctly. During the first year of using RFMS, all parties concerned including the U.S. Department of Education, software vendors, and university systems were fixing software bugs. Please note we were able to complete reconciliation for the 2000 award year by the September 30 deadline while many other schools had to request extensions in order to complete the reconciliation process.*

*Most of the software glitches experienced in the early part of the 2000 award year were resolved by March 2000. Although some fixes continued through November 2000, this enabled the Financial Aid Office to implement weekly origination and reporting of Pell Grant disbursements. This should resolve the problem of late reporting of Pell Grant disbursements.*

*Implementation Date: March 31, 2000*

*Responsible Person: Accountant II in Financial Aid Department*

Reference No. 01-555-5

**Report Enrollment Changes as Required**

**CFDA 84.032 - Federal Family Education Loans**

**CFDA 84.268 - Federal Direct Loan**

**Contract/Award - N/A**

The University does not properly report enrollment changes for the *Federal Family Education Loans* and the *Federal Direct Loan* programs. In 5 of 15 student records tested (33.33 percent), the University did not report the changes within 60 days to the U.S. Department of Education (Department) as required. The changes were reported to the Department anywhere from 72 days to 101 days after the effective change date.

Questioned Cost:	\$ 0.00
U.S. Department of Education	

The University's noncompliance with this requirement may result in delayed repayment of federal loans. Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled.



The Code of Federal Regulations, Title 34, Section 682.610 (c), requires the institution to report enrollment changes to the guaranty agency or the Department within 60 days. If an institution does not expect to report enrollment changes on the Student Status Confirmation Report (SSCR) within the next 60 days, that institution is required to notify the guarantor or lender by letter within 30 days.

Recommendation:

The University should ensure that all enrollment changes are reported in a timely manner to the guarantor, the lender, or the Department. If the University does not expect to report the changes on the SSCR within the next 60 days, it should provide notification to the guarantor or the lender within 30 days. If the status change occurs after the University sends the database of students to its third-party service but before the completed SSCR is due, the University can perform a variety of steps. The University can create ad-hoc reports to submit to the Department, which will report those students who had enrollment changes during this time frame. Alternatively, the University can submit the data on line to the National Student Loan Data System.

Management's Response and Corrective Action Plan:

*Management concurs that enrollment changes should be reported in a timely manner. SWT has contracted with the National Student Loan Clearinghouse to submit Student Status Confirmation Reports (SSCR) to the National Student Loan Data System (NSLDS). Because of software changes required for Y2K, it appears timing issues were the cause for the delay in reporting some of our students on the SSCR. Our initial submission for Spring 2000 was produced on February 16 and transmitted to the Clearinghouse the same day. The report was received by the Clearinghouse on February 17, but was not processed until February 23, which is the same date the SSCR was produced. Therefore, changes in our February 16 submission were not reflected on their February 23 SSCR.*

*We have reviewed our processes submission dates to the Clearinghouse and will work to insure that the initial submission of enrollment data for the new semester is sent as soon as possible after the census date. This should give the Clearinghouse sufficient time to process these enrollment reports prior to processing the SSCR files for the month. Additionally, we should not experience the reporting delays experienced last year.*

*Implementation Date: September 18, 2000*

*Responsible Person: System Support Analyst in Financial Aid Department*

## Sul Ross State University

Reference No. 01-555-6

### Report Enrollment Changes as Required

(Prior Audit Issue - 99-555-10, 98-333-02, 97-332-06)

#### CFDA 84.032 - Federal Family Education Loans

Contract/Award - N/A

Sul Ross State University (University) is not properly reporting enrollment changes for the *Federal Family Education Loans* program. In 1 of 15 student records tested (6.67 percent), the University did not report the change within the required 60 days to the U.S. Department of Education (Department). The change was reported to the Department 68 days after the effective change date.

Questioned Cost: \$ 0.00

U.S. Department of  
Education

The University's noncompliance with this requirement may result in delayed repayment of federal loans. Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled.

The Code of Federal Regulations, Title 34, Section 682.610 (c), requires the institution to report enrollment changes to the guaranty agency or the Department within 60 days. If an institution does not expect to report enrollment changes on the Student Status Confirmation Report (SSCR) within the next 60 days, that institution is required to notify the guarantor or lender by letter within 30 days.

#### Recommendation:

The University should ensure that all enrollment changes are reported in a timely manner to the guarantor, the lender, or the Department. If the University does not expect to report the changes on the SSCR within the next 60 days, it should provide notification to the guarantor or the lender within 30 days. If the status change occurs after the University sends the database of students to its third-party service but before the completed SSCR is due, the University can perform a variety of steps. The University can create ad-hoc reports to submit to the Department, which will report those students who had enrollment changes during this time frame. Alternatively, the University can submit the data on line to the National Student Loan Data System.

#### Management's Response and Corrective Action Plan:

*The university concurs with the finding and recommendation of the State Auditor's Office concerning the reporting of student enrollment changes to the U.S. Department of Education, the applicable student loan guaranty agency, or the student loan lender. The error that occurred was related to the late reporting of a student enrollment change to the National Student Loan Clearinghouse (NSLC). The awareness of this deficiency in our reporting schedule to the NSLC has prompted a change in our frequency of reports. Previously, we had two periods during the academic year that had reporting gaps of 70 days. Our Dean of Admissions and Records has requested two additional reporting dates with the NSLC. These additional dates will reduce the time gaps to no more than 45 days between reports, which will allow compliance to occur within 60 days of any student enrollment change. In addition, the university has recently contracted for information technology services to provide more expertise in the modification and development of programs to allow departments to better manage the accuracy and completeness of data. This additional expertise will provide better monitoring and review for completeness for the reporting of student enrollment changes.*

*Further, the university's Office of Financial Assistance will ensure the accuracy and timely submission of enrollment changes on the Student Status Confirmation Report (SSCR) submitted electronically as directed by the Office of Admissions and Records to the National Student Loan Clearinghouse. Enrollment changes will be reported when a student graduates, withdraws, drops classes, or is suspended from the university. The Office of*

*Financial Assistance will act as a monitor and reviewer of submitted reports to ensure that all changes are properly reported in a timely manner.*

*We believe that our actions and procedures will provide compliance with established guidelines for the reporting of student enrollment changes in an accurate and timely manner. We appreciate the efforts by the State Auditor's Office in identifying those areas where improvements will enhance our compliance with federal rules and regulations.*

*Implementation Date: April 3, 2001*

*Responsible Person: Dean of Admissions and Records*

## Texas A&M University - Kingsville

Reference No. 01-555-11

### Develop and Implement Formal Policies and Procedures over Monitoring Security Violations (Prior Audit Issue - 99-555-24)

CFDA 84.007 - Supplemental Educational Opportunity Grants  
 CFDA 84.032 - Federal Family Education Loans  
 CFDA 84.033 - Federal Work-Study Program  
 CFDA 84.038 - Federal Perkins Loan Program - Federal Capital Contributions  
 CFDA 84.063 - Federal Pell Grant Program  
 Contract/Award - N/A

Questioned Cost:	\$ 0.00
U.S. Department of Education	

As previously reported in 1998, Texas A&M University – Kingsville (University) has not formally established and documented its internal policies and procedures for following up on reported security violations. In the *Report on the 1998 Financial and Compliance Audit Results* (SAO Report No. 99-555, June 1999), University management indicated corrective action would be taken by March 31, 1999. In September 1999, University management indicated the formalization and documentation of the policies would be completed and submitted for approval by University management before May 1, 2000. In August 2000, University management indicated that policies and procedures had been documented, but not formalized or submitted for management approval. The formalization and submission for management approval was expected to be completed by October 1, 2000. We noted the University had developed interim policies and procedures; however, management had not approved or used them by January 12, 2001.

Without a formal process, unauthorized changes could be made to student financial aid data. All student financial aid programs could potentially be affected, including the *Federal Family Education Loans* program and the *Federal Pell Grant Program*.

Documented and formalized policies and procedures help staff identify and properly handle security violations. They also identify proper conduct for employees using computer systems. Without written policies and procedures, the risk of weakened computer security is higher, and security awareness among staff is lower.

#### Recommendation:

The University should continue its efforts to document and formalize its policies and procedures for follow up on reported security violations.

#### Management's Response and Corrective Action Plan:

*Texas A&M University-Kingsville recognizes the need for documented, formalized policies and procedures for investigating and reporting security violations. As such, the University has formally implemented the procedures for investigating and reporting security violations of the University's on-line computing system.*

*Implementation Date: January 31, 2001*

*Responsible Person: Interim Director Computing and Information Systems*

## Texas Agricultural Experiment Station

Reference No. 01-555-28

### Strengthen Policies and Procedures for Obtaining Vendor Certifications of Suspension and Debarment

(Prior Audit Issue - 99-555-75)

CFDA 10.200 - Grants for Agricultural Research, Special Research Grants  
Contract/Award - N/A

The Texas Agricultural Experiment Station (Experiment Station) does not have adequate procedures for obtaining vendor certifications. Texas A&M University System (TAMUS) regulations require that all construction procurement be routed through the TAMUS Facilities Planning and Construction. Neither Experiment Station personnel nor TAMUS personnel are obtaining the required certification for vendors selected by the Physical Plant. As a result, the Experiment Station may be doing business with vendors who have been suspended or debarred by the federal government.

Questioned Cost: \$ 0.00

U.S. Department of  
Agriculture

*Office of Management and Budget Circular A-110, Subpart B, Section 13, states that recipients of federal funds shall comply with federal suspension and debarment requirements. Suspension and debarment regulations require that entities obtain debarment certification from participants in lower tier covered transactions and that the prospective lower tier participant (vendor or subrecipient, whichever is the case) is to sign the certification (Code of Federal Regulations [CFR], Title 45, Sections 76.510[b] and 76 Appendix B[1]). These requirements can be satisfied by obtaining certifications from contractors receiving individual awards for \$100,000 or more that the organization and its principals are not suspended or debarred (CFR, Title 14, Sections 1265.225[a] and 1265.510[b]; Title 34, Sections 85.225[c] and 85.510[b]; and Title 45, Sections 620.225[c] and 620.510[b]). A university may rely on vendor certification unless it knows it to be erroneous.*

#### Recommendation:

The Experiment Station should strengthen policies and procedures for obtaining vendor certifications of suspension and debarment by requiring signed certifications from the vendors. The Experiment Station should conduct business only with vendors who have been neither suspended nor debarred.

#### Management's Response and Corrective Action Plan:

*In the instance noted by the auditors, the Texas A&M University System (TAMUS) Facilities, Planning and Construction Office actually made the decision to use an outside vendor rather than the TAMU Physical Plant. As noted in the audit finding, this is required by Texas A&M University System (TAMUS) policy.*

*In order to meet the auditor's recommendation, we will remind the Facilities, Planning, and Construction Office, in writing, each time Federal funds are involved that vendor certifications must be obtained. We will also request that we be provided with a copy of this certification. In addition, we will work with the TAMUS Internal Audit Office to ensure that this requirement is met in the future.*

*Implementation Date: February 28, 2001*

*Responsible Person: Assistant Director for Research and Administration*

## Texas Agricultural Extension Service

Reference No. 01-555-25

### Strengthen Controls Over Equipment

CFDA 10.500 - Cooperative Extension Service

Contract/Award - N/A

The Texas Agricultural Extension Service's (Extension Service) controls over equipment do not ensure that equipment is being used for the federal programs as intended. Three of 19 (15.79 percent) equipment items tested could not be located. The items were laptop computers. Staff present during testing indicated the computers were off-campus with the persons to whom they were assigned, but we found no documented approval of this action. The inability to locate equipment could result in questioned costs.

Questioned Cost: \$ 0.00

U.S. Department of  
Agriculture

*Office of Management and Budget (OMB) Circular A-110, Section 34 Part (f) requires that equipment records be maintained accurately. These records should include information such as the location of the equipment and the date that this information was reported.*

#### Recommendation:

The Extension Service should strengthen controls over equipment to ensure that it is used for the federal programs as intended. Specifically, it should document the transfer of equipment so that it can be located.

#### Management's Response and Corrective Action Plan:

*The agency has contacted the accountable property holder and verified that the equipment item in question was in the possession of the individual. A procedure to account for equipment items and document assignment to faculty and staff for field use will be developed and communicated with all applicable agency employees. A follow-up review of such assignments will be conducted annually by departmental/unit staff and property office personnel.*

*Implementation Date: March 1, 2001*

*Responsible Person: Property Manager*

Reference No. 01-555-26

### Strengthen Policies and Procedures for Research and Development Programs

CFDA - All Research and Development CFDA's

Contract/Award - N/A

The Extension Service has inadequate or nonexistent written policies and procedures for cash management, federal financial reporting, and matching. When policies and procedures for these areas are not documented and communicated to employees, management cannot ensure compliance with federal regulations in research and development programs.

Questioned Cost: \$ 0.00

U.S. Department of  
Agriculture  
and Other Federal Agencies

Formal policies guide employees in executing their responsibilities to properly administer the Extension Service's federal programs. Related procedures implement these policies.

Recommendation:

The Extension Service’s management should formally develop, document, communicate, and enforce policies and procedures for the research and development areas of cash management, federal financial reporting, and matching.

Management’s Response and Corrective Action Plan:

*The agency will develop, communicate, and ensure compliance with policies addressing cash management, federal financial reporting and matching requirements.*

*Supervisory review procedures prior to submission will be developed for financial reporting and matching certification.*

*Implementation Date: August 1, 2001*

*Responsible Person: Assistant Director for Research and Administration and Assistant Director for Fiscal Services*

Reference No. 01-555-27

**Strengthen Controls Over Payroll and Personnel**

CFDA - All Research and Development CFDA's  
Contract/Award - N/A

The Extension Service does not adequately segregate the personnel and payroll disbursement functions. Currently, seven employees can perform the following functions:

- Establish a new employee in the personnel table in the Budget/Payroll/Personnel database.
- Enter new employee appointments or revise appointment information, including salary rates and percentages by account.
- Generate payroll checks.

Questioned Cost:	\$ 0.00
U.S. Department of Education and Other Federal Agencies	

Furthermore, no one reviews and approves the data entered. Therefore, each of these seven employees could create a new employee in the system, create an appointment for that employee, and generate checks for that employee. Additionally, any employee with access to the payroll maintenance file can make changes to the dollar amount, account number, or hours prior to processing the checks.

*OMB Circular A-110* requires that non-federal entities receiving federal awards establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Segregation of duties is a basic control activity.

Recommendation:

The Extension Service should adequately segregate the personnel and payroll processing functions. In addition, it should implement a review and approval process for entering and updating employee information.

Management's Response and Corrective Action Plan:

*TAEX will conduct a review of the responsibilities and adequately segregate duties in the personnel and payroll processing functions of the agency to include documentation of the approved process for entering and updating employee payroll information.*

*Implementation Date: May 1, 2001*

*Responsible Person: Assistant Director for Human Resources Agriculture Program*



**Texas Southern University**

**State Auditor’s Comment:** *The State Auditor’s Office is currently conducting an audit that will provide additional information on Student Financial Aid. The audit includes information regarding General Appropriations Act, Rider 5, Article III-128, 76th Legislature.*

Reference No. 01-555-42

**Strengthen Controls Over Federal Research and Development Payroll**  
(Prior Audit Issue - 99-555-69, 99-555-96)

**CFDA - All Research and Development CFDA's**  
**Contract/Award - N/A**

Questioned Cost: \$12,425.00  
Department of Health and Human Services  
and Other Federal Agencies

A material weakness continues to exist in controls over payroll at Texas Southern University (University). Noncompliance with federal requirements caused the loss of some federal funding, which means that some Research and Development activities have ceased. The National Institute of General Medical Sciences, a component of the National Institute of Health (NIH), ceased all funding until \$361,317 in disallowed costs for the year ended June 30, 1998, is repaid. In addition, we questioned costs of \$12,425 (17.66 percent) out of 33 payments tested.

**Material weakness means:**

- A university does not have a system to ensure that the significant provisions in applicable laws, regulations, contracts, and grants are followed.
- There is a risk that significant noncompliance with applicable laws, regulations, contracts, and grants could occur and not be detected in a timely manner during the normal course of business.

- In 5 of 33 payments tested, the amounts paid did not have time and effort certifications, resulting in questioned costs of \$8,935.
- Two employees received \$1,500 and \$400 in one-time payments. These payments are considered supplemental pay, in addition to their regular salaries, which is not allowable.
- The correct rate of pay was unclear for one personnel action form, resulting in questioned costs of \$1,470.
- One employee was paid \$120 in excess longevity pay for the pay period tested.

Source: American Institute of Certified Public Accountants Statement of Position 98-3, March 17, 1998, Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards

This material weakness was originally identified during *The 1998 Statewide Financial and Compliance Audit* (SAO Report No. 99-555, June 1999), when we reported questioned costs of \$138,870. The payroll issues noted in the fiscal year 1998 audit continue to exist, while additional compliance issues were noted.

- Policies and procedures relating to time and effort certifications do not address all federal requirements for payroll-related expenditures.
- Time and effort certifications do not reflect employees’ actual effort on the federal projects.
- Personnel action forms were misfiled or not filed in the employee personnel files.
- Several forms included numerous changes but did not include the initials of the person making the change as required by University procedures.
- Personnel action forms contained contradictory information for the same period.
- Thirty-three time and effort certifications tested were not completed and submitted within 15 working days after the end of the quarter as University policy requires.

- Three time and effort certifications were not signed by the principal investigator.

*Office of Management and Budget (OMB) Circular A-21, Section J.8, states that personnel costs are allowable to the extent that the total compensation to individual employees conforms to the established policies of the institution, consistently applied, and provided that the charges for work performed directly on sponsored agreements are determined and supported as provided. Section J (b)(2) further indicates that an acceptable payroll distribution method must recognize the principle of after-the-fact determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached.*

Recommendation:

The University should:

- Revise payroll policies and procedures to adequately address all relevant federal requirements.
- Include after-the-fact determinations in the time and effort certification.
- Implement additional procedures such as management review and approval to ensure the timely and accurate completion of the time and effort certification forms.
- Strengthen controls over personnel action forms, including review and approval of completed forms.
- Implement additional controls, such as independent management approval, to prevent supplemental salary payments from federal projects.
- Support longevity payments with review and approval procedures.

Management's Response and Corrective Action Plan:

*We are currently working with NIH to resolve the issues regarding questioned costs. When the University recognized problems in this area, a senior staff auditor was hired (November 2000); his primary responsibility is to develop a comprehensive compliance program for all federal programs in order to ensure University-wide compliance with all applicable federal regulations. The Offices of the Associate Provost for Research, Contracts and Grants, Sponsored Programs and Internal Audit are working together to implement the compliance program by August 31, 2001. Personnel from all these offices are registered and will attend the Effective Compliance Systems Conference at the University of Texas Thompson Conference Center on March 20 -21, 2001. We also plan to utilize teleconferences presented by the National College and University Research Association (NCURA), to provide federal compliance training to all applicable personnel at the University. Our compliance program will address all federal compliance issues, including those documented above. All the recommendations listed above will be incorporated into this program. We will provide the State Auditor's Office with a copy of the detailed action plan for implementation of the compliance program by April 30, 2001.*

*Implementation Date: August 31, 2001*

*Responsible Person: Provost and Senior Vice-President for Academic Affairs and Associate Provost for Research and Dean of Graduate School*

Reference No. 01-555-57

**Improve Reporting of Research and Development in the Schedule of Expenditures of Federal Awards**

- CFDA 20.701 – University Transportation Centers Program
- CFDA 43.000 – National Aeronautics and Space Administration
- CFDA 47.076 – Education and Human Resources
- CFDA 66.607 – Training and Fellowships for the Environmental Protection Agency
- CFDA 66.950 – Environmental Education and Training Program
- CFDA 84.281 – Eisenhower Professional Development State Grants
- CFDA 93.822 – Health Careers Opportunity Program
- Contract/Award – N/A

The University did not correctly report all Research and Development (R&D) programs as part of the Research and Development Cluster (R&D Cluster) in the Schedule of Expenditures of Federal Awards (Federal Schedule). The University incorrectly included five programs totaling \$318,425, and excluded ten programs, totaling \$594,522. As of February 2, 2001, the changes had not been submitted to the Comptroller of Public Accounts. Failure to correctly report R&D programs could result in misleading information about federal programs for users. Furthermore, if the University does not identify programs as R&D, there is a risk that it may not comply with the federal regulations that relate to R&D.

*OMB Circular A-133*, Subpart C, Section 0.310 Financial Statements (b)(1), states that for federal programs included in a cluster of programs, the Federal Schedule should list individual federal programs within the cluster of programs. (A cluster of programs means a group of closely related programs that have common compliance requirements.) For R&D, total federal awards expended shall be shown by either individual award or federal agency and major subdivision within the federal agency. OMB defines R&D as all research activities, both basic and applied, and all development activities that are performed by a non-federal entity.

Questioned Cost:	\$ 0.00
U.S. Department of Transportation	
National Aeronautics and Space Administration	
National Science Foundation	
U.S. Environmental Protection Agency	
U.S. Department of Education	
U.S. Department of Health and Human Services	

Recommendation:

The University should correctly report all R&D programs within the R&D Cluster in the Federal Schedule. It can accomplish this task by reviewing the objective of the federal programs and determining which programs meet the criteria. The University may seek additional guidance from the awarding agency to ensure proper classification.

Management's Response and Corrective Action Plan:

*We will include our assessment of research objectives for determining R&D Clusters with the initial grant proposal, along with instructions to notify us if the granting agency disagrees with our determination of the R & D Cluster. This will allow for a documented determination by the granting agency at the time we are notified that the proposal has been accepted and funded.*

**Implementation Date:** June 1, 2001

**Responsible Person:** Provost & Senior Vice-President for Academic Affairs and Associate Provost for Research and Dean of Graduate School

Reference No. 01-555-12

**Report Enrollment Changes as Required**

**CFDA 84.032 - Federal Family Education Loans  
Contract/Award - N/A**

The University does not properly report enrollment changes for the *Federal Family Education Loans* program. For the 17 student records tested, we noted the following issues:

Questioned Cost:	\$ 0.00
U.S. Department of Education	

- Nine of the enrollment changes were incorrectly reported to the U.S. Department of Education (Department) and were not submitted within 60 days as required. The changes were reported to the Department anywhere from 101 to 166 days after the effective change date.
- Eight of the enrollment changes were not reported to the Department.

The University’s noncompliance with this requirement may result in delayed repayment of federal loans. Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled.

The Code of Federal Regulations, Title 34, Section 682.610 (c), requires the institution to report enrollment changes to the guaranty agency or the Department within 60 days. If an institution does not expect to report enrollment changes on the Student Status Confirmation Report (SSCR) within the next 60 days, that institution is required to notify the guarantor or lender by letter within 30 days.

Recommendation:

The University should ensure that all enrollment changes are reported accurately and in a timely manner to the guarantor, the lender, or the Department. The University should review its programming function to determine why students with enrollment status changes are not being pulled and accurately submitted to the Department.

If the University does not expect to report the changes on the SSCR within the next 60 days, it should provide notification to the guarantor or the lender within 30 days. If the status change occurs after the University sends the database of students to its third-party service but before the completed SSCR is due, the University can perform a variety of steps. The University can create ad-hoc reports to submit to the Department, which will report those students who had enrollment changes during this time frame. Alternatively, the University can submit the data on line to the National Student Loan Data System.

Management’s Response and Corrective Action Plan:

*Management concurs: The University has reviewed procedures for graduation clearance and revised the schedule for submissions to The National Student Clearinghouse. The revised schedule of submissions will enable the university to report student changes in enrollment status within the 60-day requirement. Graduating students will be reflected on the June 30th and September 30th submissions. The June 30th and August 15th submissions are in addition to the six SSCR requirement. A review will also be made of Program SFRNS4C (Student Status Report) to determine accuracy. The Registrar will implement the revised schedule by March 30, 2001.*

*Please see schedule below:*

<i>Sept. 30</i>	<i>Feb. 15</i>	
<i>Nov. 15</i>	<i>March 30</i>	<i>June 30</i>
<i>Dec. 22</i>	<i>May 15</i>	<i>Aug. 15</i>

*Implementation Date: March 30, 2001*

*Responsible Person: Provost & Senior Vice-President for Academic Affairs, Associate Provost for Institutional Effectiveness and University Registrar*

**Texas Woman's University**

Reference No. 01-555-1

**Report Pell Payment Data in a Timely Manner**

**CFDA 84.063 - Federal Pell Grant Program**  
**Contract/Award - N/A**

Texas Woman's University (University) does not report payment data for the *Federal Pell Grant Program* to the U.S. Department of Education as required. The University failed to report data in a timely manner for all 12 students tested. A university that submits incomplete records, or does not submit the required records on time, may have its Pell allocation reduced and may be fined.

Questioned Cost: \$ 0.00  U.S. Department of Education
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Timely reporting of payment data ensures that federal funds will not remain at a university when its students do not need the funds. It further ensures that if a student transfers to another university, Pell payments to that student through the new university will not be blocked.

The Federal Register, Volume 64, Page 41707, July 30, 1999, states that a university must report student payment data within 30 calendar days after the university makes a payment or becomes aware of the need to make an adjustment to previously reported disbursement data.

Recommendation:

The University should report *Federal Pell Grant Program* payment data within 30 calendar days after making a payment, or after it becomes aware of the need to make an adjustment to previously reported disbursement data. The University may report once every 30 calendar days or bi-weekly, or it may set up its own system to ensure that changes are reported in a timely manner.

Management's Response and Corrective Action Plan:

*Effective August 22, 2000, Texas Woman's University revised its policies and procedures to ensure that Federal Pell Grant Program payment data is routinely submitted within 30 calendar days after making payment, or after it becomes aware of the need to make an adjustment to previously reported data. All reports filed since August 22, 2000 have been in compliance with the 30-day requirement.*

*Implementation Date: August 22, 2000*

*Responsible Person: Financial Aid Administrator*

Reference No. 01-555-2

**Report Enrollment Changes as Required**

**CFDA 84.032 - Federal Family Education Loans**  
**Contract/Award - N/A**

The University does not properly report enrollment changes for the *Federal Family Education Loans* program. In 6 of 15 student records tested (40 percent), the University did not report the changes within 60 days to the U.S. Department of Education (Department) as required. The changes were reported to the Department anywhere from 124 days to 211 days after the effective date.

Questioned Cost: \$ 0.00  U.S. Department of Education
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The University's noncompliance with this requirement may result in delayed repayment of federal loans. Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled.

The Code of Federal Regulations, Title 34, Section 682.610 (c), requires the institution to report enrollment changes to the guaranty agency or the Department within 60 days. If an institution does not expect to report enrollment changes on the Student Status Confirmation Report (SSCR) within the next 60 days, that institution is required to notify the guarantor or lender by letter within 30 days.

Recommendation:

The University should ensure that all enrollment changes are reported in a timely manner to the guarantor, the lender, or the Department. If the University does not expect to report the changes on the SSCR within the next 60 days, it should provide notification to the guarantor or the lender within 30 days.

If the status change occurs after the University sends the database of students to its third-party servicer but before the completed SSCR is due, the University can perform a variety of steps. The University can create ad-hoc reports to submit to the Department, which will report those students who had enrollment changes during this time frame. Alternatively, the University can submit the data on line to the National Student Loan Data System.

Management's Response and Corrective Action Plan:

*Effective January 24, 2001, Texas Woman's University expanded its SSCR reporting schedule to the maximum of six reports annually with each report covering a period not to exceed 60 days. Status changes that occur outside of the 60-day reporting cycle will be submitted to the Department of Education through an ad-hoc report or submitted on-line directly to the National Student Loan Data System within 30 days of the status change. Any report from a guarantor or lender will be completed and returned within 30 days of receipt.*

*Implementation Date: January 24, 2001*

*Responsible Person: Financial Aid Administrator*

## The University of Texas at Arlington

Reference No. 01-555-9

### Report Pell Payment Data in a Timely Manner

CFDA 84.063 - Federal Pell Grant Program

Contract/Award - N/A

The University of Texas at Arlington (University) is not reporting payment data for the *Federal Pell Grant Program* to the U.S. Department of Education (Department) as required. The University failed to report data in a timely manner on 1 of 19 (5.26 percent) students. A university that submits incomplete records, or does not submit the required reports on time, may have its Pell allocation reduced and may be fined.

Questioned Cost: \$ 0.00

U.S. Department of  
Education

Timely reporting of payment data ensures that federal funds will not remain at a university when its students do not need the funds. It further ensures that if a student transfers to another university, Pell payments to that student through the new university will not be blocked.

The Federal Register, Volume 64, Page 41707, July 30, 1999, states that a university must report student payment data within 30 calendar days after the university makes a payment or becomes aware of the need to make an adjustment to previously reported disbursement data.

#### Recommendation:

The University should report *Federal Pell Grant Program* payment data within 30 calendar days after making a payment, or after it becomes aware of the need to make an adjustment to previously reported disbursement data. The University may report once every 30 calendar days or bi-weekly, or it may set up its own system to ensure that changes are reported in a timely manner.

#### Management's Response and Corrective Action Plan:

*For the 1999-2000 award year, the mechanism for reporting Pell payment data was changed by the U.S. Department of Education. There were significant delays in receiving updates for our software system from the vendor. It is the practice of the University to report Pell payment data at least twice per month. For example, in the months of September and October 2000, we reported four times. In November, we reported three times and have already reported once in December. We believe the error detected for the 1999-2000 year was primarily due to the change in the reporting process. In the future, all reporting will be done within the specified time.*

*Implementation Date: December 1, 2000*

*Responsible Person: Director, Student Financial Aid*

Reference No. 01-555-8

### Strengthen Controls Over Time Cards

CFDA 84.033 - Federal Work-Study Program

Contract/Award - N/A

The University should strengthen controls over time cards to ensure that the time cards submitted for payment properly reflect the actual hours worked. In 1 of 2 student worker/athlete files tested, the time card had not been adjusted to reflect

Questioned Cost: \$ 0.00

U.S. Department of  
Education

actual hours worked. The hours worked were reported on the subsequent time card rather than reported on the current time card.

According to *The University of Texas at Arlington Fiscal Regulations and Procedures*, Procedure No. 1-13, employees (including student workers and supervisors) need to sign time cards before they are turned in to the payroll department. When signing time cards, employees should be certain that all of the information on the time cards is correct. It is the responsibility of employees to check for errors that may cause them to be paid incorrectly. When signing time cards, supervisors verify that the time reported is accurate and that the work has been performed satisfactorily. Any time card errors must be initialed by the supervisor.

**Recommendation:**

Student workers and their supervisors should ensure that time cards submitted for payment properly reflect the total actual hours worked. If there is an adjustment to a time card after it has been signed by both parties and turned in, the supervisor should make the needed adjustments. The adjustments should then be initialed by the supervisor.

**Management's Response and Corrective Action Plan:**

*The Office of Payroll Services will distribute a memo to all employees reiterating the policy on timecards. We will stress that time cards must properly reflect the total actual hours worked. Any adjustments to time sheets must be approved and signed by the employee's supervisor.*

*Implementation Date: February 1, 2001*

*Responsible Person: Director of Payroll Services*

Reference No. 01-555-7

**Report Enrollment Changes as Required**

**CFDA 84.032 - Federal Family Education Loans  
Contract/Award - N/A**

The University does not properly report enrollment changes for the *Federal Family Education Loans* program. In 11 of 18 student records tested (61.11 percent), we noted the following issues:

- Seven of the enrollment changes were not submitted to the Department within the required time frame. The changes were reported anywhere from 64 days to 98 days after the effective change date.
- Four of the enrollment changes (student graduates) were not reported to the Department.

The University's noncompliance with this requirement may result in delayed repayment of federal loans. Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled.

The Code of Federal Regulations, Title 34, Section 682.610 (c), requires the institution to report enrollment changes to the guaranty agency or the Department within 60 days. If an institution does not expect to report enrollment changes on the Student Status Confirmation Report (Report) within the next 60 days, that institution is required to notify the guarantor or lender by letter within 30 days.

Questioned Cost:	\$ 0.00
U.S. Department of Education	



Recommendation:

The University should ensure that all enrollment changes are reported accurately and in a timely manner to the guarantor, the lender, or the Department. The University should review its procedures to determine why students that graduate are not being reported.

If the University does not expect to report the changes on the SSCR within the next 60 days, it should provide notification to the guarantor or the lender within 30 days. If the status change occurs after the University sends the database of students to its third-party service but before the completed SSCR is due, the University can perform a variety of steps. The University can create ad-hoc reports to submit to the Department, which will report those students who had enrollment changes during this time frame. Alternatively, the University can submit the data on-line to the National Student Loan Data System.

Management's Response and Corrective Action Plan:

*In regards to the seven students who were reported late to NSLDS or to lenders, our computer center states that enrollment files were sent to the National Student Loan Clearing House (NSLC) on time on the three scheduled occasions for both Fall 1999 and Spring 2000 (after Census date, after mid-semester and at semester end). This schedule is within the time frames required by the Department of Education.*

*In each of these seven cases, the lenders request to the Clearinghouse for the data was not timely, thus the change status was not recorded within the 60 day reporting limit. The University is submitting information on a timely and approved schedule. We realize that reporting enrollment changes to the guarantor, the lender or the Department of Education within required timeframes is our responsibility. As such, we will work with the other UT System components to explore other methods to ensure that the information is reported timely. For example, increasing the frequency of reporting, preparing ad hoc reports, or other methods.*

*In regards to the four students who were not reported as graduated, the program has now been updated to reflect when students complete their degrees. Effective with December 15, 2000 graduation, the date of a student's degree completion will be reported to the Department of Education through the National Student Loan Clearinghouse.*

*Implementation Date: September 1, 2001*

*Responsible Person: Registrar*

## The University of Texas at Brownsville

Reference No. 01-555-13

### Report Enrollment Changes as Required

CFDA 84.032 - Federal Family Education Loans

Contract/Award - N/A

The University of Texas at Brownsville (University) does not properly report enrollment changes for the *Federal Family Education Loans* program. In 4 of 15 student records tested (26.67 percent), the University did not report the changes within 60 days to the U.S. Department of Education (Department) as required. The changes were reported to the Department anywhere from 69 days to 136 days after the effective change date.

Questioned Cost: \$ 0.00

U.S. Department of  
Education

The University's noncompliance with this requirement may result in delayed repayment of federal loans. Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled.

The Code of Federal Regulations, Title 34, Section 682.610 (c), requires the institution to report enrollment changes to the guaranty agency or the Department within 60 days. If an institution does not expect to report enrollment changes on the Student Status Confirmation Report (SSCR) within the next 60 days, that institution is required to notify the guarantor or lender by letter within 30 days.

#### Recommendation:

The University should ensure that all enrollment changes are reported in a timely manner to the guarantor, the lender, or the Department. If the University does not expect to report the changes on the SSCR within the next 60 days, it should provide notification to the guarantor or the lender within 30 days.

If the status change occurs after the University sends the database of students to its third-party service but before the completed SSCR is due, the University can perform a variety of steps. The University can create ad-hoc reports to submit to the Department, which will report those students who had enrollment changes during this time frame. Alternatively, the University can submit the data on line to the National Student Loan Data System.

#### Management's Response and Corrective Action Plan:

*In order to ensure and maintain compliance in reporting enrollment changes under CFDA 84.032 - Federal Family Education Loans, UTB/TSC will submit status certification reports at least every sixty days through the National Student Loan Clearinghouse. In addition, UTB/TSC will closely monitor and/or modify transmission dates for reporting to NSLDS to ensure that the current data reflects the activity within the institution's academic calendar.*

*Implementation Date: April 1, 2001*

*Responsible Person: Assistant Director of Financial Aid*

## The University of Texas at El Paso

Reference No. 01-555-29

### Report Pell Payment Data in a Timely Manner

CFDA 84.063 – Federal Pell Grant Program

Contract/Award – N/A

The University of Texas at El Paso (University) is not reporting payment data for the *Federal Pell Grant Program* to the U.S. Department of Education as required. The University failed to report data in a timely manner on 5 out of 19 (26.32 percent) students. A university that submits incomplete records, or does not submit the required records on time, may have its Pell allocation reduced and may be fined.

Questioned Cost: \$ 0.00

U.S. Department of  
Education

Timely reporting of payment data ensures that federal funds will not remain at a university when its students do not need the funds. It further ensures that if a student transfers to another university, Pell payments to that student through the new university will not be blocked.

The Federal Register, Volume 64, Page 41707, July 30, 1999, states that a university must report student payment data within 30 calendar days after the university makes a payment or becomes aware of the need to make an adjustment to previously reported disbursement data.

#### Recommendation:

We recommend that the University report *Federal Pell Grant Program* payment data within 30 calendar days after making a payment or after it becomes aware of the need to make an adjustment to previously reported disbursement data. The University may do this by reporting once every 30 calendar days or bi-weekly, or it may set up its own system to ensure that changes are reported in a timely manner.

#### Management's Response and Corrective Action Plan:

*We concur. The University recognizes the need to report to the Recipient Financial Management System (RFMS) more frequently and has implemented a policy to report at least twice monthly.*

*The Office of Student Financial Aid has further audited all RFMS batches for FY 1999-2000. It is important to note that the University was not holding federal funds, since, in all instances where batches were reported late, we were requesting additional funding. Additionally, 75 percent of the late reported disbursements were initial disbursements and therefore did not block any transfer students from receiving their Pell at other institutions.*

*Implementation Date: October 31, 2000*

*Responsible Person: Director, Office of Student Financial Aid*

Reference No. 01-555-10

**Strengthen Policies and Procedures for Obtaining Vendor Certifications of Suspension and Debarment**

(Prior Audit Issue - 00-555-29)

**CFDA – All Research and Development CFDA's****Contract/Award – N/A**

The University does not have adequate procedures for obtaining vendor certifications of suspension and debarment. Currently, the University includes suspension and debarment verbiage on purchase orders and incorrectly relies on the vendor's confirmation of suspension and debarment through fulfillment of the order. Federal suspension and debarment regulations require signed vendor certifications. Without a signed certification, the University risks doing business with vendors suspended or debarred by the federal government.

Questioned Cost:	\$ 0.00
National Science Foundation and Other Federal Agencies	

*Office of Management and Budget Circular A-110*, Subpart B, Section 13, states that recipients of federal funds shall comply with federal suspension and debarment requirements. Suspension and debarment regulations require that entities obtain debarment certification from participants in lower tier covered transactions and that the prospective lower tier participant (vendor or subrecipient, whichever is the case) is to sign the certification (Code of Federal Regulations [CFR], Title 45, Sections 76.510[b] and 76 Appendix b[1]). These requirements can be satisfied by obtaining certifications from contractors receiving individual awards over \$100,000 that the organization and its principals are not suspended or debarred (CFR, Title 14, Sections 1265.225[a], and 1265.510[b]; Title 34, Sections 85.225[c] and 85.510[b]; and Title 45, Sections 620.225[c] and 620.510[b]). A university may rely on vendor certification unless it knows it to be erroneous.

**Recommendation:**

The University should strengthen policies and procedures for obtaining vendor certifications of suspension and debarment by requiring signed certifications from the vendors. The University should conduct business only with vendors who are neither suspended nor debarred.

**Management's Response and Corrective Action Plan:**

*We concur. The University had previously changed its procedures for verifying vendor suspension and debarment based upon a verbal conversation with the State Auditor's Office. Since this procedure is no longer effective, the University will comply with the Federal Vendor Certification of Suspension and Debarment on individual purchases of over \$100,000 by:*

- a. *Continuing to verify the vendor suspension/debarment information via the Federal Government website (<http://epls.arnet.gov/>) and*
- b. *Obtaining vendor signature on the Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion - Lower Tier Covered Transaction form. This form is in the process of being developed in collaboration with the University of Texas System and its components.*

**Implementation Date:** April 2, 2001

**Responsible Person:** Director, Materials Management

**The University of Texas Southwestern Medical Center at Dallas**

Reference No. 01-555-30

**Strengthen Policies and Procedures for Obtaining Vendor Certifications of Suspension and Debarment**

CFDA – All Research and Development CFDA  
 Contract/Award – N/A

The University of Texas Southwestern Medical Center at Dallas (University) does not have adequate procedures for obtaining vendor certifications of suspension and debarment. Federal suspension and debarment regulations require signed vendor certifications. Without a signed certification, the University risks doing business with vendors suspended or debarred by the federal government.

Questioned Cost:	\$ 0.00
U.S. Department of Health and Human Services	
And Other Federal Agencies	

*Office of Management and Budget Circular A-110*, Subpart B, Section 13, states that recipients of federal funds shall comply with federal suspension and debarment requirements. Suspension and debarment regulations require that entities obtain debarment certification from participants in lower tier covered transactions and that the prospective lower tier participant (vendor or subrecipient, whichever is the case) is to sign the certification (Code of Federal Regulations [CFR], Title 45, Sections 76.510[b] and 76 Appendix b[1]). These requirements can be satisfied by obtaining certifications from contractors receiving individual awards over \$100,000 that the organization and its principals are not suspended or debarred (CFR, Title 14, Sections 1265.225[a] and 1265.510[b]; Title 34, Sections 85.225[c] and 85.510[b]; and Title 45, Sections 620.225[c] and 620.510[b]). A university may rely on vendor certification unless it knows it to be erroneous.

Recommendation:

The University should strengthen policies and procedures for obtaining vendor certifications of suspension and debarment by requiring signed certifications from the vendors. The University should conduct business only with vendors who are neither suspended nor debarred.

Management’s Response and Corrective Action Plan:

*UT Southwestern Medical Center at Dallas is committed to compliance with State and Federal Statutes and Regulations. University policy will require purchase orders and vendor affirmation forms to include a certification that the supplier and its principal parties have not been suspended or debarred.*

Implementation Date: April 2, 2001

Responsible Person: Manager of Purchasing and Delegated Purchasing Supervisors

## Water Development Board

Reference No. 01-555-21

### Strengthen Tracking of Earmarked Funds

CFDA 66.000 – Colonia Wastewater Treatment Assistance Program  
Contract/Award – N/A

The Water Development Board (Board) does not have a comprehensive process to ensure that federal fund drawdowns for the *Colonia Wastewater Treatment Assistance Program* (CWTAP) comply with budgeted (earmarked) amounts per the grant agreements.

Questioned Cost:	\$ 0.00
U.S. Environmental Protection Agency	

Documentation provided by the Board showed three different amounts for cumulative CWTAP administrative costs to date, two of which differ from the amounts reported to the Environmental Protection Agency (EPA) in the *Annual Report Fiscal Year 2000*. In addition, the Board was unable to provide adequate records to support all federally earmarked budget items.

Lack of appropriate documentation makes it difficult to track earmarked funds and increases the risk that overcharges may occur and not be detected. It also limits the information available to the Board to make decisions regarding the management of CWTAP funds.

The grant and operating agreements between the EPA and the Board earmark specific funding amounts for administration, urban and rural planning, innovative and alternative technologies, and monitoring for each CWTAP grant.

#### Recommendation:

The Board should strengthen tracking of earmarked funds by:

- Reconciling cumulative CWTAP costs reported to the EPA to the accounting records and working with the EPA as needed to determine how much has been charged to each earmarked item to date.
- Establishing separate accounts for each earmarked item and for each CWTAP grant.

#### Management's Response and Corrective Action Plan:

*We concur in part with the finding. Specifically, staff had difficulty in retrieving accounting records from FY 97 and back for the entire CWTAP program history. We concur that there are not separate accounts established in the accounting records for the earmarked budget items; however spreadsheet reports are maintained by program staff that track each individual item on a monthly basis. Additionally, copies of the accounting reports were not maintained in the program management area to support expenditures reported to EPA. Current budgetary controls for the federally earmarked budget items rely on balances brought forward from prior years, and costs reported for FY 98, 99, and 2000 were reconciled with the general ledger prior to submitting the annual EPA report.*

*We concur in the recommendations for corrective action from the Project Manager. Steps have been taken to reconcile prior year reports with available detailed records, and we are attempting to retrieve prior year accounting records for administrative costs from off-site storage. A new procedure to account for draws for administrative costs separately from other grant assistance program draws will be implemented. In addition, a new accounting system, which will establish separate accounts to track earmarked, items for each CWTAP grant, is in the process of being implemented. With the implementation of the new accounting system, proper management controls and*

*procedures should be implemented by September 1, 2001, to ensure that account reconciliations are routinely performed.*

*Implementation Date: August 31, 2001*

*Responsible Person: Director of the Border Project Management Division*

Reference No. 01-555-22

**Revise Contracts to Ensure Timely Initiation of Construction**

**CFDA 66.000 – Colonia Wastewater Treatment Assistance Program  
Contract/Award – N/A**

The Board’s contracts with subrecipients do not state that subrecipients are required to begin construction within one year of contract execution in accordance with federal regulations. Therefore, subrecipients may not be aware of the requirement, which could diminish the Board’s ability to enforce compliance.

Questioned Cost:	\$ 0.00
U.S. Environmental Protection Agency	

The Board disbursed CWTAP funds on 24 grants in fiscal year 2000. Three (13 percent) were sampled, and two of three (66 percent) had not started construction within one year of the contract execution date. The CWTAP operating agreement between the EPA and the Board, Section IV.O, directs the Board to require, as a condition of award, that subrecipients assure construction will begin within one year of contract execution. The Board may take corrective action against subrecipients for noncompliance.

Recommendation:

The Board should revise its contract agreement with subrecipients to include language requiring timely initiation of construction.

Management’s Response and Corrective Action Plan:

*We concur in part. We concur that the one (1) year requirement to start construction is not explicitly spelled out in the contract with the subrecipients.*

*The issue raised by this finding is one that is not new to the Board. Timely completion of all facets of project development under the EDAP has previously been identified to the Board, the Office of the Secretary of State and the Senate Committee on Border Affairs. In the report to the Senate Committee on Border Affairs in April 2000, Board staff identified to the committee that 24 of 57 projects that had received a design/construction commitment had started construction after 2 years.*

*We do not concur that placing the one-year restriction to start construction in the contracts with the sub-recipient will in effect ensure compliance by the sub-recipient. Staff proposes to discuss this condition with EPA and either delete the condition or modify it to reflect the historical time for project construction starts in the EDAP.*

*Staff will continue to work with the sub-recipients to ensure timely completion of these projects. The TWDB will continue to work with applicants to move projects along. But we must recognize that implementation decisions are in the hands of the local project owner. The ultimate action - withdrawing or canceling a commitment would defeat the goals of the program, which is to build projects to provide needy residents with adequate services.*

*Implementation Date: Ongoing*

*Responsible Person: Director of the Border Project Management Division*

Reference No. 01-555-23

## Ensure Accuracy and Timely Submission of Federal Reports

CFDA 66.000 – Colonia Wastewater Treatment Assistance Program  
Contract/Award – N/A

The Board has not ensured for CWTAP that *Minority Business Enterprise (MBE)/Women Business Enterprise (WBE) Utilization Under Federal Grants, Cooperative Agreements, and Interagency Agreements* quarterly reports contain correct contract/procurement information. In addition, the Board did not ensure that CWTAP reports were submitted to the EPA by federal deadlines. However, the Board did meet its MBE/WBE activity goals for fiscal year 2000. During our testing, we found that:

Questioned Cost:	\$ 0.00
U.S. Environmental Protection Agency	

- One MBE/WBE quarterly report submitted to the EPA overstated contract/procurement activity by \$1,250,000, or 22.8 percent.
- All four MBE/WBE quarterly reports for fiscal year 2000 were submitted to the EPA from three days to twelve days late.
- The *Annual Report Fiscal Year 2000* was submitted to the EPA 14 days late.

Federal reports should accurately reflect the Board's activity. Section 8 of the grant agreement between the Board and EPA directs that MBE/WBE quarterly reports be submitted within 30 days of the end of each federal fiscal quarter. Section 7 of the grant agreement requires the Annual Report Fiscal Year 2000 to be submitted within 90 days of the State's fiscal year end.

### Recommendation:

The Board should ensure the accuracy of the MBE/WBE reports by adding another level of review. In addition, the Board should meet federal report deadlines.

### Management's Response and Corrective Action Plan:

*We concur that one MBE/WBE quarterly procurement report for CWTAP was overstated by \$1,250,000 which represented a single undetected entry error during the year. An amended quarterly report has been submitted to EPA. However, it is important to point out that for FY 2000 as a whole, the single error only represented a 2.68% misstatement of MBE procurement (originally reported as 28.91% instead of the actual 26.23%). This annual percentage rate has also been amended. With a goal target of 8%, the error had no significant impact on program management activities.*

*We concur that the four CWTAP MBE/WBE quarterly reports were not submitted in a timely manner. In FY 1999, the Board identified understaffing as an issue in the MBE/WBE program and proactively responded by creating the SBE/MBE/WBE Coordinator position. These MBE/WBE findings occurred during a period of staff turnover in the Coordinator position and program reorganization. The SBE/MBE/WBE program internal procedures have been revised to ensure management oversight by the Coordinator and provide adequate time for the preparation, review, and approval of reports prior to submission to EPA. These procedures have been implemented as of FY 2001. The Board is committed to ensuring the accuracy and timeliness of all federal reporting.*

*Implementation Date: December 31, 2000*

*Responsible Person: Director of the Border Project Management Division*



Reference No. 01-555-53

**Improve Accuracy of Bond Schedules****No CFDA****Contract/Award – N/A**

The Board did not produce accurate Supplementary Bond Schedules (bond schedules) in its *Annual Financial Report* (AFR) for fiscal year 2000. Bond schedules provide relevant analytical and financial information to address the needs of bond rating agencies, investors, bond counsel, and others. The Board accounts for \$2.4 billion, or approximately 19 percent, of the State's outstanding bond debt.

Questioned Cost: \$ 0.00

U.S. Environmental Protection  
Agency

The Fiscal Services Division (FSD) did not consistently follow the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports of State Agencies* related to the bond schedules and did not maintain supporting documentation for many of the amounts reported on the bond schedules. The FSD also did not reconcile the reported sources and uses of bond debt funds to Uniform Statewide Accounting System (USAS) data.

In addition, the Board's Internal Auditor did not follow the bond audit procedures as stipulated in the contract with the State Auditor's Office (Office). The bond audit procedures are designed to detect errors and ensure the fair presentation of the bond schedules.

As a result, the Office had to perform additional audit work that resulted in 24 audit adjustments of varying significance being made to four of the six bond schedules in the Board's AFR.

These adjustments were necessary in order for the Board's bond disclosures to be properly stated in the State's *Comprehensive Annual Financial Report* (CAFR), although most of these adjustments may not affect stakeholders' decision-making. None of these adjustments affected Bonds Payable reported on the Board's Combined Balance Sheet.

The *Reporting Requirements for Annual Financial Reports of State Agencies* requires each agency that issues bonds to provide relevant analytical and financial information in the bond schedules for inclusion in the State's CAFR.

**Recommendation:**

We recommend that necessary processes be implemented to ensure that the Supplementary Bond Schedules are prepared accurately and in accordance with state reporting requirements. The Fiscal Services Division should maintain appropriate documentation, including USAS reconciliation documentation, to support amounts reported on the bond schedules. In addition, the Internal Auditor should follow agreed upon procedures when performing work for external parties.

**Management's Response and Corrective Action Plan:**

*Although Supplementary Bond Schedules provide useful information, the primary disclosure of bond related information for the Board are Official Statements used in the issuance of debt. The Board discloses its Summary Balance Sheet and Statement of Revenues, Expenses and Changes in Equity in the Official Statements. The Board does not include any supplementary schedules in sales documents. The full unaudited AFR is distributed to interested parties annually. Board staff has notified all parties of the adjustments made to the AFR. The Water Development Board's (Board) interpretation of the classification of bonds paid off during the year resulted in one-third of the audit adjustments and flowed through several of the bond schedules. Staff discussed the basis for treatment with SAO and was informed that recommendations to rewrite the instructions for these activities will be forwarded to the Comptroller to prevent future difficulty in determining the desired classification.*

*The adjustments did not affect the actual amounts of interest earned by the Board on the respective funds as reported in Exhibit II “Combined Statement of Revenues, Expenditures & Changes in Fund Balance” or on the reported amounts in Exhibit IV “Combined Statement of Revenues, Expenses and Changes in Fund Equity.”*

*Recent staffing upgrades, ongoing process improvements and other internal improvements should address TWDB operational issues. Currently FSD has a plan in place for improving the operations of the division. One key item in the plan is to update procedures and operating manuals. The estimated completion date for the update is July 2001. Based on the plan, procedures will be improved to ensure that proper supporting documentation for the amounts reported in the bond schedules is reconciled to USAS data and is maintained for a specified period. Additional procedures will be established for the bond schedules to ensure the schedules are prepared in accordance with the Comptroller of Public Accounts’ (Comptroller) Reporting Requirements for Annual Financial Reports of States Agencies. Board staff plan to meet with the Comptroller’s Financial Reporting Section and the State Auditor’s Office staff in late spring 2001 to discuss enhancements of the reporting requirements to further clarify unique circumstances dealing with complex bond transactions.*

*We believe that the Board’s Internal Auditor intended to follow the bond audit procedures as stipulated in the contract with the SAO. However, we recognize that the SAO identified supplemental bond schedule adjustments that had not been detected during the Internal Auditor’s review of the schedules. The Internal Auditor will continue to work with the SAO staff to ensure agreed-upon procedures are completed in a way to detect errors and ensure the fair presentation of the bond schedules.*

*Collectively, the issues raised during the audit indicate a strong need for closer coordination both in-house and with the SAO on developing the supplemental schedules for the AFR.*

*Implementation Date: August 31, 2001*

*Responsible Person: Executive Administrator*

## Texas Workforce Commission

Reference No. 01-555-46

### Strengthen Program Monitoring and Financial Oversight

CFDA 17.245 - Trade Adjustment Assistance - Workers  
Contract/Award - N/A

The Texas Workforce Commission (Agency) has not ensured that Trade Adjustment Assistance (TAA) funds have been spent in accordance with federal requirements because of weaknesses in program monitoring and fund management. Thus, unemployed individuals may not receive the intended benefits of training provided by the TAA program.

Questioned Cost:	\$ 0.00
U.S. Department of Labor	

In fiscal year 2000, approximately \$7.8 million out of \$42.7 million (18 percent) in federal TAA program funds was spent on training unemployed individuals. The TAA Unit reported that 3,652 individuals were enrolled in TAA-funded training programs on September 30, 2000. Because the Agency does not adequately monitor TAA-funded training provided by training institutions, the \$7.8 million of training funds were at risk of being spent on unallowable costs, which could lead to lost federal funding. (There is no evidence that the Agency has incurred unallowable costs.)

### Program Monitoring

The Agency has not created an adequate program monitoring function for TAA-funded training contracts. The Agency does not routinely verify whether students are receiving the TAA-funded training that is self-reported by the training institutions or students. Policies and procedures are documented for administration of the TAA program, yet they are outdated and not consistently followed. Additionally, policies and procedures do not specify the type and frequency of monitoring to be conducted.

### Fund Obligation

Unused TAA program funds are not always deobligated in a timely manner. In 6 of 25 client accounts (24 percent), \$4,928 in excess funds remained obligated for an average of 337 days after contract expiration. There are no federal or Agency regulations for the timely deobligation of TAA funds. However, it is a good business practice to deobligate excess funds in a timely manner. As long as excess funds remain obligated, there is an increased risk that unemployed individuals may not be able to enter the program or that their entry will be delayed due to a lack of available (unobligated) funds. In addition, if NAFTA/TAA clients do not start training within federal time limits, they will be ineligible for other benefits.

### Recommendation:

Management should strengthen the Agency's program monitoring and financial oversight over TAA-funded training contracts. The Agency should:

- Clarify the procedures for the specific type and frequency of monitoring activities to be performed. Implement procedures to verify self-reported information submitted by the training providers and students to the Agency to ensure that TAA students are receiving the intended training and supplies.
- Establish policy and implement procedures to deobligate funds on a more timely basis.

Management's Response and Corrective Action Plan:

- *Program Monitoring*

*We agree that it is important to provide effective, coordinated program monitoring that ensures compliance with the TAA policies and procedures. The TAA department is working with Division management to determine the most effective process to use to assure that the program monitoring is achieved. New procedures will be in place by September 1, 2001.*

*We believe it is important to note that the risk of paying for services not received is significantly reduced by the fact that TAA training contracts are only entered into with institutions that are regulated by the Proprietary Schools Department of the Texas Workforce Commission, the Texas Higher Education Coordinating Board, or the Texas Education Agency's Adult Cooperative Education Program. These regulatory entities require the training institutions to maintain academic and attendance documentation, and regularly visit the institutions they regulate. Also, participants in TAA approved training programs report their attendance to the Unemployment Insurance (UI) Division of the Agency each week in order to receive weekly trade readjustment allowance (TRA) payments. The federal law requires that a 'participation in training' requirement be met in order to receive weekly TRA payments. There are procedures in place to assure that all TAA participants are current in the UI system.*

*Implementation Date: September 1, 2001*

*Responsible Person: Workforce Development Division Director*

- *Fund Obligation*

*We agree with SAO staff that program funds could be deobligated in a more timely manner, but it should be noted that no NAFTA/TAA clients' training was delayed due to the lack of available funding. Additional staff have been assigned for months to help reduce the pending deobligation workload. This increased workload is due to the tremendous number of workers who entered the system several years ago and their training contracts are now being closed out. TAA program staff have also been working diligently with training institutions to provide more timely participant termination notification. Assigned staff will continue to process accumulated contracts pending deobligation. It is anticipated that all backlogged deobligations will be processed before April 1, 2001.*

*The Agency is in the process of developing rules for the TAA program. A specified timeframe for deobligating funds will be included; as has been done in our Board administered rules.*

*Implementation Date: April 1, 2001*

*Responsible Person: Workforce Development Division Director*

Reference No. 01-555-47

### **Ensure Federal Funds Are Reported Accurately**

CFDA 17.225 - Unemployment Insurance

CFDA 17.245 - Trade Adjustment Assistance – Workers

CFDA 83.541 - Disaster Unemployment Assistance

Contract/Award - N/A

The Agency did not accurately report weekly benefit payments on the Agency's *Annual Financial Report (AFR)*—Schedule of Expenditures of Federal Awards. The Agency had to make the adjustments in Table 1.

Questioned Cost:	\$ 0.00
U.S. Federal Emergency Management Agency	
U.S. Department of Labor	

Table 1

Adjustments to Annual Financial Report for Three Programs			
CFDA Name	Total Program Amount on AFR	Adjustment	Corrected Total Program Amount
Trade Adjustment Assistance (TAA)	\$ 9,575,549	\$ 33,119,731	\$ 42,695,280
Disaster Unemployment Assistance (DUA)	\$ 14,040	\$ 61,040	\$ 75,080
Unemployment Insurance (UI)	\$ 1,234,817,991	\$ (33,180,771)	\$ 1,201,637,220

The Agency incorrectly reported TAA and DUA benefit payments as UI benefit payments. As a result, the TAA expenditures were understated by 77.6 percent and the DUA expenditures were understated by 81.3 percent in the Schedule of Expenditures of Federal Awards. The Agency overstated the UI program expenditures by 2.7 percent. The Comptroller of Public Accounts uses the Agency’s AFR to prepare the *State’s Comprehensive Annual Financial Report*, which includes a Schedule of Expenditures of Federal Awards. The Agency has policies for recording and reviewing the AFR numbers but a lack of communication among staff resulted in this error.

The usefulness of the Agency’s financial report as a tool for outside decision-making is affected by inaccurate reported information. Errors in the financial report hinder the Agency’s ability to provide accurate financial information. These reporting errors do not indicate a misuse of funds and do not affect the total federal funds of \$1.9 billion reported in the Agency’s AFR.

Recommendation:

The Agency should:

- Establish communication procedures between the program and financial reporting staff.
- Provide the Comptroller of Public Accounts with correct information for the fiscal year 2000 AFR.

Management’s Response and Corrective Action Plan:

- *The Agency has adopted formal procedures for communicating benefit payment information from program to financial reporting staff for inclusion in the federal schedule. These procedures will prevent future errors from occurring.*
- *The Agency provided the correct information for the fiscal year 2000 Annual Financial Report to the Comptroller of Public Accounts immediately after it was determined that an error had occurred.*

Implementation Date: February 1, 2001

Responsible Person: Chief Financial Officer

# **Summary Schedule of Prior Audit Findings**

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The 2000 Statewide Single Audit Report



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Federal regulations (*Office of Management and Budget Circular A-133*) state that “the auditee is responsible for follow-up and corrective action on all audit findings.” As part of this responsibility, the auditee reports the corrective action it has taken for the following:

- Each finding in the 1999 Schedule of Findings and Questioned Costs
- Each finding in the 1999 Summary Schedule of Prior Audit Findings that was not identified as implemented or reissued as a current year finding

The Summary Schedule of Prior Audit Findings (year ended August 31, 2000) has been prepared to address these responsibilities.

## The State of Texas

Reference No. 00-555-50

### Comply With Requirements Regarding the Reporting of Enrollment Changes in the Federal Family Education Loans Program for the State of Texas

(Prior Audit Issue – 99-555-97)

The State of Texas continues to be in material noncompliance with the federal requirement of reporting enrollment changes in the *Federal Family Education Loans* program. Current audit results indicate that enrollment changes continue to be a problem at many universities. Continued noncompliance by universities with this requirement may result in delayed repayment of federal loans.

Initial Year Written:	1998
Status:	Other
U.S. Department of Education	

#### Corrective Action:

#### Enrollment Change Summary

Total estimated interest charges for the reporting of enrollment changes under the *Federal Family Education Loan* (FFEL) and the *Federal Direct Loan* (FDL) programs for fiscal year 2000 are \$1,350,137. Total expenditures for the FFEL and FDL Program for fiscal year 2000 were \$910,239,126.89 and \$57,239,056.79, respectively. The estimated interest charges represent 0.11 percent of total Student Financial Aid (SFA) Cluster expenditures and 0.14 percent of total FFEL and FDL expenditures for fiscal year 2000. In addition, the cost to the federal government is actually less because you cannot determine what part of the loan proceeds were for subsidized and/or unsubsidized loans without reviewing each student’s certified loan, since the federal government only pays the interest on the subsidized loans. If the status change was not reported, then the default date would be the graduation date of the student. Note: The interest charges were calculated based on the annual percentage rate of 8.19 percent, which was provided in the *SFA Handbook*.

An enrollment change occurs when a student graduates, withdraws, drops classes or is expelled. Federal regulations require an institution to report enrollment changes to the guaranty agency or the U.S. Department of Education within 60 days. If the institution does not expect to report enrollment changes on the Student Status Confirmation Report (SSCR) within the next 60 days, that institution is required to notify the guarantor or lender within 30 days.

The following entities had enrollment change findings for fiscal year 2000:

- The University of Texas at Arlington (See Reference No. 01-555-7.)
- Southwest Texas State University (See Reference No. 01-555-5.)
- Texas Woman’s University (See Reference No. 01-555-2.)
- The University of North Texas Health Science Center (See Related Reports Appendix.)

- The University of Texas at Brownsville (See Reference No. 01-555-13.)
- Texas Southern University (See Reference No. 01-555-12.)
- Sul Ross State University (See Reference No. 01-555-6.)
- The University of Texas Health Science Center at San Antonio (See Related Reports Appendix.)

**Commission on Alcohol and Drug Abuse**

Reference No. 00-555-52

**Improve Monitoring of Subrecipients**

(Prior Audit Issue - 99-555-31, 99-555-33, 98-323-01)

**CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse**

A material weakness continued to exist in controls over the Commission on Alcohol and Drug Abuse’s (Commission) monitoring of subrecipients. The Commission addressed some of the issues we identified last year by making improvements in the areas of closeouts, risk assessment, and single audit desk reviews.

Initial Year Written:	1997
Status:	Partially Implemented
U.S. Department of Health and Human Services	

However, due to lax enforcement of existing controls and inadequate processes, the risk remained high that the Commission would not detect subrecipients not in compliance with federal requirements in a timely manner. The Commission paid \$129 million in federal block grant funds to over 200 subrecipients in fiscal year 1999. Weak processes and controls over monitoring significantly impact the Commission’s ability to ensure that federal awards are used for authorized purposes, that performance goals are achieved, and that unallowable expenses are recovered as required under *OMB Circular A-133* Subpart D, Section 400 (d)(3). Furthermore, these weaknesses may have limited the Commission’s ability to identify and recover unallowable costs and excess payments.

This finding was reissued as current year reference number: 01-555-20.

Corrective Action:

*HIGH RISK: A high-risk policy was adopted on June 2, 2000. The policy provides clarification of the various criteria referenced in UGMS for determining providers that should be placed on high-risk status. Contract oversight teams, led by Project Officers, meet regularly to discuss the high-risk providers and other providers that may be considered for high-risk designation.*

*The high-risk policy was sent to the State Auditor’s Office on June 5, 2000 for review and comment. A statement was also included to explain that any changes recommended by SAO would be incorporated to the policy. No feedback has been received, to date.*

*Policy Implemented: June 2, 2000*

*Responsible Person: Deputies for Finance & Administration and Licensing & Enforcement*

*Move to Unit Cost: In the FY 2001 contracts, subcontractors who were on unit cost/cost reimbursement have been moved to a unit rate payment methodology.*

*There is also a three-part rate study in process, supported by federal technical assistance funds from SAMSHA, that will be complete in late fall 2000. The results of the study will be used to analyze TCADA’s current rates and changes will be made, as deemed appropriate. Rate changes, if any, will be effective in the FY 2002 contracts.*

*The transition of some providers from financial assistance to unit rate is still under review. Due to the nature and extent of improvements made in the FY 2001 contracting process, an executive decision was made to continue with the current payment methodologies at the inception of the FY 2001 contract year. Actions steps are planned between August 31, 2000 and December 31, 2000 to establish specific criteria regarding financial assistance and waivers. Specific criteria will be identified to determine the need for certain contracts that purchase capacity in order to make services available where they would otherwise not be developed. The criteria will specifically apply to subcontractors who are on cost reimbursements in the FY 2001 contracts. Based on an evaluation subcontractors could be granted a waiver to August 31, 2001 with a move to unit rate in the FY 2002 contracts. Another possibility is that TCADA recognizes that the subcontractor serves an area that must purchase capacity in order to provide needed services. In this case, TCADA will allow the subcontractor to request cost reimbursement each year (unit rate must be waived on an annual basis).*

*Partially Implemented - As of 8/28/00; unit rate study continues; review of requests for working capital advances not completed*

*Responsible Person: Deputies for Finance & Administration and Licensing & Enforcement*

*Financial Oversight: A contract fiscal oversight unit has been staffed and placed in the Analysis and Reporting Division. The unit is charged with oversight of subcontractor fiscal reporting. Subcontractors have also been notified of additional reporting requirements that would enable the Agency to monitor expenditures and use of funds more efficiently. Subcontractors are required to report budgets and expenditures by program. Expenditures will be reported monthly beginning in FY 2001. Subcontractors who are delinquent in reporting will be placed on delayed payment until reports are received. There will be a two month transitional phase to alert providers of the consequences of delinquency.*

*Performance reporting will also be required monthly and matched against the expenditure reports. Quarterly FSRs will also be required. Program match and program income will have to be reported at that time.*

*Implemented: July 2000 - Organizational unit established and procedures developed. Will be applied to FY 2001 contracts.*

*Responsible Person: Deputy for Finance & Administration*

*Cash Management: Guidance has been provided to subcontractors more clearly defining the working capital advance allowed for cost reimbursement subcontractors. Each FY 2001 advance request has either been reviewed, or in the review process to determine the amount of the working capital advance allowed, if any. Stipulations have been included in the FY 2001 contract of each subcontractor requesting a working capital advance, including a repayment timeline. For FY 2001 working capital is assigned by program, due to constraints in the computer system. The contract fiscal managers will be responsible for monitoring the repayment of working capital advances at fiscal year-end.*

*As of 8/28/2000 - Partially Implemented - Procedures have been established. Some requests for working capital advances are still under review.*

*Responsible Person: Deputy for Finance & Administration*

*Program Reviews for Contract Renewals: Renewal packets for contracts not under competitive procurement went out May 16, 2000 with a due date for return of June 16, 2000. Internal evaluation of renewals focused on demonstrated program performance and fiscal review. Subcontractors were required to submit performance and budgets, as necessary, to support the FY 2001 service goals for the agency.*

*Special folders were created to assign and track responsibility for contract negotiation, clarification, and completion of contract renewals. A tracking spreadsheet managed by the Procurement Unit also tracked the process of each contract mail-out, execution, and return. A tracking sheet for each level of contract review and authorization was developed and implemented for the entire contracting process. This tracking sheet will be filed in the contract folder.*

*Implemented May - August 2000*

*Responsible Person: Deputy for Finance & Administration*

*Provider Tracking System: A provider profile system has been developed that compiles information relevant to each subcontractor. Information will be maintained and updated by the program performance unit and is available to staff. Copies of forms have been provided to SAO and they have interviewed staff involved in the development of the provider profile.*

*A project officer will be assigned to each subcontractor. The project officer will lead an interdepartmental team that will be responsible for oversight of issues/items tracked in the Provider Profile. The team will meet to resolve any issues related to a specific provider, or will refer issues within the agency for further disposition.*

*Responsible Person: Deputy of Finance & Administration*

Reference No. 00-555-53

**Improve Internal Audit Function**

(Prior Audit Issue - 99-555-40)

**CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse**

The internal audit function was ineffective in assessing the adequacy of the Commission's internal controls. For fiscal year 1999, internal audit completed one audit, one special project, and two of the three control self-assessments in its revised audit plan. Although documentation of work performed had improved, it continued to be inadequate because internal audit did not comply with auditing standards for three of the projects. Documentation should contain enough information that a third party could determine whether the evidence supports the findings and recommendations.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Health and Human Services	

*Corrective Action:*

*An Internal Audit Director was hired effective June 19, 2000. Another Internal Auditor VI is scheduled to begin work September 1, 2000. A second Internal Auditor position is posted, and is expected to be filled by September 30, 2000.*

*The Internal Audit Director is currently in process of negotiating and finalizing an engagement letter with KPMG to perform a risk assessment and recommend a three-year audit plan. Internal Audit staff will also participate in this process. KPMG will also provide internal audit services, at the request of the Audit Committee and/or Internal Audit Director once the audit plan is completed.*

*The Internal Audit Charter is also under review and has been initially discussed with the Audit Committee on August 8, 2000. Additional discussions and revisions will occur until the Internal Audit Charter is approved by the Audit Committee and the Board of Commissioners.*

Reference No. 00-555-54

### Create Policy for Executing Contracts

(Prior Audit Issue - 99-555-33, 98-323-01)

#### CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

The Commission did not have a formal written policy that all contracts should be signed by both parties before the September 1 start date of the contract. Until a valid written contract is executed, the respective responsibilities of each party are unclear. Consequently, disputes over the terms of the agreement are more difficult to resolve, and it may be harder to hold providers accountable for their performance

Initial Year Written:	1997
Status:	Implemented
U.S. Department of Health and Human Services	

#### Corrective Action:

Corrective action was taken.

Reference No. 00-555-55

### Comply With Period of Availability

#### CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

The Commission did not have adequate controls to ensure compliance with period of availability requirements under the *Block Grant for Prevention and Treatment of Substance Abuse* program. Noncompliance with period of availability requirements may result in the loss of federal funds.

Initial Year Written:	1999
Status:	Implemented
U.S. Department of Health and Human Services	

#### Corrective Action:

Corrective action was taken.

Reference No. 00-555-56

### Comply With Independent Peer Review Requests

(Prior Audit Issue - 99-555-35, 98-323-05)

#### CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

The Commission did not comply with the independent peer review requirements of the *Block Grants for Prevention and Treatment of Substance Abuse* program. Noncompliance with these requirements may limit the peer review's effectiveness and can result in the loss of federal funds.

Initial Year Written:	1997
Status:	Implemented
U.S. Department of Health and Human Services	

#### Corrective Action:

Corrective action was taken.

Reference No. 00-555-57

**Improve Computer Security**  
(Prior Audit Issue - 99-555-38)

**CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse**

The Commission's security procedures were inadequate to prevent and detect unauthorized access to its computer systems, although some improvements were made during fiscal year 1999.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Health and Human Services	

Corrective Action:

*The agency has instituted a specific, documented review process for failed log-ons and requires each administrator to have a specific password that is updated on a periodic basis.*

*All accounts and access for departing employee are terminated immediately upon last day of employment. Close coordination between the Human Resources Division and the Information Technology Division monitors employee departures and termination of access is documented. Exiting employee passwords are not documented.*

*A process has been established for the completion of security forms for access to information resources that require sign-off during the hiring process. Security forms are filed as part of the employee's personnel file. However, this procedure has not been consistently followed. This issue has been brought to management's attention by Internal Audit.*

*Policies and procedures have been revised and implemented. Employees have been trained.*

Reference No. 00-555-58

**Improve Documentation and Ensure Integrity of Services Management System**  
(Prior Audit Issue - 99-555-28)

**CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse**

The Commission did not adequately document how the Services Management System (SMS) works or test that it functions as it should. SMS is a critical component of the Integrated Management System (IMS) and directly supports the Commission's critical business functions. SMS processes data related to provider billings, payments, and expenditures.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Health and Human Services	

Corrective Action:

*The Service Management System (SMS) documentation currently being performed by the contract technical writer will be completed, including acceptance review, by the end of September 2000.*

*The post implementation review of SMS will be accomplished as part of the IMS review (these are components of the same integrated system) and is on track to be addressed in January 2001.*

Reference No. 00-555-59

**Improve Plan for Disaster Recovery Plan**  
(Prior Audit Issue - 99-555-39)

**CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse**

The Commission's disaster recovery plan did not ensure operations could be resumed quickly to provide services to the public after a disaster, such as a fire or tornado. Information technology standards require that a plan be in place so that, in the event of a disaster, the agency can prevent the loss of critical data and resume operations quickly.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Health and Human Services	

This finding was reissued as current year reference number: 01-555-32.

Corrective Action:

*The drafts of the Disaster Recovery Plan have been reviewed and the following observations noted:*

*The plan was written for the prior organization. Subsequent to the recent TCADA reorganization, staff positions, responsibilities and functions have all changed. The changes are significant such that the plan will need to be effectively re-written to accommodate the agency as currently organized.*

*Once rewritten the primary components of the plan will be delineated and incorporated:*

- *Critical computer hardware and software identified;*
- *Critical tasks listed;*
- *Recovery teams identified;*
- *Team assignments outlined*

*Executive input is necessary so as to align the Information Technology Disaster Recovery Plan with a business continuity plan. It is estimated that the plan re-write and comprehensive development will take until December 31, 2000 to complete. The implementation date in the SAO response document should be changed.*

<b>Office of the Attorney General</b>
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Reference No. 00-555-1

**Ensure That Medical Support Enforcement Actions Are Complete and Accurate**

**CFDA 93.563 - Child Support Enforcement**

The Office of the Attorney General (Office) did not meet the 75 percent required compliance rate for enforcement of non-custodial parents' medical support obligations. In a test of 45 case files, 14 cases (31.1 percent) had procedural errors in processing the medical support enforcement actions. Procedural errors included omitting medical support language in enforcement motions and failing to complete all appropriate entries on administrative enforcement forms.

Initial Year Written:	1999
Status:	Partially Implemented
U.S. Department of Health and Human Services	

This finding was reissued as current year reference number: 01-555-43.



Corrective Action:

*The primary error which the 1999 State Auditor's Office (SAO) reported involved a procedural problem. During July 1999, automated system designs were completed which implemented a corrective action. The programming currently in place now notifies the employers, for Administrative Writs of Withholding, to take the appropriate action thereby ensuring enforcement of the non-custodial parents' medical support obligation. The Office of the Attorney General believes it has demonstrated a sincere effort to address the State Auditor's recommendation.*

**Texas Education Agency**

Reference No. 00-555-46

**Strengthen Controls Over Subrecipient Monitoring**

(Prior Audit Issue - 99-555-89)

- CFDA 84.010 - Title I Grants - Local Educational Agencies
- CFDA 84.011 - Migrant Education - Basic State Formula Grant Program
- CFDA 84.027 - Special Education State Grants
- CFDA 84.186 - Safe and Drug-Free Schools - State Grants

A material weakness in the Texas Education Agency's (Agency) monitoring of subrecipients continues to exist as it works to develop an agency wide monitoring plan. When the prior audit identified this issue, the Agency developed a corrective action plan that is scheduled to be complete in the fall of 2000.

Initial Year Written: 1998  
 Status: Partially Implemented  
  
 U.S. Department of  
 Education

However, until the Agency implements this plan and uses it in a monitoring cycle, we cannot adequately determine that prior year weaknesses have been resolved.

As a result, the risk remains high for these programs that the Agency will not detect subrecipients not in compliance with federal requirements in a timely manner along with five programs audited in the prior year (see the Summary Schedule of Prior Audit Findings section of this report). The Agency distributed \$1 billion in federal funds to over 1,000 subrecipients through these four programs in fiscal year 1999.

This finding was reissued as current year reference number: 01-555-51.

Corrective Action:

*The new subrecipient monitoring plan will be implemented in the fall of 2000 as scheduled. Data analysis used to select districts for risk-based monitoring in 2000-2001 included a full range of risk indicators for Special Education, Federal Title Programs (except Title I, Part D, Subpart I) and a limited number of risk indicators for State Compensatory Education, Gifted and Talented Education, and Bilingual Education programs. During the 2000-2001 school year, a full range of indicators will be developed for State Compensatory Education, Gifted and Talented Education, Bilingual Education, Migrant Education, Career and Technology Education, Optional Extended Year Program, and Dyslexia. The indicators for these program areas, as well as those previously developed for Special Education and Federal Title Programs, will be used to select districts that will receive either on-site visits or desk audits during the 2001-2002 school year. In addition to on-site risk-based monitoring visits, Agency staff will review corrective actions submitted by districts and conduct follow-up visits if necessary.*

*A needs assessment survey for an information-sharing system has been completed, and development of the system will begin during the 2000-2001 school year. Completion and implementation of the information-sharing system will be dependent upon anticipated funding by the 77th Legislature. In addition, a follow-up survey of the needs assessment conducted during the summer of 1999 has been completed. Results indicate a significant increase in risk-based monitoring between FY 1999 and FY 2000. The Agencywide Monitoring Plan Committee will continue meeting during the 2000-2001 school year to monitor progress of the plan.*

Reference No. 00-555-47

**Continue Efforts to Strengthen Controls Within Accounting Systems**

(Prior Audit Issue - 99-555-95, 99-555-94, 97-348-01)

CFDA 10.553 - School Breakfast Program  
 CFDA 10.555 - National School Lunch Programs  
 CFDA 84.010 - Title I Grants - Local Educational Agencies  
 CFDA 84.011 - Migrant Education - Basic State Formula Grant Program  
 CFDA 84.027 - Special Education State Grants  
 CFDA 84.186 - Safe and Drug-Free Schools - State Grants  
 CFDA 84.196 - Education for Homeless Children and Youth  
 CFDA 84.318 - Technology Literacy Challenge Fund Grants

The Agency continues to have a material weakness in its accounting and reporting controls. Although it has made some progress, the Agency has not completely implemented significant prior year recommendations. The Agency did not accurately report federal financial information, and it does not reconcile its accounting systems in a comprehensive or timely manner. In addition, the Agency does not restrict access to its accounting systems well enough to prevent unauthorized changes. These problems significantly increase the risk that material errors could exist in financial data and not be detected in a timely manner. Also, the risk of inaccurate information limits the usefulness of the Agency's financial data. In fiscal year 1999, the Agency administered and reported on more than \$2 billion in federal funds.

Initial Year Written: 1996  
 Status: Partially Implemented

U.S. Department of  
 Agriculture

U.S. Department of  
 Education

This finding was reissued as current year reference number: 01-555-52.

Corrective Action:

*Cash reconciliations between ISAS and USAS are current and being completed on a timely basis. Appropriation reconciliations between ISAS and USAS are underway for budget year 2000 and plans are to be current by September 30, 2000. Everything is in place to produce an automated and accurate federal schedule for the FY2000 AFR. A review and analysis of ISAS and USAS security access has been completed and restructured to ensure appropriate access levels. ISAS reports have been developed to show what access all users have and these reports are being sent to management for periodic verification.*

Reference No. 00-555-48

**Reconcile Accounting Records for Federal Programs to Federal Systems**

(Prior Audit Issue - 99-555-91)

CFDA 10.553 - School Breakfast Program  
 CFDA 10.555 - National School Lunch Programs  
 CFDA 84.010 - Title I Grants - Local Educational Agencies  
 CFDA 84.011 - Migrant Education - Basic State Formula Grant Program  
 CFDA 84.027 - Special Education State Grants  
 CFDA 84.186 - Safe and Drug-Free Schools - State Grants  
 CFDA 84.196 - Education for Homeless Children and Youth  
 CFDA 84.318 - Technology Literacy Challenge Fund Grants

The Agency has not reconciled ISAS accounting records for certain federal programs with the accounting systems of its two major federal awarding agencies. Both systems are used as the source for requesting and drawing federal funds (\$2 billion in fiscal year 1999) from over 30 federal programs administered by the respective agencies. When reconciliations are not performed, there is limited assurance that federal funds drawn for a particular federal program are actually spent in that program.

Initial Year Written: 1998  
 Status: Partially Implemented

U.S. Department of  
 Agriculture

U.S. Department of  
 Education

Corrective Action:

The initial EDCAPS reconciliation to ISAS has been completed. On July 27, 2000, a letter was sent to USDE requesting them to reinstate some closed grant awards so that we can make adjustments in EDCAPS to tie to the reconciliation. The completion of this step by August 31, 2000 is contingent on the responses from USDE in reopening and/or reinstating the grants to adjust. We are currently preparing the adjustments needed to ISAS and have decided to post them to a prior fiscal year (1998) to prevent the adjustments from distorting the FY2000 federal schedule in the AFR. The results of these adjustments will have no impact on opening fund balances. We will continue to perform this reconciliation for active grants on a periodic basis.

A reconciliation between ISAS and ASAP and the CNP subsystem has been completed for the 1999 grant year and adjustments were made to balance between the systems. USDA complimented us on the results of this effort. We will continue to perform this reconciliation for active grants on a periodic basis.

Reference No. 00-555-45

**Ensure That Correct Federal Reimbursement Rates Are Used**

**CFDA 10.553 - School Breakfast Program**

The Agency did not use the correct reimbursement rate for the Severe Need Breakfast portion of the School Breakfast Program. The rate used was one-half cent lower than the rate published by the U.S. Department of Agriculture (USDA). As a result, schools participating in the program were underpaid by \$520,000 for federal program year 1999. The error occurred because the Agency did not verify the rate used in its automated system against the USDA information. The underpayment represents 2.5 percent of the Severe Need Breakfast reimbursements paid to 4,098 school campuses. Currently, the Agency is using the correct federal program year 2000 reimbursement rates.

Initial Year Written:	1999
Status:	Implemented
U.S. Department of Agriculture	

Corrective Action:

Corrective action was taken.

Reference No. 00-555-49

**Ensure That the Agency's Period One Calculation Is Supported**

- CFDA 10.553 - School Breakfast Program**
- CFDA 10.555 - National School Lunch Programs**
- CFDA 84.010 - Title I Grants - Local Educational Agencies**
- CFDA 84.011 - Migrant Education - Basic State Formula Grant Program**
- CFDA 84.027 - Special Education State Grants**
- CFDA 84.186 - Safe and Drug-Free Schools - State Grants**

The Agency's Period I, one of the components for cash management under the pre-issuance funding technique, may be incorrect because it is not based on actual activity. Period I is the time between receipt of federal funds and disbursement (warrant issuance).

Initial Year Written:	1999
Status:	Implemented
U.S. Department of Agriculture	
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-90

**Strengthen Controls Over Monitoring Cash Management for Subrecipients**

CFDA 10.560 - State Admin. Expenses for Child Nutrition  
 CFDA 84.186 - Safe and Drug-Free Schools - State Grants  
 CFDA 84.276 - Goals 2000 - State and Local Education Systemic Improvement Grant  
 CFDA 84.281 - Eisenhower Professional Development State Grants  
 CFDA 84.298 - Innovative Education Program Strategies

The Agency did not monitor subrecipients' cash management to ensure compliance with federal requirements that minimize the time federal funds are on hand. In addition, the Agency's cash advancement procedures during fiscal year 1998, at times, resulted in excess balances of federal funds on hand with subrecipients.

Initial Year Written: 1998  
 Status: Partially Implemented

U.S. Department of  
 Agriculture

U.S. Department of  
 Education

Corrective Action:

*The Internal Audit Division has scheduled an audit of subrecipients' year-end cash draw downs and refunds for federal grant programs. This audit is tentatively scheduled to commence in November 2000 and will cover the fiscal year ending August 31, 2000.*

*The Financial Accountability System Resource Guide has been revised to describe more in detail federal cash management requirements for subrecipients. The Division of School Financial Audits will emphasize to the subrecipients' independent auditors that cash management practices are to be examined for compliance with federal guidelines. The Division of School Financial Audits will also be reviewing subrecipients cash management practices during field visits to schools and in desk reviews.*

Reference No. 99-555-92

**Ensure Federal Financial Reports Are Prepared and Submitted**

CFDA 84.213 - Even Start - State Educational Agencies  
 CFDA 84.276 - Goals 2000 - State and Local Education Systemic Improvement Grant

The Agency failed to submit required reports to the U.S. Department of Education.

Initial Year Written: 1998  
 Status: Implemented

U.S. Department of  
 Education

Corrective Action:

Corrective action was taken.

**Health and Human Services Commission**

Reference No. 00-555-34

**Review Medicaid Systems for Adequacy in Detecting Overpayment and Potential Fraud**  
(Prior Audit Issue - 99-555-51)

**CFDA 93.778 - Medical Assistance Program**

The Health and Human Services Commission (Commission), in conjunction with the Department of Health (Department), did not take appropriate action to resolve questioned costs reported by the State Auditor's Office in the 1998 Financial and Compliance Audit. Forty out of 65 (62 percent) questionable claims were improperly closed. It appears that a breakdown in communication occurred between the Commission and the Department in addressing these claims.

Initial Year Written: 1998  
Status: Implemented  
  
U.S. Department of Health and Human Services

Corrective Action:

Corrective action was taken.

**Department of Health**

Reference No. 00-555-25

**Improve Monitoring of the Contract With National Heritage Insurance Company**  
(Prior Audit Issue - 99-555-46)

**CFDA 93.778 - Medical Assistance Program**

The Department of Health (Department) has made progress in improving its monitoring of the contract with the National Heritage Insurance Company (NHIC). However, further improvements are still needed. The Department contracted with NHIC during fiscal year 1999 to administer Medicaid claims. The Department's Health Care Financing Division monitors NHIC.

Initial Year Written: 1998  
Status: Partially Implemented  
  
U.S. Department of Health and Human Services

Corrective Action:

The Department selected a contractor to develop a risk assessment. The term of the contract is through February 15, 2001. Significant improvement was made to the CARTS system with further improvements to be in place by January 2001. The risk assessment and CARTS system will be tested during the fiscal year 2001 Statewide Single Audit. The Department developed a method for testing fee schedule changes and developed a disaster recovery test plan.

Reference No. 00-555-26

**Ensure Timely Submission of Revised CMIA Report**  
(Prior Audit Issue - 99-555-68)

**CFDA 93.778 - Medical Assistance Program**

The Department revised the fiscal year 1998 Cash Management Improvement Act (CMIA) Annual Report Worksheet (Report) to recognize Medical Assistance Program refunds on the date they are received as suggested in the prior year's

Initial Year Written: 1998  
Status: Implemented  
  
U.S. Department of Health and Human Services

audit. However, the Department did not submit the revised Report to the Comptroller of Public Accounts (Comptroller) prior to the deadline of December 1, 1999, as stated in the Comptroller's Cash Management Improvement Act Reporting requirements.

Corrective Action:

Corrective action was taken.

## Department of Housing and Community Affairs

Reference No. 00-555-42

### Strengthen Controls Over Subrecipient Monitoring

(Prior Audit Issue - 99-555-22)

#### CFDA 14.239 - HOME Investment Partnerships Program

The Department of Housing and Community Affairs (Department) has a material weakness in its controls over monitoring subrecipients for the *HOME Investment Partnerships Program (HOME)*. In fiscal year 1999, 250 subrecipients received \$25 million in federal *HOME* program funds. Because the Department does not monitor subrecipients effectively, all of these funds were at risk of being spent on unallowable costs, which could lead to lost federal funding.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Housing and Urban Development	

This finding was reissued as current year reference number: 01-555-24.

Corrective Action:

*The Department's risk assessment process is in place and will be incorporated into the HOME subrecipient monitoring operating procedures. While it is anticipated that risk assessment will be the primary tool for selecting a subrecipient for monitoring, in order to schedule immediate monitoring visits other selection criteria must also be taken into account until such time that the historical monitoring data is validated and recorded. The use of those additional criteria and deviation from the risk assessment will be justified and documented. The current files for open contracts containing monitoring information will be reviewed for accuracy and completeness. If the previously conducted monitoring data is acceptable and well documented, the information will be transferred to the new monitoring page in Genesis.*

*In order to ensure a consistent monitoring focus and to segregate duties, the HOME (and CDBG) monitoring functions have been shifted to the Compliance Division. Two HOME positions and five CDBG positions were shifted to Compliance (see Issue 151 for additional detail). The Program Monitoring section will be responsible for the monitoring functions of the CDBG and HOME programs. Consistent with the Compliance Divisions policy of cross training, the Program Monitors are also receiving training specific to multifamily rental projects).*

*The HOME Monitoring Manual 2000 and new checklists were put in place as of October 1999. However, the new Program Monitoring section staff will be responsible for reviewing and modifying HOME monitoring tools, as needed, and revising and expanding SOPs to accommodate the recent change in separation of duties between contract administration and monitoring. In process is a task review for monitors, which will assist staff in establishing policies and procedures.*

*A new monitoring page will be added to the Genesis system to be used to track monitoring findings and corrective actions. The SOPs will require that the information be consistently used to track monitoring information and updated as needed. Additional fields will be included to track information necessary for successful implementation of risk based monitoring. The monitoring information in Genesis is available to the Department on a read only*

*basis; the risk assessment system can be viewed on the Department's Intranet. The information can be used to provide necessary reports for management purposes.*

Reference No. 00-555-41

**Strengthen Controls Over Cash Management Requirements**

**CFDA 14.228 - Community Development Block Grants/State's Program**  
**CFDA 14.239 - HOME Investment Partnerships Program**

The Department is not in compliance with federal cash management requirements for the *HOME Investment Partnerships Program (HOME)* or the *Community Development Block Grant Program*. The Department did not properly calculate Period I for either program. Period I is one of the components used to determine the State's interest obligation to the federal government.

Initial Year Written:	1999
Status:	Implemented
U.S. Department of Housing and Urban Development	

Corrective Action:

Corrective action was taken.

Reference No. 00-555-38

**Strengthen Controls Over Matching Requirements**

**CFDA 14.239 - HOME Investment Partnerships Program**

The Department has not established adequate controls over the matching requirements for the *HOME Investment Partnerships Program (HOME)*. As a result, the Department has not accurately reported matching information to the U.S. Department of Housing and Urban Development since federal fiscal year 1995.

Initial Year Written:	1999
Status:	Implemented
U.S. Department of Housing and Urban Development	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-19

**The Department Did Not Meet Required Leasing Rates**

**CFDA 14.855 - Section 8 Rental Voucher Program**  
**CFDA 14.857 - Section 8 Rental Certificate Program**

The Department of Housing and Community Affairs has consistently and substantially been under the required leasing percentage for its last three fiscal years.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Housing and Urban Development	

Corrective Action:

Corrective action was taken.

## Department of Human Services

Reference No. 00-555-2

### Strengthen Controls Over Direct Cost Claimed for the Development and Maintenance of Clearance Patterns

CFDA 10.561 - State Admin. Matching Grants for Food Stamp Program  
 CFDA 93.558 - Temporary Assistance for Needy Families  
 CFDA 93.777 - State Survey and Certification of Health Care Providers and Suppliers  
 CFDA 93.778 - Medical Assistance Program

The Department of Human Services (Department) claimed \$19,500.54 in direct costs in fiscal year 1999, which is 93 percent more than its fiscal year 1998 claim of \$10,080.15. Based on our review of provided documentation and on the fact that the Department managed one less program in fiscal year 1999, the claim appears excessive.

Initial Year Written: 1999  
 Status: Implemented

U.S. Department of  
 Agriculture

U.S. Department of Health  
 and Human Services

#### Corrective Action:

Corrective action was taken.

Reference No. 00-555-17

### Comply With Cash Management Requirements

CFDA 10.561 - State Admin. Matching Grants for Food Stamp Program  
 CFDA 93.558 - Temporary Assistance for Needy Families  
 CFDA 93.777 - State Survey and Certification of Health Care Providers and Suppliers  
 CFDA 93.778 - Medical Assistance Program

The Department did not draw federal funds in accordance with the programs' average clearance funding technique. On average, the Department draws funds once a week even though the programs' average clearance patterns range from two to three days.

Initial Year Written: 1999  
 Status: Partially Implemented

U.S. Department of  
 Agriculture

U.S. Department of Health  
 and Human Services

This finding was reissued as current year reference number: 01-555-19.

#### Corrective Action:

*The agency returned to the pre-issuance funding technique for fiscal year 2000 and is requesting federal funds twice a week for each program. New Period 1 and Period 2 clearance patterns will be established for each program in fiscal year 2000.*

Reference No. 00-555-18

### Strengthen Controls Over Quality Assurance of Client Eligibility Files

CFDA 93.778 - Medical Assistance Program

The Department has both a federally approved Program Integrity Assessment (PIA) process and an internally developed Quality Assurance Management System (QAMS) to ensure accuracy of data in the Department's client eligibility

Initial Year Written: 1999  
 Status: Partially Implemented

U.S. Department of Health  
 and Human Services



files. We identified opportunities to improve management oversight and documentation of work performed by reviewers and caseworkers:

The Department does not formally document its follow-up work on deficiencies in the PIA process or the QAMS to ensure that timely corrective actions have been taken.

The Department has not provided formal training on the QAMS review process since 1992.

This finding was reissued as current year reference number: 01-555-33.

Corrective Action:

*A decision was made by May 1 regarding the direction of QAMS. The Office of Program Integrity (OPI) will conduct QAMS validation. A change in staff in the Office of Program Integrity has delayed implementation of QAMS validation by OPI. Regional Operations, Office of Programs and the Office of Program Integrity have worked together on this process. OPI will assume responsibility for validation by January 1, 2001.*

Reference No. 00-555-19

**Ensure Adequate Procedures for the Referral of Suspected Fraud Cases**

(Prior Audit Issue - 99-555-49, 98-320-01)

**CFDA 93.778 - Medical Assistance Program**

The Department has not implemented a recommendation from the 1998 Financial and Compliance Audit to ensure the receipt of suspected fraud referrals by the Health and Human Services Commission (Commission). The Department has controls in place to identify suspected Medicaid fraud. However, the Department has not established a formal process to reconcile referrals to the Commission and to track their disposition. As a result, not all suspected fraud cases are being investigated. The Department initiated meetings with the Commission (and the Office of the Attorney General) to address this issue.

Initial Year Written:	1997
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 00-555-20

**Establish a Program for Conducting Periodic Risk Analysis and Security Review**

(Prior Audit Issue - 99-555-48)

**CFDA 93.778 - Medical Assistance Program**

The Department has not established and maintained a program for conducting periodic risk analyses and security reviews of the automated data processing systems it uses in the administration of Medicaid. We reported in the 1998 Financial and Compliance Audit that the Department had not conducted a security review since June 1995.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Health and Human Services	

This finding was reissued as current year reference number: 01-555-34.

Corrective Action:

Internal Audit and MIS are finalizing a Request for Offer (RFO) to obtain professional services to conduct the security review and risk analysis. If sufficient funds are available, the scope of work will also include USDAs Food Stamp Program. We anticipate the RFO will be posted on the Electronic State Business Daily website in September 2000.

<b>Lamar University</b>
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Reference No. 00-555-10

**Report Enrollment Changes as Required****CFDA 84.032 - Federal Family Education Loans**

Lamar University (University) is not properly reporting enrollment changes for the Federal Family Education Loans program. In 5 of 12 student records tested (41.67 percent), we noted the following issues:

Three of the enrollment changes were submitted to the U.S. Department of Education (Department) after the required time frame. The changes were reported anywhere from 72 days to 122 days after the effective change date.

Two of the enrollment changes were not reported to the Department.

Initial Year Written:	1999
Status:	Other

U.S. Department of Education
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Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on a later date. The Office of Student Financial Aid is currently developing procedures to report directly, online to the NSLD any and all changes. The projected implementation date is January 2001.

Reference No. 00-555-6

**Maintain Documentation of Pell Payment Data Submitted to U.S. Department of Education****CFDA 84.063 - Federal Pell Grant Program**

The University is not maintaining necessary documentation to support the reporting of all Pell payment data to the U.S. Department of Education for the Federal Pell Grant Program. As a result, we were unable to ensure that the University reported the student payment data as required.

Initial Year Written:	1999
Status:	Implemented

U.S. Department of Education
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Corrective Action:

Corrective action taken.

**Department of Mental Health and Mental Retardation - Central Office**

Reference No. 00-555-21

**Comply With Independent Peer Review Requirements**  
(Prior Audit Issue - 99-555-11)

**CFDA 93.958 - Block Grant for Community Mental Health Services**

The Department of Mental Health and Mental Retardation (Department) does not have a process to ensure that independent peer reviews of funded treatment programs are performed as required by the Block Grant for Community Mental Health Services program.

Initial Year Written: 1998  
Status: Other

U.S. Department of Health  
and Human Services

This finding was reissued as current year reference number: 01-555-49.

Corrective Action:

The agency has decided to wait for the update that should be provided by the federal government in spring 2001.

Reference No. 00-555-22

**Fully Comply With Subrecipient Monitoring Requirements**

**CFDA 93.958 - Block Grant for Community Mental Health Services**

The Department is not in full compliance with subrecipient monitoring requirements. Three contracts were inconsistently contracted for and monitored.

Initial Year Written: 1999  
Status: Implemented

U.S. Department of Health  
and Human Services

Corrective Action:

Corrective action was taken.

Reference No. 00-555-23

**Comply With Allowable Activity Requirements**

**CFDA 93.958 - Block Grant for Community Mental Health Services**

The direct care services provided by the Children's Heart Institute do not appear to meet the allowable activity requirements of the Block Grant for Community Mental Health Services.

Initial Year Written: 1999  
Status: Implemented

U.S. Department of Health  
and Human Services

Corrective Action:

Corrective action was taken.

## Natural Resource Conservation Commission

Reference No. 99-555-52

### Develop a Formal Disaster Recovery Plan

CFDA 66.605 - Performance Partnership Grants

CFDA 66.802 - Superfund State Site-Specific Cooperative Agreements

The Natural Resource Conservation Commission (Commission) does not have an agencywide disaster recovery plan for its automated systems. The Commission is completing nightly back-ups of critical computer data and storing them off site. However, there is no formalized, comprehensive disaster recovery plan that includes procedures and processes for conducting risk analyses, setting priorities for the recovery of information resources, and identifying which automation-based services are most critical to the Commission.

Initial Year Written: 1998  
Status: Partially Implemented

U.S. Environmental  
Protection Agency

#### Corrective Action:

*TNRCC entered into a contract with Northrop Grumman Technical Services Inc. for the period of August 31, 1999 through August 31, 2002 for disaster recovery services at the West Texas Disaster Recovery and Operations Center (WTDROC). The disaster recovery plan revision process is still on-going. Due to other high priority projects, requested funds for the development of an agency-wide disaster recovery/business continuity plan were not approved for FY2000 or FY2001. Funds will be requested again in FY2002. An Information Resources Division (IRD) Disaster Recovery Plan is currently being developed using IRD FTEs.*

## Department of Protective and Regulatory Services

Reference No. 00-555-51

### Strengthen Controls Over Monitoring of Subrecipients and Vendors With Compliance Requirements

(Prior Audit Issue - 99-555-82, 98-318-03)

CFDA 93.658 - Foster Care - Title IV-E

A material weakness continues to exist in the Department of Protective and Regulatory Services' (Department) controls over monitoring of subrecipients and vendors with compliance responsibilities for the Foster Care - Title IV-E program. Because the Department does not monitor subrecipients or vendors effectively, all funds paid to these entities were at risk of being spent on unallowable costs, which could lead to lost federal funding.

Initial Year Written: 1997  
Status: Partially Implemented

U.S. Department of Health  
and Human Services

#### Corrective Action:

Corrective action for deficiencies related to risk assessment and monitoring coverage have been implemented. A new Contract Administration Division database to track subrecipient and vendor monitoring activities is in place for fiscal year 2001 and will be tested during the fiscal year 2001 Statewide Single Audit.

Reference No. 00-555-31

**Adjust Overclaims of Federal Funds in a Timely Manner****CFDA 93.658 - Foster Care - Title IV-E**

The Department does not adjust overclaims of federal funds in a timely manner. These adjustments are necessary to correct overclaims made by child placing agencies for foster care maintenance payments.

Initial Year Written:	1999
Status:	Partially Implemented
U.S. Department of Health and Human Services	

Corrective Action:

*The first part of the finding is fully implemented. The 1999 adjustment was made for the federal quarterly report due April 28, 2000, and the fiscal year 2000 adjustment will be made by the close of this quarter as recommended.*

*The second part of the finding is not scheduled to be implemented until 9/1/2001. According to the proposed rate-setting methodology and the validation of some of the assumptions, PRS is in the process of evaluating CPA maintenance expenses by requiring CPA specialized foster homes to complete a cost report. This updated information will be used for setting the fiscal years 2002-2003 pass through rates to foster homes. According to the proposed methodology, administrative and case management costs will be calculated as an add-on rate to the maintenance rate. Actual changes for the fiscal years 2002-2003 foster care rates and related CAPS adjustments are contingent upon Board approval of the proposed methodology and the related rates.*

Reference No. 00-555-33

**Establish Appropriate Controls Over Foster Care Income**

(Prior Audit Issue - 98-318-02)

**CFDA 93.658 - Foster Care - Title IV-E**

The Department has not yet established adequate controls to ensure that income received on behalf of foster care children is appropriately applied against the cost of the child's care. Current policies and procedures do not include a reconciliation between the income funds distribute to foster care providers and the income recorded in the billing system to offset the cost of the child's foster care.

Initial Year Written:	1997
Status:	Partially Implemented
U.S. Department of Health and Human Services	

This finding was reissued as current year reference number: 01-555-40.

Corrective Action:

*A Child Protective Services (CPS) Protective Services Action entitled Reconciliation of Children's Funds Applied to Cost of Care was released in the summer 2000 to provide a format for regions to perform reconciliations.*

*A Request For Proposals (RFP) was released in February to competitively procure banking services to consolidate the handling of children's income by regional staff into a single bank. This was a primary step in PRSs plan to establish standardized procedures with adequate oversight. No offers were received. Subsequently, PRS has negotiated with three banks on terms and conditions for these services. First American Bank has been selected. Services will be provided at no expense to PRS, while individual savings accounts established for children will earn interest.*

*First American Bank will have internet-based banking services available October 1, 2000. Prior to that date, they and the other banks involved in negotiations required modem-based banking in order to access all the features PRS sought.*

*A policies and procedures memorandum has been finalized and will be released to field staff the week of September 11, 2000. It addresses reconciliation procedures, separation of duties, and centralization of staff*

responsible for these functions. Policies and procedures were developed by a workgroup with representatives of Child Protective Services, Internal Audit, Accounting, Operational Support, Legal Services and Information Technology, based largely upon review of current regional practices and State Auditor's findings.

Training on policies and procedures, bank software and banking procedures, Quicken software and CAPS financial reporting procedures was held on September 20-22, 2000. Regions will be directed to begin, by October 1, the process of transferring accounts and direct-deposits.

Reference No. 00-555-39

### Strengthen Controls Over Cash Management Requirements

#### CFDA 93.658 - Foster Care - Title IV-E

The Department needs to strengthen controls in place to ensure compliance with cash management requirements. *The Foster Care Title IV-E* program is required to follow the pre-issuance funding technique according to the U.S. Treasury-State Agreement. To properly follow this technique, the Department must ensure Period I is accurately calculated. Period I is one of the components used to determine the State's interest obligation to the federal government.

Initial Year Written:	1999
Status:	Implemented
U.S. Department of Health and Human Services	

#### Corrective Action:

Corrective action was taken.

Reference No. 00-555-32

### Ensure Eligibility Redeterminations Are Performed in a Timely Manner

#### CFDA 93.658 - Foster Care - Title IV-E

The Department is not ensuring that *Foster Care -Title IV-E* and State-Paid Foster Care eligibility redeterminations are performed in a timely manner. Redeterminations are required every 12 months to ensure that the appropriate funds are used to pay for each child's foster care.

Initial Year Written:	1999
Status:	Implemented
U.S. Department of Health and Human Services	

#### Corrective Action:

Corrective action was taken.

Reference No. 99-555-81

### Comply With Federal Debarment/Suspension Requirements

#### CFDA 93.658 - Foster Care - Title IV-E

The Department did not comply with federal debarment and suspension requirements.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Health and Human Services	

#### Corrective Action:

Corrective action was taken.

**Sul Ross State University**

Reference No. 99-555-10

**Report Enrollment Changes to Guarantor, Lender, or U.S. Department of Education**  
(Prior Audit Issue - 98-333-02, 97-332-06)

**CFDA 84.032 - Federal Family Education Loans**

Sul Ross State University (University) is not reporting all enrollment changes for the Federal Family Education Loans program to the guarantor, lender, or U.S. Department of Education.

Initial Year Written: 1996  
Status: Partially Implemented

U.S. Department of  
Education

This finding was reissued as current year reference number: 01-555-06.

Corrective Action:

*Corrective action has been implemented and a coordinated effort with accountability is in place. The Dean of Admissions and Records has established a reporting schedule with the National Student Loan Clearinghouse (NSLC) and communicated dates of required action to the Director of Financial Assistance and the Director of Management Information Systems. Each Department has been delegated individual and joint responsibility to ensure that timely reports are submitted to NSLC.*

**Texas A&M International University**

Reference No. 00-555-16

**Report Enrollment Changes as Required**  
(Prior Audit Issue - 99-555-14, 98-331-02)

**CFDA 84.032 - Federal Family Education Loans**

Texas A&M International University (University) is not reporting enrollment changes in a timely manner for the *Federal Family Education Loans* program. For 2 of 15 student records tested (13.3 percent), the University did not report the changes within the required time frame.

Initial Year Written: 1997  
Status: Other

U.S. Department of  
Education

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on a later date. As of March 6, 2000, lenders and servicers are being notified by letter whenever a student changes enrollment status. As of March 28, 2000, enrollment changes are being reported directly to NSLDS on the web.

## Texas A&M University - Corpus Christi

Reference No. 99-555-2

### Report Enrollment Changes to the Guarantor, Lender, or U.S. Department of Education

#### CFDA 84.032 - Federal Family Education Loans

Texas A&M University – Corpus Christi (University) is not reporting all enrollment changes for the Federal Family Education Loans program to the guarantor, lender, or U.S. Department of Education. In addition, the University is not retaining records or documentation of the enrollment change updates in the National Student Loan Data System.

Initial Year Written:	1998
Status:	Other
U.S. Department of Education	

#### Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be follow up on a later date. There has been a delay in processing enrollment change data to the National Student Loan Clearinghouse. The delay is due to several factors, which include technical difficulties and shortage of programming staff. The targeted date for full implementation to the Clearinghouse services was fall 2000.

## Texas A&M University - Kingsville

Reference No. 00-555-12

### Report Enrollment Changes as Required (Prior Audit Issue - 99-555-26)

#### CFDA 84.032 - Federal Family Education Loans

Texas A&M University – Kingsville (University) is not properly reporting all enrollment changes for the *Federal Family Education Loans* program. In 8 of 13 student records tested (61.54 percent), we noted the following issues:

- Six of the enrollment changes were submitted to the U.S. Department of Education (Department) after the required time frame. The changes were reported anywhere from 78 days to 83 days after the effective change date.
- Two of the enrollment changes were not reported to the Department.

Initial Year Written:	1998
Status:	Other
U.S. Department of Education	

#### Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on a later date. The University has begun reporting graduates, mid-semester drops and withdrawals directly to the National Student Loan Database System as part of an ad-hoc reporting system.



Reference No. 00-555-13

**Maintain Documentation of Pell Payment Data Submitted to U.S. Department of Education**

**CFDA 84.063 - Federal Pell Grant Program**

In following up on prior audit issue 99-555-32, it was determined that the University is not maintaining necessary documentation to support the reporting of all Pell payment data to the U.S. Department of Education for the *Federal Pell Grant Program*. As a result, we were unable to ensure that the University reported the student payment data as required and thus determine if corrective action had been taken.

Initial Year Written:	1999
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on a later date. The University is continuing to Report Pell Payment Data using the RFMS System via Electronic Data Exchange software provided by the Department of Education. Back-ups are being saved on CD.

Reference No. 00-555-14

**Obtain Financial Aid Transcripts**

(Prior Audit Issue - 99-555-29)

**CFDA 84.032 - Federal Family Education Loans**

**CFDA 84.063 - Federal Pell Grant Program**

The University is not obtaining financial aid transcripts for all transfer students who receive federal financial assistance as required, as indicated by the following issues:

- For 1 of the 30 *Federal Family Education Loans* (FFEL) program and Federal Pell Grant Program (Pell) student files tested (3.33 percent), the transcript was obtained seven days after the disbursement of federal funds.
- For 2 of the 30 FFEL and Pell student files tested (6.67 percent), the transcripts were not in the students' files to support that the transcripts were received and reviewed. However, the transcript tracking screen in the financial aid information system indicated that the transcripts were requested and received.

Initial Year Written:	1998
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on a later date. The University is obtaining prior year awards from the National Student Loan Database. Midsummer awards still require paper financial aid transcripts. All awards for transfer students are not disbursed until FATS are input and verified.

Reference No. 99-555-24

### Develop and Implement Formal Policies and Procedures Over Monitoring Security Violations

CFDA 84.007 - Supplemental Educational Opportunity Grant  
 CFDA 84.032 - Federal Family Education Loans  
 CFDA 84.033 - Federal Work-Study Program  
 CFDA 84.038 - Federal Perkins Loan Program – Federal Capital Contributions  
 CFDA 84.063 - Federal Pell Grant Program

The University is not generating automated security reports to monitor security and it does not have documented internal policies and procedures for following up on reported security violations.

Initial Year Written: 1998  
 Status: Partially Implemented

U.S. Department of  
 Education

This finding was reissued as current year reference number: 01-555-11.

#### Corrective Action:

The University has developed interim policies and procedures; however, management had not approved or used them by January 12, 2001.

Reference No. 99-555-30

### Maintain Complete and Accurate Information to Support Adjustments to Students' Budgets

CFDA 84.032 - Federal Family Education Loans  
 CFDA 84.063 - Federal Pell Grant Program

The University does not maintain complete and accurate information to support adjustments to students' budgets.

Initial Year Written: 1998  
 Status: Implemented

U.S. Department of  
 Education

#### Corrective Action:

Corrective action was taken.

Reference No. 99-555-32

### Report Pell Payment Data to U.S. Department of Education Within 30 Days

CFDA 84.063 - Federal Pell Grant Program

The University is not reporting payment data on the *Federal Pell Grant Program* to the U.S. Department of Education within 30 days as required.

Initial Year Written: 1998  
 Status: Other

U.S. Department of  
 Education

#### Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on a later date. The University has begun using the new RFMS system on a weekly basis to report Pell payments to ensure compliance with the Department of Education.

**Texas Agricultural Experiment Station**

Reference No. 00-555-43

**Strengthen Controls Over Cash Management**

(Prior Audit Issue - 99-555-74)

**CFDA 10.001 - Agricultural Research-Basic and Applied Research**  
**CFDA 10.203 - Payments to Agricultural Experiment Stations under Hatch Act**

The Texas Agricultural Experiment Station's (Experiment Station) controls over cash management continue to be inadequate to ensure compliance with federal requirements.

Initial Year Written:	1998
Status:	Other
U.S. Department of Agriculture	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on next year.

Reference No. 00-555-44

**Improve Subrecipient Monitoring Procedures**

(Prior Audit Issue - 99-555-76)

**CFDA 10.200 - Grants for Agricultural Research, Special Research Grants**  
**CFDA 10.206 - Grants for Agricultural Research-Competitive Research Grants**  
**CFDA 10.901 - Resource Conservation and Development**  
**CFDA 12.114 - Collaborative Research and Development**  
**CFDA 12.300 - Basic and Applied Scientific Research**  
**CFDA 66.500 - Environmental Protection-Consolidated Research**  
**CFDA 81.049 - Basic energy Science - University and Science Education**  
**CFDA 93.846 - Arthritis, Musculoskeletal and Skin Disease Research**  
**CFDA 93.862 - Genetics and Developmental Biology Research**  
**CFDA 93.864 - Population Research**

The Experiment Station has made improvements to comply with subrecipient monitoring requirements as they relate to the Single Audit; however, it has not implemented procedures to ensure adequate monitoring of all subrecipients.

Initial Year Written:	1998
Status:	Other
U.S. Department of Agriculture	
U.S. Department of Defense	
U.S. Environmental Protection Agency	
U.S. Department of Energy	
U.S. Department of Health and Human Services	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow-up on this finding. The finding will be followed up on next year.

Reference No. 99-555-78

**Strengthen the Control Environment Over Research and Development Programs**

CFDA 10.001 - Agricultural Research-Basic and Applied Research  
 CFDA 10.200 - Grants for Agricultural Research, Special Research Grants  
 CFDA 10.203 - Payments to Agricultural Experiment Stations under Hatch Act  
 CFDA 10.206 - Grants for Agricultural Research-Competitive Research Grants  
 CFDA 93.103 - Food and Drug Administration-Research

The number and type of audit findings, inadequate policies and procedures, and untrained staff result in the conclusion that the control environment over research and development programs should be strengthened at the Experiment Station.

Initial Year Written:	1998
Status:	Other

U.S. Department of  
Agriculture

U.S. Department of Health  
and Human Services

Corrective Action:

Due to the implementation date of other prior year statewide audit findings, we are only able to conduct follow-up on a portion of this finding - this finding was based in part on the occurrence of the other findings. Therefore, additional follow-up and the final determination of the complete resolution of this finding will be necessary during the fiscal year 2001 statewide audit.

Reference No. 99-555-75

**Obtain Certifications for Suspension/Debarment**

CFDA 10.001 - Agricultural Research-Basic and Applied Research  
 CFDA 10.200 - Grants for Agricultural Research, Special Research Grants  
 CFDA 10.203 - Payments to Agricultural Experiment Stations under Hatch Act  
 CFDA 10.206 - Grants for Agricultural Research-Competitive Research Grants

The Experiment Station does not obtain required certifications from vendors indicating that they have not been suspended or debarred from doing business with the federal government.

Initial Year Written:	1998
Status:	Partially Implemented

U.S. Department of  
Agriculture

This finding was reissued as current year reference number: 01-555-28.

Corrective Action:

*TAES has written procedures in place for monitoring vendor suspension/debarment. These procedures were reviewed by the State Auditor's Office during the most recent follow up audit. These procedures are based on the requirements in FAR 9.104-3(b) and Subpart 42.15, OMB Circulars A-133, A-110, and A-21. Monitoring is performed via internet web sites maintained by the federal government on companies.*

Reference No. 99-555-77

**Comply With Period of Availability Requirements**

CFDA 10.156 - Federal-State Marketing Improvement Program

The Experiment Station is not in compliance with federal period of availability requirements.

Initial Year Written:	1998
Status:	Implemented

U.S. Department of  
Agriculture

Corrective Action:

Corrective action was taken.

Reference No. 99-555-72

**Obtain Proper Payroll Approval**

**CFDA 10.206 - Grants for Agricultural Research-Competitive Research Grants**

The Experiment Station is not obtaining proper payroll authorizations for employees funded by the federal research and development awards.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Agriculture	

Corrective Action:

Corrective action was taken.

**Texas Engineering Experiment Station**

Reference No. 99-555-66

**Improve Controls Over Subrecipient Monitoring**

- CFDA 12.431 - Basic Scientific Research
- CFDA 12.800 - Air Force Defense Research Sciences Program
- CFDA 43.001 - Aerospace Education Services Program
- CFDA 47.049 - Mathematical and Physical Sciences
- CFDA 47.076 - Education and Human Resources
- CFDA 81.049 - Basic Energy Sciences - University and Science Education

Texas Engineering Experiment Station (Experiment Station) should strengthen controls over its subrecipient monitoring function.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Defense	
National Aeronautics and Space Administration	
National Science Foundation	
U.S. Department of Energy	

Corrective Action:

Corrective action was taken.

**Texas Southern University**

Reference No. 96-042-3

**Ensure That All Students Are Maintaining Satisfactory Academic Progress**

(Prior Audit Issue – 4-046)

- CFDA 84.032 - Federal Family Education Loans
- CFDA 84.063 - Federal Pell Grant Program

Texas Southern University (University) is not ensuring that all recipients of the *Federal Pell Grant Program*, *Federal Family Education Loans* program and other federal financial assistance programs are maintaining satisfactory academic progress.

Initial Year Written:	1993
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation, we are unable to follow-up on this finding. It will be followed up on next year.

Reference No. 96-042-5

**Obtain Financial Aid Transcripts**

(Prior Audit Issue – 4-046)

**CFDA 84.032 - Federal Family Education Loans**

The University is not obtaining financial aid transcripts for all transfer students who receive federal financial assistance.

Initial Year Written:	1993
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 98-337-9

**Submit a Default Management Plan to the Secretary of the U.S. Department of Education for Approval**

(Prior Audit Issue - 96-042-09, 4-046)

**CFDA 84.032 - Federal Family Education Loans**

The University has not received approval from the Secretary of the U.S. Department of Education for its current default management plan for the *Federal Family Education Loans* program (CFDA 84.032).

Initial Year Written:	1993
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-54

**Correct Material Weakness in Student Financial Aid Administration**

(Prior Audit Issue - 98-337-01, 96-042-01, 4-046)

**CFDA 84.007 - Supplemental Educational Opportunity Grants****CFDA 84.032 - Federal Family Education Loans****CFDA 84.033 - Federal Work-Study Program****CFDA 84.063 - Federal Pell Grant Program**

The material weakness continues to exist in the administration of Student Financial Aid at the University.

Initial Year Written:	1993
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-69

**Strengthen the Control Environment Over Payroll****CFDA Not Available - University Was Unable to Identify Research and Development CFDA's.**

A material weakness exists in payroll. The University's policies, procedures, and supporting documentation for processing payroll are not adequate and do not provide sufficient assurance that payroll expenditures are supported or accurate. Without payroll policies, procedures, and supporting documentation, there is no assurance that payroll charges to R&D federal programs are allowable. The University is unable to identify payroll expenditures charged to research and development (R&D) awards.

Initial Year Written:	1998
Status:	Partially Implemented
Unable to identify	

This finding was reissued as current year reference number: 01-555-42.

Corrective Action:

*Strengthen the Control Environment over Payroll - Management is in the process of reviewing policies and procedures as it relates to the proper administration of its payroll function. All required documents to process payroll will be identified to ensure proper documentation for all payroll actions. Human Resources has distributed instructions for the completion of personnel action forms to Faculty and Staff to ensure that all personnel action forms are properly completed.*

*Implementation Date: October 31, 1999*

*Responsible Person: Director, Human Resources*

*Time Sheets Do Not Reflect Employees Efforts -The University has established a formal Time and Effort reporting system since Fall 1998. The National Institute of Health (NIH) has performed an audit of the time and effort reporting system in April 1999, but has not yet provided a response to the university.*

*Implementation Date: September 1, 1998*

*Responsible Person: Dean of Graduate Studies*

*Actual Expenditures Exceeded Federally Approved Expenditures - Management has implemented monitoring procedures to ensure that actual expenditures will not exceed the federally approved limits. Before budget transfer requests are processed, they are verified against applicable program guidelines by the Grants and Contracts staff to ensure that proposed transactions are allowable. In addition, Principal Investigator's signature is required on all transfer requests.*

*Responsible Person: Director, Grants and Contracts*

*University Supplemental Salary Policy Not Followed - The University's Management has revised its Supplemental Salary policy to ensure compliance with federal cost requirements (OMB Circular A-21). In addition, Human Resources and Grants and Contracts will ensure that accurate and complete supporting documentation is available for each individual authorized to receive supplemental salary. Supplemental salaries for faculty members will no longer be paid using federal funds.*

*Implementation Date: July 31, 1999*

*Responsible Person: Director, Human Resources*

*Incomplete R&D Award Files - Management has developed a checklist to identify all required documents to be maintained in each sponsored program folder. The Grants and Contracts Office is in the process of reviewing each sponsored program folder to ensure that the required documents are being maintained for each program.*

*Implementation Date: October 15, 1999*

*Responsible Person: Director, Grants and Contracts*

Reference No. 99-555-96

### **Do Not Charge Supplemental Salary to Federal Programs**

**CFDA Not Available - University Was Unable to Identify Research and Development CFDA's.**

The University policy on supplemental salaries is not in compliance with federal cost requirements, which has resulted in questioned costs of \$136,617.

This finding was reissued as current year reference number: 01-555-42.

Initial Year Written:	1998
Status:	Partially Implemented
Unable to identify	

*Corrective Action:*

*Management has implemented a new supplemental salary policy as of July 8, 1999, which prohibits the payments of supplemental salaries with federal awards. Additionally, Internal Audit now reviews supplemental pay requests.*

Reference No. 99-555-34

### **Calculate Salary in Compliance With Federal Guidelines**

**CFDA Not Available - University Was Unable to Identify Research and Development CFDA's.**

The University did not ensure that all salaries were appropriately calculated.

Initial Year Written:	1998
Status:	Implemented
Unable to identify	

*Corrective Action:*

Corrective action was taken.

Reference No. 99-555-87

### **Maintain Optional Authorization Documentation**

(Prior Audit Issue - 98-337-08, 96-042-13, 4-046)

**CFDA 84.032 - Federal Family Education Loans**

**CFDA 84.063 - Federal Pell Grant Program**

The University is not providing all recipients of the *Federal Pell Grant Program* or *Federal Family Education Loans* program the option to authorize or disapprove the use of their loan proceeds to cover non-tuition or fee obligations.

Initial Year Written:	1993
Status:	Implemented
U.S. Department of Education	

*Corrective Action:*

Corrective action was taken.



Reference No. 99-555-86

**Maintain Copies of the Student Status Confirmation Reports**  
(Prior Audit Issue - 98-337-06, 96-042-11, 4-046)

**CFDA 84.032 - Federal Family Education Loans**

The University is not maintaining copies of the Student Status Confirmation Report (SSCR) for three years as required for the *Federal Family Education Loans* program.

Initial Year Written:	1993
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-85

**Strengthen Controls Over Receipt of Law Access Loans Proceeds**  
(Prior Audit Issue - 98-337-02, 96-042-02, 4-046)

**CFDA 84.032 - Federal Family Education Loans**

The University should strengthen controls over the receipt of Law Access loan proceeds for the *Federal Family Education Loans* program.

Initial Year Written:	1993
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-88

**Maintain Complete and Accurate Student Files**  
(Prior Audit Issue - 98-337-05, 96-042-07, 4-046)

**CFDA 84.032 - Federal Family Education Loans**  
**CFDA 84.063 - Federal Pell Grant Program**

The University is not adequately maintaining complete and accurate student files for the *Federal Family Education Loans* program.

Initial Year Written:	1993
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

## University of Houston - Clear Lake

Reference No. 00-555-11

### Report Pell Payment Data in a Timely Manner

#### CFDA 84.063 - Federal Pell Grant Program

The University of Houston – Clear Lake (University) is not reporting payment data for the *Federal Pell Grant Program* to the U.S. Department of Education (Department) as required. The University failed to report data in a timely manner for all 15 students tested for both the Fall and Spring semesters. Pell payment data reports were only submitted three times during fiscal year 1999. This schedule does not ensure that all data is reported within 30 days of when payments are made or adjustments are identified. In addition, the University does not have any written policies and procedures regarding the submission of payment data to the Department. Failure to properly report all payment data could result in the submission of inaccurate data to the Department.

Initial Year Written:	1999
Status:	Other
U.S. Department of Education	

#### Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on a later date. Written policies and procedures were implemented to help ensure adherence to the Pell data submission requirements. Pell data is now being submitted at least every 30 calendar days.

## The University of Texas at Brownsville

Reference No. 98-343-4

### Maintain Enrollment Status Information

#### CFDA 84.032 - Federal Family Education Loans

The University of Texas at Brownsville is not maintaining documentation regarding enrollment changes for the required five years for the *Federal Family Education Loans* program.

Initial Year Written:	1997
Status:	Implemented
U.S. Department of Education	

#### Corrective Action:

Corrective action was taken.

**The University of Texas at El Paso**

Reference No. 00-555-28

**Develop Policies and Procedures for Federal Programs**

CFDA - All Research and Development CFDA's  
 CFDA 84.063 - Federal Pell Grant Program

The University of Texas at El Paso (University) does not have adequate written policies and procedures for all federal compliance areas.

Initial Year Written:	1999
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on next year.

Reference No. 00-555-7

**Report Enrollment Changes in a Timely Manner**

CFDA 84.032 - Federal Family Education Loans

As previously reported in fiscal years 1989 and 1992, the University is not reporting all enrollment changes in a timely manner for the *Federal Family Education Loans* program. For 14 of 19 student records tested (73.68 percent), the University did not report the changes within the required time frame. The changes were reported anywhere from 70 days to 139 days after the effective change date. Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled. The University's continued noncompliance with this requirement may result in delayed repayment of federal loans.

Initial Year Written:	1999
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on a later date. The agreement between UT El Paso and the National Student Loan Clearing House to produce Student Status Confirmation Reports to the National Student Loan Data System has been revised to reflect monthly enrollment reports.

Reference No. 00-555-24

**Strengthen Controls Over Equipment**

CFDA 12.630 - Basic, Applied, and Advanced Research in Science and Engineering  
 CFDA 17.246 - Employment and Training Assistance - Dislocated Workers  
 CFDA 47.049 - Mathematical and Physical Sciences  
 CFDA 47.070 - Computer and Information Science and Engineering  
 CFDA 47.076 - Education and Human Resources

The University should strengthen controls over equipment to ensure compliance with federal requirements. Our testing indicated that:

Two of 25 (8 percent) items inventoried could not be located. One item was noted to be at the home of the principal investigator of the related award, but we found

Initial Year Written:	1999
Status:	Other
U.S. Department of Labor	
National Science Foundation	
U.S. Department of Defense	

no evidence that supported approval of this action. The other item may have been disposed, but no evidence was provided to support this action. As a result, the University cannot ensure that the items are being used for the federal programs as intended, or that they were disposed of as required. The inability to locate equipment could result in questioned costs.

Three of 25 (12 percent) items were not properly tagged. When equipment is not properly tagged, the University cannot ensure that it will be identified as equipment for federal purposes.

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on next year.

Reference No. 00-555-30

**Strengthen Controls to Ensure Compliance With Procurement Requirements**

CFDA 47.076 - Education and Human Resources

CFDA 84.303 - Local Innovation - Challenge Grants for Technology in Education

The University does not have adequate controls to ensure compliance with federal procurement requirements.

Initial Year Written:	1999
Status:	Implemented
National Science Foundation	
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 00-555-8

**Recalculate Pell Grant Awards if Expected Family Contribution Changes**

CFDA 84.063 - Federal Pell Grant Program

The University is not always recalculating all Federal Pell Grant (Pell) awards when a change in expected family contribution (EFC) occurs. One of 19 student files tested (5.26 percent) showed that the student was over-awarded with institutional funds for Pell reimbursement. However, the over-award did not result in any questioned costs to the federal government.

Initial Year Written:	1999
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on a later date. Discrepancy reports are reviewed by the Assistant Director for Client Services and exceptions are researched and resolved on a monthly basis.

Reference No. 00-555-9

**Maintain Documentation of Pell Payment Data Submitted to U.S. Department of Education**

**CFDA 84.063 - Federal Pell Grant Program**

The University is not maintaining necessary documentation to support the reporting of all Pell payment data to the U.S. Department of Education for the *Federal Pell Grant Program*. As a result, we were unable to ensure that the University reported the student payment data as required.

Initial Year Written:	1999
Status:	Implemented
U.S. Department of Education	

Corrective Action:

Corrective action was taken.

Reference No. 00-555-27

**Strengthen Controls Over Personnel Effort Reports**

**CFDA 43.002 - Technology Transfer**

The University does not ensure that personnel effort reports (certification of an employee’s percentage of time and effort for a related project, or “PER”) are completed as required for employees working on federal research and development projects.

Initial Year Written:	1999
Status:	Implemented
National Aeronautics and Space Administration	

Corrective Action:

Corrective action was taken.

Reference No. 00-555-29

**Strengthen Controls Over Obtaining Certification for Suspension/Debarment**

**CFDA 43.002 - Technology Transfer**

**CFDA 47.076 - Education and Human Resources**

**CFDA 84.303 - Local Innovation - Challenge Grants for Technology in Education**

The University does not properly ensure that vendors who receive \$100,000 or more for approved transactions have not been suspended or debarred.

This finding was reissued as current year reference number: 01-555-10.

Corrective Action:

*All purchase orders utilizing Federal funds are stamped with a certification statement that states the bidder is not ineligible to receive an award due to debarment, suspension, etc. This is part of the purchase order and/or contract.*

Initial Year Written:	1999
Status:	Partially Implemented
National Aeronautics and Space Administration	
National Science Foundation	
U.S. Department of Education	

## The University of Texas at San Antonio

Reference No. 00-555-15

### Perform Reconciliations for Pell Grants

#### CFDA 84.063 - Federal Pell Grant Program

The University of Texas at San Antonio (University) has not performed reconciliations for its *Federal Pell Grant Program* (Pell) awards. As a result, the University's fiscal year 1998-1999 accounting records do not agree with the U.S. Department of Education's (Department) records as indicated by the following:

Initial Year Written:	1999
Status:	Other
U.S. Department of Education	

The University's accounting records indicated Pell disbursements of \$9,837,665.45. The Financial Aid Office's student records system (NATISIS) indicated Pell disbursements of \$9,756,180.79. The Student Payment Summary from the U.S. Department of Education, dated December 8, 1999, indicated total Pell payments of \$9,526,056.00.

In addition, our review indicated that reconciliations were not performed for fiscal year 1997-1998.

#### Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on a later date. A special team has completed the comparison of all student disbursement records with NATISIS, DEFINE, and the Federal Pell Grant Disbursement System. A preliminary schedule of differences has been prepared. The Director of SFA will have to report and resolve any differences with accounting reports at UTSA.

Reference No. 99-555-9

### Maintain Enrollment Changes Documentation

#### CFDA 84.032 - Federal Family Education Loans

The University is not maintaining copies of the Student Status Confirmation Report (SSCR) for three years as required for the *Federal Family Education Loans* program. As a result, no testing could be conducted on enrollment changes to determine if the changes had been reported correctly and within the required timeframe.

Initial Year Written:	1998
Status:	Other
U.S. Department of Education	

#### Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on a later date. Initial steps were taken to back-up computer files submitted to the U.S. Department of Education. There is now a new system in place to confirm submissions. All changes submitted by UTSA are updated to the National Student Loan Data System under the direction of the U.S. Department of Education.

Reference No. 99-555-7

**Report Pell Payment Data to U.S. Department of Education Within 30 Days**

**CFDA 84.063 - Federal Pell Grant Program**

The University is not maintaining necessary documentation to support the reporting of all Pell payment data to the to the U.S. Department of Education for the *Federal Pell Grant Program*.

Initial Year Written:	1998
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on a later date. The Office of Student Financial Aid completed the full implementation of the RFMS procedures. A new automated system was developed by the University to monitor the status of all disbursement and to transmit them each month.

Reference No. 99-555-8

**Properly Verify Accuracy of Student Applications**

**CFDA 84.032 - Federal Family Education Loans**

The University is not properly verifying application information for *Federal Family Education Loans* program applicants selected by the U.S. Department of Education.

Initial Year Written:	1998
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on a later date. The automated verification system was implemented for the 2000-2001 Award year and has been in full use since January 2000.

Reference No. 99-555-6

**Distribute Loan Proceeds at Prescribed Times**

**CFDA 84.032 - Federal Family Education Loans**

The University is not ensuring that loan proceeds are distributed to students at the prescribed time for the *Federal Family Education Loans* program.

Initial Year Written:	1998
Status:	Other
U.S. Department of Education	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on a later date. The Office of Student Financial Aid has completed the process of updating the check disbursement procedures so that the Office does not request checks more than 10 days before each semester.

## The University of Texas Health Science Center at San Antonio

Reference No. 99-555-84

### Report Enrollment Changes in a Timely Manner

#### CFDA 84.032 - Federal Family Education Loans

The University of Texas Health Science Center at San Antonio (University) is not reporting all enrollment changes for the *Federal Family Education Loans* program to the guarantor, lender, or U.S. Department of Education.

Initial Year Written:	1998
Status:	Partially Implemented
U.S. Department of Education	

#### Corrective Action:

*Management has confirmed that we are participating with the National Student Loan Data System (NSLDS) and we are reporting to the National Clearinghouse in a timely fashion. However, the Student Status Confirmation Report (SSCR) dates established for reporting did not follow the recommended guidelines.*

*We have corrected the SSCR cycle to the recommended schedule of January, March, May, July, September, and November. This schedule, a report every 60 days, ensures that the enrollment information is sent to the NSLDS within the federally required reporting period (also 60 days).*

## The University of Texas Medical Branch at Galveston

Reference No. 00-555-40

### Limit Expenditures to Allowable Costs

#### CFDA 93.824 - Area Health Education Centers

The University of Texas Medical Branch at Galveston (University) does not have adequate controls over expenditures to ensure that only allowable costs are charged to federal research and development awards.

Initial Year Written:	1999
Status:	Other
U.S. Department of Health and Human Services	

#### Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on next year.

Reference No. 00-555-5

### Strengthen Controls Over Equipment

CFDA 93.393 - Cancer Cause and Prevention Research  
 CFDA 93.837 - Heart and Vascular Diseases Research  
 CFDA 93.847 - Diabetes, Endocrinology and Metabolism Research

The University should strengthen controls over equipment to ensure compliance with federal requirements.

Initial Year Written:	1999
Status:	Other
U.S. Department of Health and Human Services	



Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on next year.

Reference No. 00-555-37

**Implement Controls Over Suspension and Debarment Requirements**

- CFDA 45.130 - Promotion of the Humanities – Challenge Grants
- CFDA 93.393 - Cancer Cause and Prevention Research
- CFDA 93.824 - Area Health Education Centers
- CFDA 93.856 - Microbiology and Infectious Diseases Research

The University does not have controls in place to ensure that vendors who receive \$100,000 or more for approved transactions or subrecipients have not been suspended or debarred. For two vendors and three subrecipients tested, the University did not have required certifications. As a result, the University may be doing business with vendors and subrecipients who are suspended or debarred by the federal government.

Initial Year Written:	1999
Status:	Other
National Foundation on the Arts and Humanities	
U.S. Department of Health and Human Services	

Corrective Action:

Due to the timing of the implementation date, we were unable to follow up on this finding. It will be followed up on next year.

**The University of Texas M.D. Anderson Cancer Center**

Reference No. 99-555-71

**Strengthen Controls Over Subrecipient Single Audit Desk Reviews**

- CFDA 12.420 - Military Medical Research and Development
- CFDA 12.910 - Research and Technology Development
- CFDA 93.113 - Biological Response to Environmental Health Hazards
- CFDA 93.279 - Drug Abuse Research Programs
- CFDA 93.306 - Comparative Medicine
- CFDA 93.393 - Cancer Cause and Prevention Research
- CFDA 93.395 - Cancer Treatment Research
- CFDA 93.396 - Cancer Biology Research
- CFDA 93.399 - Cancer Control
- CFDA 93.847 - Diabetes, Endocrinology and Metabolism Research
- CFDA 93.894 - Resource and Manpower Development in Environmental Health Sciences

The University of Texas M.D. Anderson Cancer Center (Cancer Center) does not have adequate controls to reasonably ensure that subrecipients obtain required audits, that they resolve audit findings, or that they take corrective actions to address audit findings. The Cancer Center also does not evaluate the effect that subrecipient noncompliance has on its ability to comply with federal regulations.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Defense	
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 99-555-70

**Strengthen Controls Over Suspension and Debarment Certificates for Vendors****CFDA 93.393 - Cancer Cause and Prevention Research**

The Cancer Center does not verify that vendors who receive \$100,000 or more for approved transactions have been neither suspended nor debarred.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

<b>Texas Workforce Commission</b>
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Reference No. 00-555-4

**Improve Oversight of Local Workforce Boards**

(Prior Audit Issue - 99-555-59)

**CFDA 17.246 - Employment and Training Assistance - Dislocated Workers****CFDA 17.250 - Job Training Partnership Act****CFDA 93.558 - Temporary Assistance for Needy Families****CFDA 93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund**

An audit report released in August 1999 (*An Audit Report on Welfare Reform Implementation at the Texas Workforce Commission*, SAO Report No. 99-051) identified some concerns at the Texas Workforce Commission (Commission) regarding the oversight of the local Workforce Boards. Although the audit focused on the *Temporary Assistance for Needy Families* (TANF) program, some of the issues relate to other federal programs.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Labor	
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 00-555-3

**Improve Processes for Financial Reporting****CFDA 93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund**

The Commission makes numerous manual adjustments to the automated accounting system information in order to prepare the federal expenditure reports for *Child Care Mandatory and Matching Funds of the Child Card and Development Fund*. These adjustments are not always recorded in the Commission's automated accounting system.

Initial Year Written:	1999
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 00-555-35

**Comply With Cash Management Requirements**

(Prior Audit Issue - 99-555-61)

CFDA 17.246 - Employment and Training Assistance - Dislocated Workers  
CFDA 17.250 - Job Training Partnership Act  
CFDA 93.558 - Temporary Assistance for Needy Families  
CFDA 93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund

The Commission does not have adequate controls in place to ensure compliance with cash management requirements. Two calculations used to determine the State's interest liability for programs using the pre-issuance funding technique were incorrect.

Initial Year Written:	1998
Status:	Implemented
U.S. Department of Labor	
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

Reference No. 00-555-36

**Ensure Federal Funds Reported Are Accurate**

CFDA 93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund

The Commission underreported the *Child Care Mandatory and Matching Funds of the Child Card and Development Fund* funds received by \$127.5 million on the Cash Management Improvement Act (CMIA) Annual Report submitted to the Comptroller of Public Accounts (Comptroller). The Comptroller uses the report information to calculate the State's interest obligation to the federal government for programs using the pre-issuance funding technique.

Initial Year Written:	1999
Status:	Implemented
U.S. Department of Health and Human Services	

Corrective Action:

Corrective action was taken.

# **Appendices**

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The 2000 Statewide Single Audit Report

Appendix 1:

## Related Reports

This section identifies the agencies and universities for which reports have been issued since September 1999 that relate to the audit work performed during the 2000 Statewide Financial and Compliance Audit. It also identifies auditors' reports that contain follow-up information on significant federal issues. Some of these reports go beyond the scope of *Office of Management and Budget (OMB) Circular A-133* Single Audit.

### Related Reports Issued by the State Auditor's Office (SAO)

#### Commission on Alcohol and Drug Abuse (Commission)

*An Audit Report on Contract Management at the Commission on Alcohol and Drug Abuse*  
(SAO Report No. 01-012, December 2000)

Although the issues identified in this report go beyond the scope of the federal compliance requirements for the statewide audit, this report relates to the *Block Grants for Prevention and Treatment of Substance Abuse* program (CFDA 93.959). Among other issues, the report indicates that the Commission still needs to increase monitoring efforts throughout the contracting process to improve oversight of service providers.

The objectives of the audit were to evaluate the Commission's management of contracts for substance abuse services and to identify the cause of the budget shortfall in fiscal year 2000.

#### Texas Education Agency (Agency)

*An Audit of the Financial Statements of the Permanent School Fund for the Fiscal Year Ended August 31, 2000*  
(SAO Report No. 01-384, January 2001)

The Permanent School Fund's (Fund) fiscal year 2000 financial statements are materially correct in accordance with generally accepted accounting principles. The scope of this audit included examining, on a test basis, evidence that supported the amounts and disclosures in the Fund's financial statements. This audit did not cover the Agency's financial statements. The Fund had no instances of noncompliance with certain provisions of laws and regulations and no material weaknesses in internal controls that would significantly affect the Fund's financial statements.

#### Department of Health (Department)

*An Audit Report on the Department of Health's Medicaid Contract With National Heritage Insurance Company*  
(SAO Report No. 00-036, July 2000)

The Department has not had adequate controls to detect and correct problems with the National Heritage Insurance Company's (NHIC) claims payment process. For example, invalid provider identification information on paid claims resulted in approximately \$35 million in improper payments over the life of the contract.

The Department has been slow to address problems regarding the provider enrollment process that it has known about since June 1998. In May 2000, 205 active dental providers were without valid license statuses.

The Department's contract for Compass 21, the new claims processing system, did not base payments to NHIC on the completion of processes or activities. The Department has paid NHIC \$69 million, the full balance of the contract. However, Compass 21 will not be implemented until December 2001, 25 months after the original target date.

The objective of this audit was to evaluate the adequacy of the Department's contract monitoring of NHIC and to evaluate controls in the Medicaid Management Information System at NHIC (CFDA 93.778, *Medical Assistance Program*). The scope of the audit included examining the duties and responsibilities of the Department's Health Care Financing Division.

*A Follow-Up Audit of Medicaid Managed Care at the Department of Health*  
(SAO Report No. 00-039, August 2000)

Since February 1998, the Department has improved its oversight of the Medicaid managed care program. The Department has implemented adequate controls over both contract administration with health maintenance organizations (HMOs) and the reporting of encounter data, which is the record of services provided to patients. The Department should ensure that HMOs continue to improve the accuracy and completeness of the encounter data. The Public Policy Research Institute at Texas A&M University noted in January 2000 that “obtaining reliable and accurate encounter data remains a significant obstacle to measuring quality [of] and access [to]” the managed care program.

The objective of this audit was to follow up on a February 1998 State Auditor’s Office audit (CFDA 93.778, *Medical Assistance Program*). We reviewed the adequacy of the Department’s HMO contract administration and the usefulness and accuracy of encounter data reported by HMOs.

*An Audit Report on Financial Management at the Department of Health*  
(SAO Report No. 01-021, March 2001)

The Department has failed to provide a foundation of fiscal and administrative oversight to ensure that it is complying with applicable laws, properly accounting for funds, and implementing safeguards to protect its resources.

The scope of the project included fiscal operations, compliance with various requirements, and security over Department information resources. We performed various types of analyses on Department budgeting and accounting transactions. We also reviewed various policies, plans, and work products. Additional information can be found in the “Federal Award Findings and Questioned Costs” section.

**Department of Housing and Community Affairs (Department)**

*An Audit Report on the Department of Housing and Community Affairs*  
(SAO Report No. 01-009, December 2000)

The Department had significant weaknesses in contract administration for CFDA 14.239, the *HOME Investment Partnerships Program* (HOME). These weaknesses affect the Department’s ability to ensure funds are awarded objectively and distributed in a timely manner to meet housing needs. Specifically, HOME’s contract database cannot provide the current status of \$12 million in unexpended balances for contracts that expired between 1997 and May 2000. As a result, there is a risk that available funds are not re-obligated in a timely manner to fund other projects that provide housing for citizens. Additionally, the contract award process does not place sufficient priority on providing housing services that meet the needs identified by state law. The objectivity of the contract award process could not be validated for fiscal years 1995 through 1999 because the unfunded applications were unavailable.

The scope of the audit included a review of three of the Department’s programs for fiscal years 1995-1999.

*An Audit Report on The Integrated Statewide Administrative System at Selected Agencies*  
(SAO Report No. 01-013, January 2001)

To varying degrees, The Integrated Statewide Administrative System (ISAS) projects at the Department of Housing and Community Affairs (TDHCA) and the Texas Workforce Commission (TWC) are behind schedule and over budget; therefore, the systems have yet to fully provide the expected benefits for which ISAS was selected as the internal financial management system. Although the installations of the ISAS software at these two agencies are not yet complete, the portions of the software that are installed appear to be functioning correctly and reliably exchanging information with other software applications such as the Uniform Statewide Accounting System. However, we identified several key issues from the projects at TDHCA and TWC that may not only affect the success of future ISAS projects, but also the success of software projects at state agencies and universities in general.

The scope of this audit included a review of ISAS software application installations at TWC and TDHCA.

## Department of Human Services (Department)

*An Audit Report on Medicaid Client Eligibility Data at the Department of Human Services*  
(SAO Report No. 00-035, July 2000)

During our testing of 1,849,182 client records (about 37 percent of the database), we did not identify any significant problems with the client data in the System for Application, Verification, Eligibility, Referral, and Reporting (SAVERR). Individual discrepancies were limited to less than 1 percent of the data. We also found that the Department effectively uses data matching to identify Medicaid recipients who may receive benefits fraudulently or inappropriately. The date for implementation of recommendations was extended to August 31, 2001.

The objective of the audit was to evaluate the integrity of client data stored in SAVERR. We analyzed certain data elements of the SAVERR database and reviewed the Departments' data matching processes (CFDA 93.778, *Medical Assistance Program*).

## Department of Protective and Regulatory Services (Department)

*An Audit Report on the Department of Protective and Regulatory Services' Administration of Foster Care Contracts*  
(SAO Report No. 00-040, August 2000)

The Department has not provided sufficient oversight of residential foster care contractors, but it is working to strengthen its supervision of contractors. The Department has appropriately focused its resources on investigations, foster care placements, and case management of at-risk children. However, serious gaps in the oversight of foster care contractors could undermine the Department's efforts to ensure (1) the safety of the children in its care, and (2) that contractors provide the expected services and comply with contract requirements.

This audit included a review of CFDA 93.658, *Foster Care - Title IV-E* program, contract administration functions for several types of contracts including contracts for maintenance, purchased services for children in foster care, and special contracts.

## Teacher Retirement System (System)

*An Audit of the Financial Statements of the Teacher Retirement System of Texas For the Fiscal Year Ended August 31, 2000*  
(SAO Report No. 01-014, January 2001)

The Teacher Retirement System's (System) fiscal year 2000 financial statements are accurately stated in accordance with generally accepted accounting principles. For the third consecutive year we report no instances of significant noncompliance or weaknesses in internal control.

The System's pension plan remains fully funded for the third consecutive year and actuarial assets exceed actuarial liabilities by \$5.4 billion. Net assets of the pension trust fund increased by \$10 billion to a total of \$90 billion.

## Department of Transportation (Department)

*A Review of the Use of Federal Funds at the Department of Transportation*  
(SAO Report No. 00-029, May 2000)

Our review of the federal funding process for the Department's *Highway Planning and Construction* (CFDA 20.205) activities indicates that the Department is maximizing federal funds. According to the Federal Highway Administration, Texas has never lapsed (returned) any federal funds related to these activities. Federal expenditures for the Department's Highway Planning and Construction Program totaled \$1.1 billion in fiscal year 1998 and \$1.5 billion in fiscal year 1999.

Our objective was to determine whether the Department is maximizing federal funding and reimbursement for highway planning and construction activities. We reviewed the federal funding process for the Department's highway planning and construction activities through interviews with Federal Highway Administration and Department representatives as well as analytical procedures on documentation provided.

### Texas Workforce Commission

*An Audit Report on The Local Workforce Boards*  
(SAO Report No. 01-022, March 2001)

The six local workforce boards (boards) we audited are progressing at varying rates in addressing weaknesses in accounting for funds and contract management reported in a prior audit report (*An Audit Report on Welfare Reform Implementation at the Texas Workforce Commission*, SAO Report No. 99-051, August 1999); however, in some cases significant improvements still must be made. At most boards, improvements are still necessary in the following areas: ensuring proper accounting for program funds, managing of contracts with service providers, and/or ensuring data integrity. The audited boards are generally using funds as intended to provide jobs skill training and client support services.

We examined the contract terms, the payment methodology, and contract monitoring at each board. In addition, we examined the contractor selection process at two boards. We also examined a sample of support service and training expenditures that occurred in the first quarter of calendar year 2000 at six boards in the following programs: *Food Stamps Employment & Training*, *Job Training Partnership Act*, *Temporary Assistance to Needy Families/Choices*, *Workforce Investment Act*, and *Welfare to Work*. In addition, we examined service payments made for the Childcare Development Fund and the Childcare Development Block Grant at three boards.

*An Audit Report on The Integrated Statewide Administrative System at Selected Agencies*  
(SAO Report No. 01-013, January 2001)

To varying degrees, the Integrated Statewide Administrative System (ISAS) projects at the Department of Housing and Community Affairs (TDHCA) and the Texas Workforce Commission (TWC) are behind schedule and over budget; therefore, the systems have yet to fully provide the expected benefits for which ISAS was selected as the internal financial management system. Although the installations of the ISAS software at these two agencies are not yet complete, the portions of the software that are installed appear to be functioning correctly and reliably. However, we identified several key issues from the projects at TDHCA and TWC that may not only affect the success of future ISAS projects, but also the success of software projects at state agencies and universities in general.

The scope of this audit included a review of ISAS software application installations at TWC and TDHCA.

## Related Reports Issued by Other Entities

### Commission on Alcohol and Drug Abuse (Commission)

TCADA Internal Audit Follow-up on the Status of SAO Recommendations from *The 1999 Statewide Single Audit Report*.  
(Report No. 517-020, January 2001)

Internal audit found that between June 2000 and January 2001, most recommendations made by the State Auditor's Office in the fiscal year *1999 Statewide Single Audit Report* have either been implemented or partially implemented. The executive management team established priorities for addressing the recommendations and is aware of the progress made in each area.



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**Health and Human Services Commission (Commission)***Texas Health Care Claims Study*

(Comptroller of Public Accounts, January 2001)

The potential overpayment error rate for the Medicaid acute medical care fee-for-service program is 7.24 percent. A lack of documentation and inappropriate documentation of billed medical services was the most significant finding.

As required by State law, the Comptroller reviewed payments made by the National Heritage Insurance Company for the Medicaid acute medical care fee-for-service program. The review was designed to determine the percentage of possible overpayments. The Comptroller conducted the review in consultation with the SAO.

**Department of Housing and Community Affairs (Department)***HOME Investment Partnerships Program Administrative Costs*

(Report No. 00-FW-255-1002, January 2000)

The Department could not support \$1.26 million of its administrative costs and \$408,000 of its sub-recipients' administrative costs, all of which were charged to the *HOME Investment Partnerships Program*. The Department does not agree that the administrative charges are unsupported and is working with the U.S. Department of Housing and Urban Development to resolve the findings.

The U.S. Department of Housing and Urban Development's Office of Inspector General performed work specifically related to CFDA 14.239, *HOME Investment Partnerships Program*. The audit covered February 1996 through February 1999.

**Department of Protective and Regulatory Services (Department)***Review of the Texas Adoption and Foster Care Analysis and Reporting System (AFCARS) Data Supporting the Administration for Children and Families' Fiscal Year 1999 Performance*

(Report No. A-06-99-00053, January 2000)

The Department submitted accurate information for the Adoption and Foster Care Analysis and Reporting System (AFCARS) data elements impacting fiscal year 1999 performance reporting. The Office of the Inspector General at the U.S. Department of Health and Human Services performed this audit to validate selected AFCARS data reported by the State of Texas for the period October 1, 1998 through March 31, 1999. This included a review of foster care data contained in the Child and Adult Protective System (CAPS). The audit related to CFDA No. 93.658, *Foster Care - Title IV-E* and CFDA 93.659, *Adoption Assistance*.

**Sul Ross State University (University)***Financial Assistance Audit, Follow-Up Report*

(July 31, 2000)

Internal audit found that the University's current financial assistance internal controls have improved significantly from the time of a prior audit. However not all of the prior audit's recommendations have been implemented.

Internal Audit conducted an audit engagement of the Financial Assistance area, which was limited to the findings and recommendations of the previous audit. The audit objectives were to: (1) determine the current status of the recommendations reported in the previous audit, (2) review implemented recommendations to determine if established controls are functioning as intended, (3) review partially-implemented recommendations to determine the extent of implementation, the adequacy of established controls and the timetable for complete implementation, and (4) determine the timetable for unimplemented recommendations.

**University of North Texas Health Science Center (University)***Student Financial Aid Programs*  
(Report No. 00-20, August 2000)

Internal audit made several recommendations regarding the University's Financial Aid Office. First, there should be available for each student, or for specific groups as a whole, reconciliations between published student budgets and the actual cost of attendance used to determine financial aid. Second, the policies governing verification of applications could be enhanced by developing a single written document addressing the compliance requirements. Internal Audit also recommended that notes to student files be initialed and dated by the author, especially notes that address verification issues arising from an analysis of student applications. Third, the system for reporting enrollment status changes should be evaluated and enhanced.

The audit scope covered the 1999-2000 federal award year and included a review of the federal programs as required under the *Single Audit Act of 1996* and *Circular A-133*. The majority of the audit efforts were facilitated by the use of an internal control questionnaire and federal compliance programs for eligibility, special tests and provisions, cash management, reporting, and matching requirements.

*Student Financial Aid Programs (Reporting)*  
(Report No. 01-05, December 2000)

Internal audit made two recommendations regarding the University's Student Financial Aid Office. Specifically, family education loans on the Schedule of Expenditures of Federal Awards should be reported on a fiscal year basis rather than an award year basis. In addition, a revised Fiscal Operations Report and Application to Participate (FISAP) incorporating the adjustments noted by the auditors should be submitted.

The audit scope covered the 1999-2000 federal award year and included a review of the Schedule of Expenditures of Federal Awards (Schedule D-5 of the Annual Financial Report) and FISAP.

**The University of Texas Health Science Center at San Antonio (University)***Student Financial Aid Follow-Up*  
(Report No. 01-14, December 14, 2000)

Internal Audit conducted an audit to follow up on one finding cited in *The 1999 Statewide Single Audit Report* (SAO Report No. 00-555, May 2000). The scope of the audit covered July 1, 1999 through June 30, 2000, with the inclusion of other time periods deemed necessary to accomplish the objective. The audit objective was to determine if enrollment changes were reported to the U.S. Department of Education in accordance with federal regulations. Management has not implemented full corrective action for the prior year finding.

**The University of Texas Southwestern Medical Center at Dallas (University)***Compliance A-133*  
(Report No. 01-03, February 2001)

Internal audit recommended that the University strengthen policies and procedures for obtaining vendor certifications of suspension and debarment by requiring signed certifications from the vendors.

The Internal Audit Department performed an audit of the University's Research and Development Cluster. The audit scope covered the 1999-2000 fiscal year and the audit procedures related to the operations of research and development. The overall objective was to determine whether the University complied with certain aspects of the *OMB Circular A-133*. The compliance audit focused on the payroll and non-payroll related expenditures.

Appendix 2:

## Schedule of Federal Programs Examined for the Year Ended August 31, 2000

The State Auditor's Office examined federal programs at the agencies and universities listed in the schedule below. The schedule is organized by CFDA number.

*Office of Management and Budget (OMB) Circular A-133, Section 520 (f)* requires "the auditor to audit, as major programs, Federal programs with Federal awards expended that, in the aggregate, encompass at least 50 percent of total Federal awards expended." A risk-based approach is used to determine which federal awards should be audited as major programs. For fiscal year 2000, 81.16 percent of the State's federal expenditures were audited. In addition, we performed follow-up work on all prior audit findings.

CFDA	Program Title	State Agency or University Audited	Total Program Expenditures (In Millions)	Program's Percentage of Total Federal Expenditures
14.239	HOME Investment Partnerships Program	Housing and Community Affairs, Department of	\$ 49.38	0.25
16.575	Crime Victim Assistance	Governor, Office of the	22.24	0.11
16.579	Byrne Formula Grant Program	Governor, Office of the	30.17	0.15
17.225	Unemployment Insurance	Workforce Commission, Texas	1,201.64	6.13
17.245	Trade Adjustment Assistance - Workers	Workforce Commission, Texas	42.70	0.22
17.255	Workforce Investment Act	Workforce Commission, Texas	160.61	0.82
20.106	Airport Improvement Program	Transportation, Department of	27.70	0.14
20.205	Highway Planning and Construction	Transportation, Department of	1,778.23	9.07
20.509	Formula Grants for Other Than Urbanized Areas	Transportation, Department of	14.08	0.07
66.000	Colonia Wastewater Treatment Assistance Program	Water Development Board	16.56	0.08
66.458	Capitalization Grants for State Revolving Funds	Water Development Board	47.19	0.24
83.543	Individual and Family Grants	Human Services, Department of	6.90	0.04
83.544	Public Assistance Grants	Public Safety, Department of	12.82	0.07
83.552	Emergency Management Performance Grants	Public Safety, Department of	6.03	0.03
84.002	Adult Education - State Grant Program	Education Agency, Texas	21.31	0.11
84.010	Title I Grants to Local Educational Agencies	Education Agency, Texas	669.59	3.42
84.011	Migrant Education - Basic State Grant Program	Education Agency, Texas	55.54	0.28
84.048	Vocational Education - Basic Grants to States	Education Agency, Texas	\$ 44.65	0.23

CFDA	Program Title	State Agency or University Audited	Total Program Expenditures (In Millions)	Program's Percentage of Total Federal Expenditures
84.186	Safe and Drug-Free Schools and Communities - State Grants	Education Agency, Texas	\$ 33.36	0.17
84.276	Goals 2000 - State and Local Education Systemic Improvement Grants	Education Agency, Texas	38.59	0.20
84.318	Technology Literacy Challenge Fund Grants	Education Agency, Texas	29.12	0.15
93.268	Childhood Immunization Grants	Health, Department of	65.64	0.33
93.556	Promoting Safe and Stable Families	Protective and Regulatory Services, Department of	24.31	0.12
93.558	Temporary Assistance for Needy Families	Human Services, Department of	166.87	0.85
		Protective and Regulatory Services, Department of	174.57	0.89
		Workforce Commission, Texas	128.89	0.66
93.563	Child Support Enforcement	Attorney General, Office of the	130.90	0.67
93.658	Foster Care - Title IV-E	Protective and Regulatory Services, Department of	65.74	0.34
93.917	HIV Care Formula Grants	Health, Department of	46.76	0.24
93.940	HIV Prevention Activities - Health Department Based	Health, Department of	12.70	0.06
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Alcohol and Drug Abuse, Commission on	107.49	0.55
N/A	Child Care Cluster <sup>(1)</sup>	Workforce Commission, Texas	271.34	1.38
N/A	Child Nutrition Cluster <sup>(1)</sup>	Education Agency, Texas	747.87	3.82
N/A	Fish and Wildlife Cluster <sup>(1)</sup>	Parks and Wildlife Department	23.24	0.12
N/A	Employment Service Cluster <sup>(1)</sup>	Workforce Commission, Texas	58.85	0.30
N/A	Job Training Partnership Act Cluster <sup>(1)</sup>	Workforce Commission, Texas	32.75	0.17
N/A	Highway Safety Cluster <sup>(1)</sup>	Public Safety, Department of	13.53	0.07
		Transportation, Department of		
N/A	Special Education Cluster <sup>(1)</sup>	Education Agency, Texas	\$ 311.20	1.59

CFDA	Program Title	State Agency or University Audited	Total Program Expenditures (In Millions)	Program's Percentage of Total Federal Expenditures
N/A	Medicaid Cluster <sup>(1)</sup>	Health, Department of Health and Human Services Commission Human Services, Department of Mental Health and Mental Retardation, Department of	\$ 7,073.88	36.09
N/A	Research and Development Cluster <sup>(1)</sup>	The University of Texas Southwestern Medical Center at Dallas Texas Agricultural Extension Service	839.36	4.28
N/A	Student Financial Aid Cluster <sup>(1)</sup>	The University of Texas at Arlington University of North Texas Health Science Center at Fort Worth Texas Woman's University Southwest Texas State University	\$ 1,218.85	6.22
<b>Sub-Total Federal Programs Examined by the State Auditor's Office</b>			<b>\$ 15,823.09</b>	<b>80.72</b>
<b>Federal Programs Audited by External Entities</b>				
Texas A&M University System Research Foundation			\$ 60.86	0.31
Texas Guaranteed Student Loan Corporation			25.11	0.13
<b>Total Federal Programs Examined</b>			<b>\$ 15,909.07</b>	<b>81.16</b>

<sup>1</sup>Clusters of programs are groupings of closely-related programs that share common compliance requirements according to the *Office of Management and Budget Circular A-133 Compliance Supplement*. The amount represents the total federal funds for the entire cluster, not just the amount for the entities visited.