



John Keel, CPA
State Auditor

State of Texas Financial Portion of the
Statewide Single Audit Report
for the Year Ended
August 31, 2011

February 2012
Report No. 12-555



State of Texas Financial Portion of the
**Statewide Single Audit Report for the
Year Ended August 31, 2011**

SAO Report No. 12-555
February 2012

Overall Conclusion

In our audit opinion dated February 21, 2012, we concluded that the basic financial statements for the State of Texas presented fairly, in all material respects, the financial position and activities of the State for the fiscal year ended August 31, 2011. The Office of the Comptroller of Public Accounts published our audit opinion as part of the Comprehensive Annual Financial Report for fiscal year 2011, which it intends to post on its Web site at <http://www.window.state.tx.us/finances/pubs/cafr/>.

The financial statements provide a comprehensive disclosure of the State's financial activities during the fiscal year and an overall picture of the financial position of the State at the end of the fiscal year. The State successfully contends with significant complexities in preparing its basic financial statements. Compiling financial information and ensuring its accuracy for more than 200 state agencies and higher education institutions is a major undertaking.

The financial statements convey the use of approximately \$124.7 billion during the fiscal year, an increase of \$4.6 billion or 3.8 percent since the prior fiscal year.¹ The State's assets on August 31, 2011, totaled \$211.9 billion, an increase of \$3 billion or 1.4 percent since the prior fiscal year. However, the State's cash and cash equivalents decreased by \$8.3 billion since the prior fiscal year. The State issued approximately \$9.8 billion in Texas Tax and Revenue Anticipation Notes on September 1, 2011. That was an increase of approximately \$2.0 billion compared with the amount of Texas Tax and Revenue Anticipation Notes the State sold in the prior fiscal year.

Basic Financial Statements

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

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

The State Auditor's Office audited material line items of major funds at four of the State's largest agencies.

¹ The \$124.7 billion in annual expenditures exceeded the \$88.7 billion appropriated for fiscal year 2011 primarily because:

- Certain expenditures (such as higher education institutions' expenditures of funds held outside of the State Treasury) are included in the Comprehensive Annual Financial Report but are not included in the General Appropriations Act.
- The Comprehensive Annual Financial Report presents actual expenditures of federal funds, while the General Appropriations Act presents estimated amounts for federal funds.
- The Comprehensive Annual Financial Report is presented on an accrual basis, while the General Appropriations Act is presented primarily on a cash basis.

Auditing financial statements is not limited to reviewing the numbers in those statements. Conducting this audit also requires the State Auditor's Office to obtain a sufficient understanding of the agencies and higher education institutions and their operating environments—including obtaining an understanding of the internal controls over systems and processes that the agencies and higher education institutions use to record their financial activities—to assess the risk of material misstatement of the financial statements. Through that effort, auditors identified specific weaknesses that three agencies should correct to improve the reliability of their financial information.

The State Auditor's Office audit also included an audit of the State's Schedule of Expenditures of Federal Awards (SEFA) in relation to the Comprehensive Annual Financial Report for fiscal year 2011. The Office of the Comptroller of Public Accounts prepares the SEFA by using SEFA data from all state agencies and higher education institutions that made federal expenditures during the fiscal year. The State Auditor's Office and KPMG LLP audited the processes for preparing SEFA information at 18 agencies and 18 higher education institutions. That audit work included following up on SEFA findings identified in audits of prior fiscal years at 8 agencies and 18 higher education institutions. Auditors identified errors related to the SEFA information at three agencies and nine higher education institutions. Those errors are discussed in Chapter 2-D of this report.

The State Auditor's Office conducts this audit so that the State can comply with federal legislation (the Single Audit Act Amendments of 1996) and grant requirements to obtain an opinion regarding the fair presentation of its basic financial statements and a report on internal controls related to those statements. The results of this audit are used primarily by companies that review the State's fiscal integrity to rate state-issued bonds and by federal agencies that award grants.

Key Points

The financial systems and controls at the agencies audited enable the State to prepare materially accurate basic financial statements.

The financial systems and controls at the four agencies audited (the Department of Transportation, the Health and Human Services Commission, the Office of the Comptroller of Public Accounts, and the Texas Workforce Commission) enable the State to prepare materially accurate basic financial statements.

However, auditors identified control weaknesses at three agencies. Specifically:

- The Health and Human Services Commission should strengthen information technology controls over payment processing. To avoid disclosure of potential security weaknesses, auditors communicated the details of that issue in writing to management for corrective action. That issue represented a material weakness in the Health and Human Services Commission's internal control structure and was repeated from an audit conducted in a prior year.

- The Health and Human Services Commission, the Office of the Comptroller of Public Accounts, and the Department of Transportation should strengthen controls over access to certain automated systems. Examples of weaknesses in controls identified included the use of generic user accounts, not updating business rules or access criteria for systems, inadequate annual reviews of system access, and inadequate segregation of duties.

Certain agencies and higher education institutions should strengthen their processes for preparing and reporting information on their SEFAs.

Auditors identified errors significant to the accuracy of the SEFAs prepared by 12 (33.3 percent) of the 36 agencies and higher education institutions at which SEFA information was audited. Those errors were caused by a lack of adequate review of SEFA information at those agencies and higher education institutions. Additional significant issues identified in the preparation of SEFAs included the use of incorrect accounting methods, incorrect reporting by award year (instead of fiscal year), and lack of written procedures for preparation and review of the SEFA.

Auditors communicated less significant financial reporting or SEFA issues to management of certain agencies and higher education institutions in writing.

Summary of Management's Responses

The agencies and higher education institutions generally agreed with the recommendations in this report.

Summary of Information Technology Review

Auditors reviewed the significant accounting and information systems at the agencies audited. Specifically, auditors identified systems that compiled and contained data used to prepare the Comprehensive Annual Financial Report and then reviewed basic data protection controls such as security, access, application development and control, and data recovery. As discussed in the detailed findings, auditors identified certain user access control weaknesses at the Health and Human Services Commission, the Department of Transportation, and the Office of the Comptroller of Public Accounts. Correcting those weaknesses will help to ensure the reliability of those agencies' financial information.

Auditors also reviewed the internal controls over the Uniform Statewide Accounting System (USAS), the Uniform Statewide Payroll/Personnel System (USPS), and the State Property Accounting (SPA) system.

Summary of Objective, Scope, and Methodology

The audit objective was to determine whether the State's basic financial statements present fairly, in all material respects, the balances and activities for the State of Texas for the fiscal year ended August 31, 2011.

The Statewide Single Audit is an annual audit for the State of Texas. It is conducted so that the State complies with the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133.

The scope of the financial portion of the Statewide Single Audit included an audit of the State's basic financial statements and a review of significant controls over financial reporting and compliance with applicable requirements.

The scope of the federal compliance portion of the Statewide Single Audit included an audit of the State's SEFA, a review of compliance for each major program, and a review of significant controls over federal compliance. The State Auditor's Office contracted with KPMG LLP to provide an opinion on compliance for each major program and internal control over compliance. The State Auditor's Office provided an opinion on the State's SEFA. Information on the federal compliance portion of the Statewide Single Audit is included in a separate report entitled *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2011* by KPMG LLP.

The audit methodology consisted of collecting information, identifying risk, conducting data analyses, performing selected audit tests and other procedures, and analyzing and evaluating results against established criteria. Auditors assessed the reliability of data by (1) performing electronic tests of required data elements, (2) reviewing existing information about data and the systems that produced the data, and (3) interviewing agency officials knowledgeable about data. Auditors determined that the data was sufficiently reliable for the purposes of this audit.

Contents

Independent Auditor's Report 1

Chapter 1	
Summary of Auditor's Results	2

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	3
--	---

Schedule of Findings and Responses 7

Chapter 2	
Financial Statement Findings	8

Chapter 2-A	
The Health and Human Services Commission Should Strengthen Controls Over Payments and Eligibility for Public Assistance Programs	8

Chapter 2-B	
The Office of the Comptroller of Public Accounts Should Strengthen Information Security Controls	14

Chapter 2-C	
The Department of Transportation Should Strengthen Controls Over Information Technology	16

Chapter 2-D	
Agencies and Higher Education Institutions Should Strengthen Their Review of Their Schedules of Expenditures of Federal Awards	21

Chapter 3	
Federal Award Findings and Questioned Costs	32

Summary Schedule of Prior Audit Findings 33

Chapter 4	
Summary Schedule of Prior Audit Findings	34

Chapter 4-A	The Health and Human Services Commission Should Strengthen Controls Over Payments and Receivables for Public Assistance Programs	35
Chapter 4-B	The Department of Transportation Should Strengthen Certain Aspects of Its Financial and Information Technology Operations	38
Chapter 4-C	The Office of the Comptroller of Public Accounts Should Strengthen Information Security Controls	45
Chapter 4-D	The Texas Workforce Commission Should Strengthen Access Controls	47
Chapter 4-E	The University of Texas at Austin Should Strengthen Certain Aspects of Its Information Technology Operations	48
Chapter 4-F	The University of Texas Medical Branch at Galveston Should Strengthen Certain Aspects of Its Financial and Information Technology Operations	49
Chapter 4-G	The University of Texas Southwestern Medical Center at Dallas Should Strengthen Certain Aspects of Its Information Technology Operations	51
Chapter 4-H	The University of Texas Health Science Center at Houston Should Strengthen Controls Over Capital Assets.....	53
Chapter 4-I	Agencies and Higher Education Institutions Should Strengthen Their Review of Their Schedules of Expenditures of Federal Awards	54

Appendices

Appendix 1	
Objective, Scope, and Methodology	59
Appendix 2	
Agencies and Higher Education Institutions Audited	63

Independent Auditor's Report

*State of Texas Financial Portion of the
Statewide Single Audit Report for the
Year Ended August 31, 2011*

Summary of Auditor's Results

Financial Statements

- | | |
|--|-------------|
| 1. Type of auditor's report issued: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. Noncompliance material to financial statements noted? | No |

Federal Awards

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2011 was included in Chapter 2-D of this report. All other fiscal year 2011 federal award information was issued in a separate report (see *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2011*, by KPMG LLP).



**Report on Internal Control over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

The Honorable Rick Perry, Governor
The Honorable Susan Combs, Comptroller of Public Accounts
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Joe Straus III, Speaker of the House of Representatives
and
Members of the Texas Legislature
State of Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of and for the year ended August 31, 2011, and have issued our report thereon dated February 21, 2012. Our report includes a reference to other auditors. Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the entities listed below in the section titled "Work Performed by Other Auditors." This report does not include the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. The financial statements of the Texas Local Government Investment Pool (TexPool) were not audited in accordance with *Government Auditing Standards*.

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.

Internal Control Over Financial Reporting

Management of the state agencies and higher education institutions is responsible for establishing and maintaining effective internal control over the State's financial reporting. In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency described in the accompanying schedule of findings and responses to be a material weakness.

Summary of Findings	
Agency	Finding Numbers
Health and Human Services Commission	12-555-01

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies.

Summary of Findings	
Agency or Higher Education Institution	Finding Numbers
Health and Human Services Commission	12-555-02
Office of the Comptroller of Public Accounts	12-555-03
Department of Transportation	12-555-04
Multiple agencies and higher education institutions	12-555-05

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Work Performed by Other Auditors

The State Auditor's Office did not audit the entities and funds listed in the table below. These entities were audited by other auditors.

Entities Audited by Other Auditors	Scope of Work Performed
Texas Lottery Commission	An audit of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Texas Lottery Commission was conducted as of and for the year ended August 31, 2011.
The University of Texas System	An audit of the consolidated balance sheet of the University of Texas System, as of and for the year ended August 31, 2011, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year then ended was conducted.
Texas Treasury Safekeeping Trust Company	An audit of the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Texas Treasury Safekeeping Trust Company was conducted as of and for the year ended August 31, 2011.
Texas Local Government Investment Pool (TexPool)	An audit of the statements of pool net assets and the related statements of changes in pool net assets of TexPool was conducted as of and for the years ended August 31, 2011, and August 31, 2010.

This report, insofar as it relates to the entities listed in the table above, is based solely on the reports of the other auditors.

Other Work Performed by the State Auditor's Office

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

- *A Report on the Audit of the Teacher Retirement System's Fiscal Year 2011 Financial Statements* (State Auditor's Office Report No. 12-007, November 2011)
- *A Report on the Audit of the Employees Retirement System's Fiscal Year 2011 Financial Statements* (State Auditor's Office Report No. 12-008, December 2011)
- *A Report on the Audit of the Texas Mobility Fund's Fiscal Year 2011 Financial Statements* (State Auditor's Office Report No. 12-010, December 2011)
- *A Report on the Audit of the Department of Housing and Community Affairs' Fiscal Year 2011 Financial Statements* (State Auditor's Office Report No. 12-011, December 2011)
- *A Report on the Audit of the Permanent School Fund's Fiscal Year 2011 Financial Statements* (State Auditor's Office Report No. 12-012, January 2012)
- *A Report on the Audit of the Office of the Fire Fighters' Pension Commissioner's Fiscal Year 2011 Financial Statements* (State Auditor's Office Report No. 12-013, January 2012)
- *A Report on the Audit of the Central Texas Turnpike System's Fiscal Year 2011 Financial Statements* (State Auditor's Office Report No. 12-014, January 2012)

The State's responses to the findings identified in our audit are described in the accompanying *schedule of findings and responses*. We did not audit the State's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Governor, the Legislature, audit committees, boards and commissions of the State, federal awarding agencies, and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

John Keel, CPA
State Auditor

February 21, 2012

Schedule of Findings and Responses

*State of Texas Financial Portion of the
Statewide Single Audit Report for the
Year Ended August 31, 2011*

Financial Statement Findings

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

Chapter 2-A

The Health and Human Services Commission Should Strengthen Controls Over Payments and Eligibility for Public Assistance Programs

Issue 1

The Health and Human Services Commission Should Strengthen Controls Over Payment Processing

Reference No. 12-555-01
(Prior Audit Issues 11-555-01 and 10-555-01)

Type of finding: Material Weakness

The Health and Human Services Commission (Commission) continues to have inadequate controls to address risks related to system and server access, security over sensitive documentation, and physical security over computing resources.

Additionally, the Commission does not review interfaced payment transactions prior to releasing those transactions for payment into the Uniform Statewide Accounting System (USAS). The weekly interfaced payment transaction batch sizes during fiscal year 2011 ranged from approximately 5,600 transactions to more than 45,700 transactions. The large volume of payment transactions and the lack of review and approval increase the risk that a payment error could go undetected.

As the State Auditor's Office reported in March 2010², the issues in the payment process represent a material weakness. The Commission completed an audit to address this material weakness in February 2011. The results of the Commission's audit confirmed the existence of the issues the State Auditor's Office reported in March 2010. As a result of the Commission's audit, the Commission performed in-depth analysis and documented processes and controls related to the payment process. The Commission made significant progress in identifying and strengthening controls over the payment process during fiscal year 2011. To reduce the severity of the weakness, the Commission indicated that it implemented additional improvements in the payment processing controls structure after the end of fiscal year 2011. The Commission also indicated that it is committed to additional improvements to further ensure that payment data is secure, accurate, complete, and appropriately authorized.

² See *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009*, State Auditor's Office Report No. 10-555, March 2010.

To minimize the risks associated with disclosure, auditors communicated details regarding these issues directly to the Commission.

Recommendations

The Commission should:

- Strengthen information technology controls over payment processing.
- Implement an approval process for all payment transactions.

Management's Response

IT Controls

During fiscal years 2011 and 2012, HHSC strengthened controls over the accuracy and completeness of large batch payment files transferred through proxy servers. Controls now in place are in alignment with state requirements and best practices for securing electronic information. Specifically, all payment files transmitted from originating systems to the HHSC financial system are now transferred using a secure file transfer protocol, and a complex control total methodology is in place for all large payment files. These controls provide adequate assurance that payment files are complete, accurate, and unaltered during the file transfer process. In addition, user access review procedures will be updated to include HHSC validation that contractors managing large payment files have (a) conducted periodic user access reviews and (b) made appropriate modifications to account privileges, including revocation of accounts no longer needed.

To address the time period during fiscal year 2012 when complex control totals were not yet in place for large payment files (September 2011 through January 2012), HHSC will test a sample of payment files to assess whether the data is complete, accurate, and remained unaltered in the transfer from the source system to HHSC's financial system. HHSC will also document an existing compensating control that verifies the accuracy of the total amount of large batch payment files transferred into the HHSC financial system. Supervisory review of this validation procedure will be performed and documented.

Payment Approval Process

For manual client services related payments, Accounting Operations, in conjunction with staff from the Chief Financial Office, has documented process flows for all manual client services related payments. The process flows include program area approval prior to submission for payment by Accounting Operations staff. Staff is also working on creating an electronic approval process for each of the payments. A meeting will be held with the

major program areas to identify the appropriate approvers for each of these payments. A draft procedures document has been developed to ensure that (a) program area approvers are limited to those on the authorized list and (b) a periodic review of those approvers is performed by Accounting Operations to ensure that the authorized list of approvers remains current,

For all interfaced payments, a complex control total methodology was implemented and notifications are currently available. During the meetings scheduled with program area staff to discuss identification of authorized approvers, Accounting Operations also plans to identify appropriate program area staff to receive these notifications to help ensure that program area review and approve interfaced payment transactions prior to payment processing through USAS. The control total notifications will not require active approval in order for payment transactions to process, however, authorized approvers will have the opportunity to review the control total results against source data and notify appropriate IT staff to prevent transactions from processing further should issues exist.

Implementation Dates: IT Controls - April 2012

Payment Approval Process - May 2012

*Responsible Persons: Deputy Executive Commissioner for Information
Technology
Deputy Executive Commissioner for Financial
Services*

Issue 2

The Health and Human Services Commission Should Review User Accounts and Business Rules in Its Premiums Payable System

Reference No. 12-555-02

(Prior Audit Issues 11-555-04, 10-555-09, and 09-555-13)

Type of finding: Significant Deficiency

Premiums Payable System (PPS)

PPS is an internal system the Commission uses to determine risk group placement for clients who are eligible to receive managed care services. Business rules within PPS direct clients into the appropriate risk groups based on various eligibility attributes.

Texas Integrated Eligibility Redesign System (TIERS)

TIERS is a browser-based system that supports eligibility determination and benefits calculation for Medicaid, Temporary Assistance to Needy Families, the Supplemental Nutrition Assistance Program, and Medicaid for Elderly People with Disabilities.

Auditors identified certain control weaknesses related to user access and business rules in the Commission's Premiums Payable System (PPS).

During fiscal year 2011, the Commission developed a process for reviewing user access and developed and implemented a review of the business rules in PPS. However, the Commission did not conduct the user access review, and it did not document its review of the business rules.

In addition, in fiscal year 2011, the Commission did not correct a risk group's business rules that the State Auditor's Office determined were incorrect in fiscal year 2010. The assignment of clients to that risk group in PPS relies on eligibility determinations made in the Texas Integrated Eligibility Redesign System (TIERS), and issues with TIERS cause incorrect risk group assignment in PPS. As a result, 957 individuals whose age may have exceeded program eligibility requirements were enrolled in that risk group during fiscal years 2010 and 2011, and the Commission paid approximately \$2.6 million in premiums for those individuals.

Without reviewing the eligibility data for those 957 individuals, the Commission cannot identify whether it paid appropriate premiums related to those individuals or whether it should place those individuals into a different risk group or Medicaid service model.

Recommendations

The Commission should:

- Implement and document a process for reviewing PPS user accounts.
- Document its review of PPS business rules.
- Ensure that its Managed Care Operations, Information Technology, and Eligibility units coordinate to develop and implement a process to identify, correct, and prevent errors in the risk groups in PPS that occur because of data received from TIERS.

Management's Response

SAO Recommendation:

The commission should implement and document a process for reviewing PPS user accounts.

Management Response:

HHSC initially documented a limited process for PPS. Subsequently, a work group developed a more comprehensive process, completed and approved on August 24, 2011. The process includes a requirement to document when each review is performed, including the results of the review. HHSC plans to begin implementing the comprehensive process in fiscal year 2012. PPS will be included in the first group of applications that is reviewed.

Implementation Date: March 2012

*Responsible Persons: Director, Applications Development and Support
(Medicaid Applications)
Director, Operations Management
(Managed Care Operations)*

SAO Recommendation:

The Commission should document its review of PPS business rules.

Management Response:

HHSC IT and MCD have established recurring meetings during which PPS business rules are regularly reviewed and discussed. A process has been developed to formally document the review of PPS business rules. HHSC will implement the process beginning with the next meeting, currently scheduled in June 2012.

Implementation Date: June 2012

*Responsible Persons: Director, Applications Development and Support
(Medicaid Applications)
Director, Operations Management
(Managed Care Operations)*

SAO Recommendation:

The Commission should ensure that its Managed Care Operations, Information Technology, and Eligibility units coordinate to develop and implement a process to identify, correct, and prevent errors in the risk groups in PPS that occur because of data received from TIERS.

Management Response:

In conjunction with the quarterly reviews of the PPS business rules, analysis is performed monthly on managed care data to isolate potential errors. The information pertaining to identified potential errors is provided to and discussed with HHSC staff from the Office of Eligibility Services and HHSC IT. Over the past year, MCD has provided documentation of Medicaid clients that need to have different aspects of their eligibility addressed. As corrective actions are taken on identified cases within the eligibility system, PPS reacts to the updated content and applies retroactive changes to align capitated payments to eligibility content.

Plans are in place for the inter-agency workgroup to, in addition to addressing individual case corrections, discuss the feasibility of more permanent solutions to this issue, including automated safeguards to reduce the corruption of eligibility data and, as necessary, changes to eligibility operational processes to prevent inappropriate outcomes.

Implementation Date: Ongoing

*Responsible Persons: Director of State Operation,
Office of Eligibility Services
Director, Operations Management
(Managed Care Operations)
HHSC IT Business Technology Architect*

The Office of the Comptroller of Public Accounts Should Strengthen Information Security Controls

Issue 1

The Office of the Comptroller of Public Accounts Should Strengthen Access Controls for Treasury Division Automated Systems

Reference No. 12-555-03

(Prior Audit Issues 11-555-08, 10-555-15, 09-555-02, and 08-555-01)

Type of finding: Significant Deficiency

Since April 2008, the State Auditor's Office has reported that the Office of the Comptroller of Public Accounts (Comptroller's Office) has allowed internal system program developers to have access to production data for its Treasury Division's automated systems.³

The Comptroller's Office allows two internal system program developers to have access to production data for the Treasury Division's automated systems. These systems were developed using a programming language that has limited security options. After auditors brought this issue to the Comptroller's Office's attention during the audit of fiscal year 2007, the Treasury Division reduced the number of program developers who had this access from 15 to 2. The Treasury Division is in the process of replacing its automated systems with another application that can be implemented with more advanced security features. It also has strengthened controls over access to its automated systems.

**Title 1, Texas Administrative Code,
Section 202.20(1)**

Information resources residing in the various state agencies of state government are strategic and vital assets belonging to the people of Texas. These assets shall be available and protected commensurate with the value of the assets. Measures shall be taken to protect these assets against unauthorized access, disclosure, modification, or destruction, whether accidental or deliberate, as well as to assure the availability, integrity, utility, authenticity, and confidentiality of information. Access to state information resources shall be appropriately managed.

The Texas Administrative Code requires agencies to take measures to protect data from unauthorized access, disclosure, modification, or destruction, whether accidental or deliberate (see text box). Granting excessive access and not providing for proper segregation of duties increases the risk of fraud, data corruption, potential service disruption, and loss of state revenue. Because the Treasury Division processes billions of dollars in revenue, the loss of even a single day's interest due to data manipulation or destruction would affect state revenue. However, nothing came to auditors' attention to indicate that automated systems had been compromised.

³ See *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2010*, State Auditor's Office Report No. 11-555, February 2011; *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2009*, State Auditor's Office Report No. 10-555, March 2010; *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2008*, State Auditor's Office Report No. 09-555, April 2009; and *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2007*, State Auditor's Office Report No. 08-555, April 2008.

Recommendations

The Comptroller's Office should:

- Continue to monitor end user and developer access to Treasury Division automated systems to ensure that short-term compensating controls effectively promote proper segregation of duties.
- Ensure that the security features of the planned new application enable the Treasury Division to properly manage end user and developer access.

Management's Response

The Treasury Operations Division agrees to continue to monitor end user and developer access to our automated systems to ensure that the short-term compensating controls effectively address proper segregation of duties. After auditors brought this issue to our attention during the fiscal year 2007 statewide financial audit, we implemented a new security access process using the agency's Help Desk ticket system. The ticket system now requires multiple levels of approval before access is granted to files and automated systems. The user or developer requesting access must first obtain approval through their designated security coordinator, and then obtain approval through Treasury Operations Division's designated security coordinator before staff or developer access is granted. The process is monitored and approved at several check points throughout the process.

As noted in the finding, the Treasury Operations Division has been in the process of replacing our legacy systems with a new software solution. This project was in its final stages during FY11, and was migrated to production status in FY12. In compliance with the audit recommendation, we ensured that the security features of the new system allows for us to properly manage end user and developer access.

Implementation Date: Implemented September 2011

Responsible Person: Director, Treasury Operations

The Department of Transportation Should Strengthen Controls Over Information Technology

Issue 1

The Department of Transportation Should Strengthen Its Management of Access to Certain Financial Systems

Reference No. 12-555-04
(Prior Audit Issues 11-555-07 and 10-555-01)

Type of finding: Significant Deficiency

To protect the integrity of its information resources, the Department of Transportation (Department) should strengthen its management of access to certain financial systems.

The Department should strengthen its reviews of system access.

In its compliance monitoring report guidelines, the Department has established specific criteria and guidelines for reviewing user access to systems. The Department's Technology Services Division (TSD) provides quarterly reports covering access to applicable systems to the Department's offices of primary responsibility (OPR). The OPRs are responsible for reviewing those reports, determining whether access is appropriate, and taking appropriate action to correct access as needed. In addition, the Department's *Information Security Manual* requires Department districts, divisions, offices, and regions (DDOR) to maintain documentation of annual access reviews and provide a summary of annual access reviews to TSD.⁴

The Department does not maintain summaries of reviews of user access as required by its *Information Security Manual*. As a result, the Department does not have sufficient evidence that it performs reviews of user access and takes appropriate action as needed. Maintaining such documentation would help demonstrate the effectiveness of user access reviews, enhance Department management's assurance that systems are secure, and help ensure that the Department complies with its security policy.

The Department should strengthen its management of system access.

The Department does not have adequate controls to prevent users from performing system administrator activities, including migrating code to the production environment. Auditors tested system administrator access to the server that houses the Department's Revenue Logging System (DLOG) and determined that five programmers, one systems analyst, and the manager of the programmers had system administrator level access.

The Department's *Information Security Manual* states that system administrator privileges should be restricted to persons responsible for system

⁴ OPRs are "owners" of certain information technology applications. There may be more than one OPR in a DDOR.

administration management or security. Complying with that requirement can help to limit the possibility of unauthorized or undetected access to, modification of, disclosure of, or destruction of data. Compliance also can help to ensure user accountability.

In testing two Department automated systems and the server that houses them, auditors also identified the following:

- Three domain administrators who were no longer employed by a contractor still had super user access to the server that houses the Department's Right of Way Information System (ROWIS) and DLOG.
- Four users who were no longer employed by the Department still had access to DLOG. Auditors identified this same issue in the audit of fiscal year 2010, when three former Department employees still had access to DLOG (see *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010*, State Auditor's Office Report No. 11-555, February 2011).
- Two users had certain access rights to the Automated Purchasing System when those access rights were not necessary based on the users' job duties.
- One user has duplicate user IDs to access the server that houses ROWIS and DLOG.
- Two user accounts with access to the server that houses DLOG could not be identified as belonging to valid users.

User accounts associated with users whose employment has been terminated, users with inappropriate access, and user accounts that cannot be traced to a valid user increase the risk of unauthorized or undetected access to, modification of, disclosure of, or destruction of Department information. The Department's *Information Security Manual* states:

Access controls protect [Department] information resources against unauthorized disclosure, modification, or destruction. Varying levels of control ensure that only authorized users access [Department] software systems or sensitive data. When a user's employment status or job functions change, a user's access authorization must be removed or modified appropriately and immediately.

Without adequate review and monitoring of user access, users with inappropriate access to Department information resources may go undetected and unaddressed.

Recommendations

The Department should:

- Review user access to ensure that it appropriately assigns and removes system administrator privileges from programmers and analysts.
- Maintain documentation of access reviews.
- Enforce its policy and disable user accounts immediately upon termination of employment or when a user's job functions change.
- Strengthen its process for reviewing user accounts to ensure that it manages employee and contractor access appropriately.

Management's Response

The Department should strengthen its review of system access.

TxDOT policy requires each Security Administrator to perform an annual review of all users in their D/D/O/R to validate all system access. TxDOT policy also requires each Office of Primary Responsibility (OPR) to perform an annual review for each user of the OPR's applications to validate system access. Experience has shown that annual reviews of user access do not provide timely detection of invalid system access. Experience has also shown that Security Administrator and OPR access reviews tend to be redundant and do not provide the benefit expected for the level of effort required to perform the reviews.

In 2008, the Information Security Services (ISS) branch in the Technology Services Division (TSD) implemented an automated compliance monitoring system to monitor system access in order to ensure compliance with TxDOT policy and industry best practices. The compliance monitoring system has continued to evolve based on user feedback and previous audit findings. This system now provides daily, monthly, and quarterly reporting to Security Administrators to assist them with near real-time monitoring of system access.

TxDOT will modify agency policy to add the requirement that each Security Administrator remediate all access issues identified by the compliance monitoring system in a timely manner. Validation of the required remediation will be performed by ISS by confirming the access issue has been removed during the next reporting cycle. TxDOT will modify agency policy to remove the requirement that each Security Administrator perform an annual access review for all users and the requirement for the results of the review to be reported to TSD. TxDOT will also modify agency policy to remove the requirement that each OPR perform an annual access review for all applications and the requirement for the review results to be reported to TSD.

The Information Security Manual will be published with the modified policies in September 2012.

Implementation Date: September 2012

Responsible Person: Chief Information Officer

The Department should strengthen its management of system access.

TxDOT is required to participate in the Data Center Services (DCS) consolidation effort managed by the Department of Information Resources (DIR). The three domain administrator accounts identified in the audit belong to the DIR contractor who is responsible for providing server administration support through the DCS contract. TxDOT will immediately request DIR perform an audit of the contractor's staff to validate system access is appropriate for the job duties assigned to the DIR contractor and to ensure all terminated contractors have been properly removed.

TSD's Web, Traffic & Document Management Applications Branch was identified as having inappropriate system administrator access to the production DLOG server. TxDOT will implement the following actions to resolve the issue identified by March 2012.

- *Remove system administrator access for all employees in the Web, Traffic & Document Management Application Branch.*
- *Move server administration functions currently performed by the Web, Traffic & Document Management Applications Branch to the Infrastructure Support Branch.*
- *Move code migration functions currently performed by the Web, Traffic & Document Management Applications Branch to the Configuration Management Branch (for tracking) and the Infrastructure Support Branch (to perform the code migrations on the servers).*

TxDOT's compliance monitoring system has been enhanced with the following features.

- *User change detection – reports on all user job title, department, or location changes.*
- *Added the DLOG system to terminated user monitoring*

The user change detection feature reports all user title, department, or location changes. This report enables the Security Administrator to be alerted when a user's job functions may have changed, allowing the Security Administrator to validate the user access is still appropriate and to identify any needed system access modifications. This new report and validation provide near real-time validation of system access at the local level. This

feature was placed into production in October 2011 and has proven to be an effective monitoring tool to ensure user's system access is validated as their job functions change.

TxDOT's compliance monitoring system provides support for monitoring all terminated users to ensure the user's access is properly terminated as required by TxDOT policy. The compliance monitoring system currently monitors all mainframe and local area network accounts. The DLOG system maintains user accounts locally and does not use the department's local area network login credentials. TxDOT added the DLOG system to the daily compliance monitoring reports to ensure terminated user monitoring includes this system. This enhancement was placed in production in January 2012.

TxDOT's compliance monitoring system will be enhanced to track and report on local user accounts on all production servers. This enhancement will be placed in production in February 2012.

Implementation Date: February 2012

Responsible Person: Chief Information Officer

Agencies and Higher Education Institutions Should Strengthen Their Review of Their Schedules of Expenditures of Federal Awards

Reference No. 12-555-05

(Prior Audit Issues 11-555-17, 10-555-26, and 09-555-19)

Type of finding: Significant Deficiency

Schedule of Expenditures of Federal Awards (SEFA)

Each agency, college, and university that expends federal awards is required to prepare a Schedule of Expenditures of Federal Awards (SEFA). Federal awards include federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities [Office of Management and Budget (OMB) Circular A-133, Section .105].

Federal financial assistance includes any assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance [OMB Circular A-133, Section .105].

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts.

The agencies and higher education institutions discussed below did not appropriately prepare or adequately review their fiscal year 2011 Schedules of Expenditures of Federal Awards (SEFAs) (see text box for additional information). Therefore, the SEFAs these agencies and higher education institutions submitted to the Office of the Comptroller of Public Accounts (Comptroller's Office) contained errors.

The 3 agencies and 9 higher education institutions discussed below reported \$3.0 billion in federal expenditures, or 4.7 percent of the total federal expenditures the State of Texas reported for fiscal year 2011. The errors listed below were not material to the fiscal year 2011 SEFA for the State of Texas or to the fiscal year 2011 Comprehensive Annual Financial Report for the State of Texas. However, collectively, these errors represent control weaknesses that could be significant to the State's SEFA.

Adjutant General's Department

The Adjutant General's Department (AGD) did not have documented policies and procedures for the preparation of its SEFA and, during this audit, it provided multiple revisions of its SEFA. The AGD also prepared its SEFA using federal revenue, rather than federal expenditures, and it was unable to provide documentation to support that its federal expenditures reconciled with its federal revenue. Office of Management and Budget (OMB) Circular A-133 requires entities to report all federal awards expended by federal program (Catalog of Federal Domestic Assistance [CFDA] number) in their SEFAs.

Based on the method the AGD used to prepare its SEFA, auditors determined that the AGD incorrectly classified \$5,710,983 in expenditures for four CFDA numbers on its SEFA. In addition, the AGD incorrectly classified \$662,000 in the deferred revenue note to its SEFA.

Recommendations

The AGD should:

- Develop and implement written policies and procedures to ensure that it meets federal and state requirements when preparing its SEFA and to ensure that its SEFA is complete and accurate.
- Prepare its SEFA using federal expenditures, rather than federal revenue, or prepare and maintain documentation to support that federal expenditures reconcile with federal revenues.
- Implement an adequate review process to ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.

Management's Response

Management agrees with the recommendations and is currently in the process of developing written policies and procedures to ensure that the department meets federal and state requirements. With the implementation of the policies and procedures, the department will develop reconciliations to monitor federal expenditures and revenue on a quarterly basis. The written policies and procedures will document the use of federal expenditures for the preparation of the SEFA as well as the reconciliation of federal expenditures to federal revenues in order to ensure the SEFA submitted to the Comptroller's Office is complete and accurate.

Implementation Date: August 2012

Responsible Person: Chief Fiscal Officer

Department of Public Safety

For two CFDA numbers, the Department of Public Safety (DPS) incorrectly reported \$183,420,993 as direct expenditures on its SEFA, rather than as pass-through expenditures to non-state entities. DPS also did not submit a deferred revenue note to its SEFA to the Comptroller's Office until auditors brought this matter to its attention.

Recommendation

DPS should implement an adequate review process to ensure that the SEFA it submits to the Comptroller's Office is complete and accurate.

Management's Response

DPS addressed the concern in time to correct our submission to the Comptroller's Office.

Management agrees with the recommendation and will implement adequate review process to ensure that the SEFA is complete and accurate.

Implementation Date: August 2012

Responsible Person: Deputy Assistant Director, Grants and Accounting

Department of Rural Affairs

During fiscal year 2011, the functions of the Department of Rural Affairs (DRA) were taken over by two other state agencies. As a result of that transition, DRA did not include \$57,022,459 in expenditures for one CFDA number on its SEFA. Because that error was a result of the transition, it is not expected to occur again. In addition, DRA incorrectly reported \$3,572,810 as pass-through expenditures to non-state entities, rather than as direct expenditures, on its SEFA. Effective October 1, 2011, DRA became part of the Department of Agriculture.

Recommendation

The Department of Agriculture should implement an adequate review process to ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.

Management's Response

The Texas Department of Agriculture Financial Services Division will enhance its procedures to ensure the inclusion and accuracy of all SEFA expenditures.

Implementation Date: August 31, 2012

Responsible Person: Chief Financial Officer, Department of Agriculture

Texas A&M International University

Texas A&M International University (TAMIU) prepared its SEFA (except for the Student Financial Assistance cluster of federal programs) using federal revenue, rather than federal expenditures, and it was unable to provide documentation to support that its federal expenditures reconciled with its

federal revenues. OMB Circular A-133 requires entities to report all federal awards expended by federal program (CFDA number) in their SEFAs. TAMIU also incorrectly classified \$35,000 in expenditures for one CFDA number and listed expenditures of \$4,512 as Medicare Part D, rather than as Consolidated Omnibus Budget Reconciliation Act (COBRA), in a note to its SEFA.

Recommendations

TAMIU should:

- Prepare its SEFA using federal expenditures, rather than federal revenue, or prepare and maintain documentation to support that federal expenditures reconcile with federal revenues.
- Implement an adequate review process to ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.

Management's Response

The auditor's findings reflect that we prepared the SEFA using federal revenue rather than federal expenditures without maintaining documentation to support that the expenditures reconciled with revenues. To correct this, we will begin preparing the SEFA using federal expenditures. Additionally, our review procedures will be revised to ensure a more comprehensive effort to improve the accuracy and completeness of the SEFA.

Implementation Date: October 2012 (date of next AFR)

Responsible Persons: Director of Contracts and Grants and Comptroller

Texas A&M University System Health Science Center

The Texas A&M University System Health Science Center (TAMU-HSC) did not include the ending balance of previous years' loans of \$3,772,040 for one CFDA number in a note to its SEFA.

Recommendation

TAMU-HSC should implement an adequate review process to ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.

Management's Response

The Texas A&M University System Health Science Center concurs. The Health Science Center has revised our year-end procedures to include a separate verification to ensure this information is included.

Implementation Date: January 2012

Responsible Person: Director of Fiscal Services

Texas Southern University

Texas Southern University (TSU) incorrectly reported \$549,776 as pass-through expenditures to non-state entities, rather than as direct expenditures, on its SEFA. It also did not include the ending balance of previous years' loans of \$2,007,245 for one CFDA number in a note to its SEFA.

Recommendation

TSU should implement an adequate review process to ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.

Management's Response

Management agrees that there should be an adequate review process to ensure the SEFA information submitted to the Comptroller's Office is accurate and complete. TSU's accounting system had the expenditures correctly classified, but the information was entered into the Comptroller website incorrectly due to a clerical error. The SEFA preparation procedure has been reviewed with everyone tasked with preparing, reviewing and submission of the SEFA. TSU will continue to evaluate processes to mitigate future reporting errors on the next SEFA submission.

Implementatin Date: January 2012

Responsible Persons: Director, Research Financial Services and Senior Grant Accountant

The University of Texas at Arlington

The University of Texas at Arlington (UT-Arlington):

- Incorrectly included \$514 in expenditures for one CFDA number.

- Incorrectly excluded \$68,593 in expenditures for two CFDA numbers.
- Incorrectly double-counted \$1,925,248 in expenditures for ten CFDA numbers.
- Incorrectly classified \$145,948,425 in expenditures on its SEFA. \$145,927,625 of those expenditures were also incorrectly classified in the notes to its SEFA.
- Incorrectly classified \$1,758,872 in expenditures as part of the Research and Development cluster of federal programs.

Recommendations

UT-Arlington should:

- Develop and implement detailed written policies and procedures for the preparation and review of its SEFA to ensure that its SEFA is complete and accurate.
- Implement an adequate review process to ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.

Management's Response

We agree with the findings of the State Auditor's Office and note that the errors were mainly due to reporting on incorrect CFDA numbers and that requisite corrections were submitted to the State Comptroller for consideration in the final SEFA report.

- *UT Arlington Accounting Services will develop and implement detailed written policies and procedures for the preparation and review of the SEFA to ensure that the SEFA is complete and accurate.*

Responsible Person: Director of University Reports

Implementation Date: August 31, 2012

- *To address the need of an adequate review process to ensure that the correct SEFA is submitted to the Comptroller's Office, UT Arlington will implement the following:*
 - *Add an additional review of the records after the data entry into SEFA website, verifying amounts and CFDA numbers.*

- *Update accounting system extract reports after the pass through confirmation process to remove pass through to expenditures from the report, so that only direct expenditures remain.*
- *Request the Direct Lending Expenditure amount from Financial Aid Office. The Reporting Officer will request the amount, support, and CFDA classification from Financial Aid in the future. The Reporting Officer request will include verification that CFDA number is valid for the current fiscal year.*

Responsible Person: Director of University Reports

Implementation Date: October 2012

The University of Texas at Austin

The University of Texas at Austin (UT-Austin) incorrectly classified \$233,448 in expenditures as part of the Research and Development cluster of federal programs. Additionally, UT-Austin incorrectly included \$20,896,963 in expenditures on its SEFA and in the notes to its SEFA.

Recommendation

UT-Austin should implement an adequate review process to ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.

Management's Response

The University of Texas agrees with the recommendations of the State Auditor's Office. Our procedure will be reviewed for process improvements.

We agree that the Research and Development expenditures were classified incorrectly. The profiles of the accounts in question were updated while the Auditors were onsite in December.

The expenditures included in the SEFA were from a FFELP account that ceased in July 2010. The loan fund account name was not changed and other loans were run through this account that were not federal, resulting in the overstatement. The title of the account has since been changed and additional review will be done going forward prior to year-end reporting to ensure that this does not recur.

Implementation Date: December 2012

Responsible Persons: Associate Director and Finance Manager

The University of Texas at El Paso

The University of Texas at El Paso (UTEP) incorrectly classified expenditures in the wrong CFDA numbers for three CFDA's. The State Auditor's Office previously reported the same issue in February 2011 (see *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010*, State Auditor's Office Report No. 11-555, February 2011). For fiscal year 2011, UTEP incorrectly classified \$2,027,759 in expenditures for those same three CFDA numbers on its SEFA.

Recommendation

UTEP should implement an adequate review process to ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.

Management's Response

We concur with the finding. We have already instituted a mid-year review of CFDA numbers associated with each grant recorded in our General Ledger. Corrections have been made, and responsible staff will be trained on proper usage and interpretation of CFDA tables.

Implementation Date: Immediately

Responsible Person: Director, Accounting and Financial Reporting

The University of Texas Health Science Center at San Antonio

The University of Texas Health Science Center at San Antonio (UTHSC-SA):

- Incorrectly classified \$47,638,508 in expenditures as Federal Family Education Loans (CFDA number 84.032) on its SEFA and in the notes to its SEFA when it should have classified those expenditures as Federal Direct Student Loans (CFDA number 84.268).
- Incorrectly reported expenditures in the Student Financial Assistance Cluster of federal programs using award year instead of fiscal year. As a result, it (1) incorrectly included \$307,914 in expenditures on its SEFA and in the notes to its SEFA and (2) incorrectly reported the ending balance of previous years' loans, resulting in an understatement of \$13,315 in the notes to its SEFA.
- Incorrectly excluded \$21,641 from the deferred revenue note to its SEFA.

Recommendations

UTHSC-SA should:

- Prepare the portion of its SEFA that covers the Student Financial Assistance cluster of federal programs using federal expenditures for its fiscal year, rather than for its award year.
- Implement an adequate review process to ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.

Management's Response

We concur with the findings of 2011 CAFR-SEFA audit. The Health Science Center does have procedures in place to correctly identify the CFDA number of all federal grants and contracts. We will initiate procedures to ensure that we correctly identify the CFDA numbers of all federal student assistance disbursed. We will ensure that federal student assistance expenditures are reported in the SEFA on a fiscal year basis instead of award year basis. We will also ensure that federal deferred revenue reported in the SEFA notes corresponds precisely to deferred revenue recorded in the general ledger for all federal assistance.

Implementation date: April 30, 2012

Responsible person: Director of Accounting

The University of Texas - Pan American

The University of Texas – Pan American (UT-Pan Am) incorrectly classified \$1,131,763 in expenditures as American Recovery and Reinvestment Act expenditures on its SEFA. It also did not include the ending balance of previous years' loans of \$6,641,174 for one CFDA number in the notes to its SEFA. In addition, UT-Pan Am included \$6,974,567 in student loan expenditures in a note to its SEFA; however, the type of note in which UT-Pan Am included those expenditures was not applicable to student loan expenditures.

Recommendation

UT-Pan Am should implement an adequate review process to ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.

Management's Response

We concur with the Auditor's findings and recommendation,

UT-Pan American will formalize the Schedule of Expenditures of Federal Awards (SEFA) preparation and review procedures to ensure reporting accuracy and completeness. The State Comptroller's Reporting Requirements for Annual Financial Reports of State Agencies and Universities will be reviewed to create a checklist of requirements for the SEFA. The checklist will be used to complete and review the SEFA prior to submission and final certification. The checklist will include the separate verification of SEFA information by someone other than the SEFA preparer.

Implementation Date: June 1, 2012

Responsible Person: Associate Comptroller

The University of Texas Southwestern Medical Center

The University of Texas Southwestern Medical Center (UTSWMC):

- Incorrectly classified \$23,596,710 in expenditures as Federal Family Education Loan (CFDA number 84.032) on its SEFA and in the notes to its SEFA when it should have classified those expenditures as Federal Direct Student Loans (CFDA number 84.268).
- Incorrectly classified \$2,652 in expenditures on its SEFA as Kidney Diseases, Urology and Hematology Research (CFDA number 93.849), when it should have classified those expenditures as Diabetes, Digestive, and Kidney Diseases Extramural Research (CFDA number 93.847).

Recommendation

UTSWMC should implement an adequate review process to ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.

Management's Response

The listing of invalid CFDA numbers from the on-line catalog of CFDA numbers will be compared against the Medical Center's SEFA schedule at fiscal year end. In addition, the Medical Center's recently implemented accounting system contains features that will provide a means to verify CFDA numbers against the Federal Catalog of CFDA numbers. This process will be performed periodically throughout the year and will assist in ensuring CFDA numbers are as current as the Federal Catalog.

Implementation Status: Implemented

Implementation Date: February 1, 2012

Responsible Person: Assistant Vice President of Accounting and Fiscal Services

Federal Award Findings and Questioned Costs

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2011 was included in Chapter 2-D of this report. All other fiscal year 2011 federal award information was issued in a separate report. See *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2011*, by KPMG LLP.

Summary Schedule of Prior Audit Findings

*State of Texas Financial Portion of the
Statewide Single Audit Report for the
Year Ended August 31, 2011*

Summary Schedule of Prior Audit Findings

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 auditees report the corrective actions they have taken for the findings reported in:

- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2007* (State Auditor’s Office Report No. 08-555, April 2008).
- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2008* (State Auditor’s Office Report No. 09-555, April 2009).
- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009* (State Auditor’s Office Report No. 10-555, March 2010).
- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010* (State Auditor’s Office Report No. 11-555, February 2011)

The Summary Schedule of Prior Audit Findings (for the year ended August 31, 2011) has been prepared to address these responsibilities.

Follow up on the following prior audit findings was performed by other auditors as described in the table below.

Summary of Prior Audit Findings Reviewed by Other Auditors	
Higher Education Institution	Finding Numbers
The University of Texas at Austin	11-555-11 11-555-12
The University of Texas Medical Branch at Galveston	11-555-13 11-555-14
The University of Texas Southwestern Medical Center at Dallas	11-555-15
The University of Texas Health Science Center at Houston	11-555-16

The Health and Human Services Commission Should Strengthen Controls Over Payments and Receivables for Public Assistance Programs

Issue 1

The Health and Human Services Commission Should Strengthen Controls Over Payment Processing

Reference No. 11-555-01
(Prior Audit Issue 10-555-01)

Type of finding: Material Weakness

Material Weakness in Internal Control

A material weakness is a deficiency in internal control of such magnitude that a material misstatement of the entity's financial statements will not to be prevented, or detected and corrected, on a timely basis.

Source: Codification of Statements on Auditing Standards AU 325.06.

The Health and Human Services Commission (Commission) continues to have inadequate controls to address risks related to system and server access, security over sensitive documentation, and physical security over computing resources.

Additionally, the Commission does not review interfaced payment transactions prior to releasing those transactions for payment into the Uniform Statewide Accounting System (USAS). The interfaced payment transaction batch sizes during fiscal year 2010 ranged from approximately 1,800 transactions to more than 24,000 transactions. The large volume of payment transactions and the lack of review and approval increase the risk that a payment error could go undetected.

As the State Auditor's Office reported in March 2010⁵, the issues in the payment process represent a material weakness. In June 2010, the Commission began an audit to address this material weakness. The Commission received the report from that audit in February 2011, and the Commission has asserted that it will develop action plans to address the recommendations from that audit. The results of the Commission's audit confirmed the existence of the issues the State Auditor's Office reported in March 2010. To minimize the risks associated with disclosure, auditors communicated details regarding these issues directly to the Commission.

Corrective Action and Management's Responses

See current year finding 12-555-01.

⁵ See *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009*, State Auditor's Office Report No. 10-555, March 2010.

Issue 2

The Health and Human Services Commission Should Strengthen Controls Over Service Providers

Reference No. 11-555-02

Type of finding: Significant Deficiency

The Commission did not ensure that the claims processing system at its Vendor Drug program service provider was operating as intended during fiscal year 2010. As a result, the Commission did not have adequate controls to ensure that claims were processed appropriately. Commission staff reviewed a sample of claims the service provider processed, but that sample included only claims processed during August 2010. The Commission made \$2.5 billion in Vendor Drug program expenditures during fiscal year 2010.

Corrective Action and Management's Responses

Corrective action was taken.

Issue 3

The Health and Human Services Commission Should Track and Accurately Report Accounts Receivable

Reference No. 11-555-03
(Prior Audit Issue 10-555-05)

Type of finding: Significant Deficiency

The Commission did not adequately track accounts receivable. A Commission internal audit report noted issues related to collection efforts for delinquent accounts receivable and noncompliance with requirements of the Office of the Attorney General and the Office of the Comptroller of Public Accounts (Comptroller's Office).

Accounts Receivable Tracking

Comptroller's Office Accounting Policy Statement 028

State agencies and institutions of higher education must report to the Texas Comptroller of Public Accounts the names of persons with a debt to the state. This includes an indebtedness to the state, a tax delinquency, a child support delinquency, or a student loan default. Agencies must use the Comptroller's warrant hold procedures to ensure payments are not issued to a person with a debt to the state.

The Commission did not ensure that it recorded overpayments to hospital districts participating in the Upper Payment Limit (UPL) program as accounts receivable during fiscal year 2010. The Commission makes UPL payments to hospitals on a quarterly basis, and those payments are based, in part, on UPL payments made in the previous year. Due to the amount of time allowed to finalize Medicaid claims, the Commission is not able to determine whether it overpaid or underpaid a hospital until up to a year after it has made a payment. The Commission relies on program staff to track the overpayments, but the Commission's fiscal management unit is unaware of the amount of accounts receivable that the Commission needs to collect.

The Commission changed its methodology for calculating UPL payments in October 2010. The new methodology allows the Commission to make UPL payments on an adjudicated claims basis, instead of on a date-of-service basis. While this may eliminate overpayments to hospitals, the Commission still needs to identify overpayments it made to hospitals prior to October 2010.

While the Commission has improved the communication between program staff and fiscal management, program staff still do not consistently report overpayments to fiscal management. As of August 31, 2010, fiscal management was not tracking at least \$997,112 in overpayments that program staff had identified. In addition, program staff notified fiscal management of overpayment in only 8 (53.3 percent) of 15 instances.

Internal Audit Report Findings

The Commission's internal audit division reviewed the Commission's accounts receivable processes for the Medicaid, Children with Special Health Care Needs (CSHCN), and Family Planning programs and issued a report on September 26, 2008. During fiscal year 2010, the Commission began to take steps to address the issues identified in that report; however, the issues have not been fully addressed.

Corrective Action and Management's Responses

Corrective action was taken.

Issue 4

The Health and Human Services Commission Should Review User Accounts and Business Rules in Its Premium Payables System

Reference No. 11-555-04
(Prior Audit Issues 10-555-09 and 09-555-13)

Type of finding: Significant Deficiency

Premium Payable System (PPS)

PPS is an internal system the Commission uses to determine risk group placement for clients who are eligible to receive managed care services. Business rules within PPS direct clients into the appropriate risk groups based on various eligibility attributes.

Auditors identified certain control weaknesses related to the use of generic user accounts for and business rules in the Commission's Premium Payable System (PPS).

Generic User Accounts

The Commission removed 6 (85.7 percent) of 7 generic user accounts for the PPS online application; however, 1 generic account still exists. Use of generic user accounts prevents accountability for user actions and places the Commission's data at risk of unauthorized changes.

Title 1, Texas Administrative Code, Section 202.25(3)(A), requires that "Each user of information resources shall be assigned a unique identifier except for situations where risk analysis demonstrates no need for individual

accountability of users. User identification shall be authenticated before the information resources system may grant that user access.”

PPS Business Rules

The Commission does not have a process for reviewing the business rules in PPS. As a result, one risk group contained business rules that incorrectly allowed the system to include clients who exceeded that risk group’s age requirements to be enrolled in the group. More than 600 individuals whose age exceeded the requirements enrolled in that risk group during fiscal year 2010, and the Commission paid approximately \$1.8 million in premiums for those individuals. Without reviewing the eligibility data for these individuals, the Commission is not able to identify whether it paid appropriate premiums related to those individuals or whether it should place those individuals into a different risk group or Medicaid service model.

Corrective Action and Management’s Responses

See current year finding 12-555-02.

Chapter 4-B

The Department of Transportation Should Strengthen Certain Aspects of Its Financial and Information Technology Operations

Issue 1

The Department of Transportation Should Improve the Identification of Its Financial Reporting Needs and the Requirements Related to Complex Issues in Its Financial Records

Reference No. 11-555-05

Type of finding: Significant Deficiency

In fiscal year 2010, the Department of Transportation (Department) engaged in several complex financing tools to pay for the construction of roads and bridges throughout Texas. Two of those tools are described below:

- The Department uses a method of financing construction called “pass-through tolls,” which was authorized in Texas Transportation Code, Section 222.104. Under this method, a local government or entity (developer) finances and constructs a road and then transfers that road to the Department for inclusion in the state highway system. Although there is no direct tolling of traffic, the financing is based on an estimated vehicle-mile basis, and the Department reimburses the developer over a period of time.

- The Texas Transportation Commission created the Texas Private Activity Bond Surface Transportation Corporation (TxPABST) to promote and develop public transportation facilities through the issuance of bonds for comprehensive development agreements.

While these tools aid in the construction of roads and bridges, the Department should proactively consider their effect on its financial statements. Auditors identified the following errors related to those tools:

- In fiscal year 2010, the Department did not include five completed pass-through toll roads totaling \$189 million in its financial statements. In addition, the Department incorrectly identified one construction project as a non-state highway system road, which caused the Department to understate fiscal year 2010 capital assets non depreciable by \$9 million.

While the Department's finance division relies on the Department's district and area offices to notify it when a pass-through toll project is complete, the finance division does not have a process to determine whether the information it receives is complete or accurate.

- The Department excluded the costs and related liability of 14 pass-through toll projects that were under construction from its financial statements. Those projects had fiscal year 2010 costs totaling \$365 million. Of that amount, Department records did not accurately reflect the status of one project with \$197 million in costs.
- In fiscal year 2010, TxPABST issued \$1 billion in bonds. With the issuance of those bonds, TxPABST generated assets and liabilities requiring financial statement reporting. Although TxPABST is a separate legal entity and the bonds it issued are not legal obligations of the State, TxPABST meets governmental accounting and financial reporting conditions for being categorized as a blended component unit. The Department planned to disclose the TxPABST bond activity in a note to its financial statements. However, that plan was not in compliance with a GASB requirement to include TxPABST information in the Department's financial statements as part of the primary government. The Department correctly reported TxPABST as a component unit after auditors brought this matter to its attention.

The Department did not perform adequate research to determine the correct manner in which to record TxPABST bond activity in its financial statements.

Without a process to ensure that it reports all financial information accurately, the Department increases the risk that it would be unable to prevent or detect a potentially material misstatement in its financial statements.

Corrective Action and Management's Responses

Corrective action was taken.

Issue 2

The Department of Transportation Should Establish a Process to Accurately Account for Bridges

Reference No. 11-555-06
(Prior Audit Issue 10-555-10)

Type of finding: Significant Deficiency

The Department should improve its processes to ensure that it records accurate information for all completed bridges in its financial records in a timely manner.

Department records for fiscal year 2010 reflected 8,761 bridges with a value of \$18.8 billion (including 266 bridge additions or improvements with a value of \$713.1 million).

The Department requires its district offices to provide a certification to the Department's finance division for bridges that are placed in service in the district each fiscal year. The finance division relies on those certifications to identify and calculate the value of the bridges. However, the certification process does not always provide accurate and complete information, and the Department continually identifies bridges that were not accounted for in the fiscal year they came into service. For example, in fiscal year 2010, 14 district offices reported 89 bridges valued at \$174.4 million that were in service prior to fiscal year 2010.

The Department relies on reconciling its Bridge Inventory, Inspection, and Appraisal Program database to its bridge database to ensure that it records information for all completed bridges in its financial records. The reconciliation identifies bridges for which information in the financial records must be updated. However, at the end of fiscal year 2010, the reconciliation process did not cover all bridges placed in service during the fiscal year. For example, one bridge valued at \$1.2 million was placed in service in fiscal year 2009, but information for that bridge was not recorded in the Department's financial records until fiscal year 2011.

In addition, auditors identified the following errors in the Department's bridge database:

- For 2 (6.1 percent) of 33 bridges tested, information in the bridge database was incorrect. These errors led the Department to overstate its fiscal year 2010 capital assets depreciable by \$2.3 million.

- For 5 (15.2 percent) of 33 bridges tested, the amount of depreciation was incorrect in the bridge database. These errors led the Department to understate accumulated depreciation by \$1.9 million.

The Department also does not formally document or track ownership for (1) bridges it builds and (2) bridges whose ownership is transferred to or maintained by the Department. Without documentation or a method to track ownership, the Department could account for bridges incorrectly in its financial statements.

Corrective Action and Management's Responses

Corrective action was taken.

Issue 3

The Department of Transportation Should Strengthen Its Management of System Access and Password Requirements

Reference No. 11-555-07
(Prior Audit Issue 10-555-11)

Type of finding: Significant Deficiency

To protect the integrity of its information resources, the Department should ensure that it properly manages access to certain automated systems and that user passwords settings are sufficient.

The Department should strengthen its management of system access.

In fiscal year 2010, the Department did not regularly update access rights to its automated systems and it did not properly restrict user access. Removing users' access to automated systems immediately upon termination of employment or change in job function helps to ensure information resources are protected against unauthorized access, disclosure, modification, or destruction. It also helps to ensure the availability, integrity, authenticity, and confidentiality of information. Auditors identified the following:

- 7 (23.3 percent) of 30 users tested had inappropriate update access rights to the Construction and Maintenance Contracting System (CMCS) based on their job duties. CMCS is the Department's system of record for routine maintenance contracts.
- 215 (29.8 percent) of 722 active user accounts for the Department's Web-based Revenue Logging System (also referred to as the DLOG) were not removed upon termination of the users' employment. When auditors brought this to the Department's attention, it removed these users' access. The DLOG is used to log cash collection activity at the Department's various locations statewide.

- 3 (9.1 percent) of 33 users with access to the Department’s client server-based Revenue Logging System were not current employees or other authorized personnel of the Department; the Department did not remove these users’ access when they transferred to another state agency. When auditors brought this to the Department’s attention, it removed these users’ access. The Revenue Logging System is the internal system the Department’s finance division’s uses to record cash collection activity in the Uniform Statewide Accounting System (USAS) and its Financial Information Management System (FIMS).
- 5 (3.5 percent) of 144 users of the Uniform Statewide Payroll/Personnel System (USPS) had inappropriate access rights to the system based on their job functions. Additionally, 2 (1.4 percent) of 144 users were inappropriately given access to multiple USPS profiles, which is prohibited by the USPS access criteria. When auditors brought this to the Department’s attention it removed these users’ access. USPS is the system of record for the Department’s salary and labor distributions.

Title 1, Texas Administrative Code, Section 202.20(1)

Information resources residing in the various state agencies of state government are strategic and vital assets belonging to the people of Texas. These assets must be available and protected commensurate with the value of the assets. Measures shall be taken to protect these assets against unauthorized access, disclosure, modification, or destruction, whether accidental or deliberate, as well as assure the availability, integrity, utility authenticity, and confidentiality of information. Access to state information resources shall be appropriately managed.

Title 1, Texas Administrative Code, Section 202.25(3)(B)

A user’s access authorization shall be appropriately modified or removed when the user’s employment or job responsibilities within the state agency change.

- 3 (37.5 percent) of 8 users with access to the test environment for the Department’s Materials and Supplies Management System (MSMS) had inappropriate access based on their job functions. Auditors also identified one user for whom the Department did not remove access when that user transferred to another state agency. When auditors brought these issues to the Department’s attention, it removed the inappropriate access. MSMS is the Department’s system of record for materials and supplies purchases.

According to the Department’s *Information Security Manual* dated March 2010, “when a user’s employment status or job functions change, a user’s access authorization must be removed or modified appropriately and immediately.” The manual also states that “system and administrative rights must be restricted to persons responsible for system administrative management or security” and that “there should be separation between the production, development, and test environments when resources permit.”

The Texas Administrative Code also requires agencies to take measures to protect data from authorized access, disclosure, modification, or destruction, whether accidental or deliberate (see text box for additional details).

The Department should develop or update user access criteria for certain systems and regularly review that criteria.

The Department’s user access criteria for CMCS and USPS were not current or did not accurately reflect the actual criteria the Department uses. Additionally, the Department does not have user access criteria for its Revenue Logging System.

Developing and regularly reviewing access criteria helps reduce the risk of unauthorized access, disclosure, modification, or destruction of its information resources.

According to the Department's *Information Security Manual* dated March 2010, access criteria must be developed for any system or application. Access criteria define:

- Levels of access to the system and/or application.
- Who can have each level of access to the system and/or application.
- The capabilities of each level of access.
- The resources needed for each level of access.

Furthermore, the *Information Security Manual* states that "access will be reviewed on an annual basis by the Technology Services Division (TSD) Information Security Services (ISS) containing the office of primary responsibility and making any pertinent changes and/or modifications." Additionally, the Texas Administrative Code states that "state agencies shall ensure adequate controls and separation of duties for tasks that are susceptible to fraudulent or other unauthorized activity."

The Department should strengthen SiteManager and ROWIS password settings.

As of August 31, 2010, the Department had not implemented a policy to ensure that its SiteManager and ROWIS automated systems were adequately protected. Specifically:

- Password settings at the application level for ROWIS do not meet the Department's *Information Security Manual* requirements because passwords are assigned and cannot be changed.
- Password settings at the database and application levels for SiteManager do not conform to *Information Security Manual* password expiration and complexity requirements.

To access the Department's SiteManager and ROWIS systems, users must enter a password. According to the Texas Administrative Code and the Department's *Information Security Manual*, state agencies should use unique passwords that contain both alphanumeric characters and special characters. In addition, the *Information Security Manual* states that passwords used to gain access to network entry points must be changed every 90 days. The Texas Administrative Code also specifies requirements related to passwords (see text box for additional details).

Title 1, Texas Administrative Code, Section 202.25(3)(D)

Information resources systems which use passwords shall be based on industry best practices on password usage and documented state agency risk management decisions.

Requiring the use of passwords that include both alphanumeric and special characters; have a minimum password age, history, and length; and have a

maximum number of failed password attempts helps to ensure that information resources are protected against unauthorized access, disclosure, modification, or destruction. This also helps to ensure the availability, integrity, authenticity, and confidentiality of information.

Corrective Action and Management's Responses

See current year finding 12-555-04.

The Office of the Comptroller of Public Accounts Should Strengthen Information Security Controls

Issue 1

The Office of the Comptroller of Public Accounts Should Strengthen Access Controls for Treasury Division Automated Systems

Reference No. 11-555-08
(Prior Audit Issues 10-555-15, 09-555-02, and 08-555-01)

Type of finding: Significant Deficiency

Since April 2008, the State Auditor's Office has reported that the Office of the Comptroller of Public Accounts (Comptroller's Office) has allowed internal system program developers to have access to production data for its Treasury Division's automated systems.⁶

The Comptroller's Office allows two internal system program developers to have access to production data for the Treasury Division's automated systems. These systems were developed using a programming language that has limited security options. After auditors brought this issue to the Comptroller's Office's attention during the audit of fiscal year 2007, the Treasury Division reduced the number of program developers who had this access from 15 to 2. The Treasury Division is in the process of replacing its automated systems with another application that can be implemented with more advanced security features. It also has strengthened controls over access to its automated systems.

**Title 1, Texas Administrative Code,
Section 202.20(1)**

Information resources residing in the various state agencies of state government are strategic and vital assets belonging to the people of Texas. These assets shall be available and protected commensurate with the value of the assets. Measures shall be taken to protect these assets against unauthorized access, disclosure, modification, or destruction, whether accidental or deliberate, as well as to assure the availability, integrity, utility, authenticity, and confidentiality of information. Access to state information resources shall be appropriately managed.

The Texas Administrative Code requires agencies to take measures to protect data from unauthorized access, disclosure, modification, or destruction, whether accidental or deliberate (see text box). Granting excessive access and not providing for proper segregation of duties increases the risk of fraud, data corruption, potential service disruption, and loss of state revenue. Because the Treasury Division processes billions of dollars in revenue, the loss of even a single day's interest due to data manipulation or destruction would affect state revenue. However, nothing came to auditors' attention to indicate that automated systems had been compromised.

⁶ See *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2009*, State Auditor's Office Report No. 10-555, March 2010; *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2008*, State Auditor's Office Report No. 09-555, April 2009; and *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2007*, State Auditor's Office Report No. 08-555, April 2008.

Corrective Action and Management's Responses

See current year finding 12-555-03.

Issue 2

The Office of the Comptroller of Public Accounts Should Strengthen Password Requirements

Reference No. 11-555-09

Type of finding: Significant Deficiency

**Title 1, Texas
Administrative Code,
Section 202.25(3)(D)**

Information resources systems which use passwords shall be based on industry best practices on password usage and documented state agency risk management decisions.

The Comptroller's Office did not program its access management system to comply with password requirements in the Texas Administrative Code (see text box). This access management system was implemented in fiscal year 2005. The Comptroller's Office adopted internal password management policies that are designed to comply with the Texas Administrative Code's requirements for password management; however, it had not implemented those policies at the time of this audit.

Password rules that meet industry best practices are important to prevent security breaches and unauthorized access to the information systems managed by the access management system. Unauthorized access to information systems causes the data in that information system to be at risk of inappropriate disclosure, corruption, and deletion. Auditors did not identify any instances of unauthorized access or loss of data integrity as a result of tests performed during the audit.

Due to the nature of this issue, auditors communicated other details regarding this issue in writing directly to the Comptroller's Office.

Corrective Action and Management's Responses

Corrective action was taken.

The Texas Workforce Commission Should Strengthen Access Controls

Issue 1

The Texas Workforce Commission Should Regularly Update and Restrict User Access Rights to Screens in the Tax System

Reference No. 11-555-10

Type of finding: Significant Deficiency

According to the Texas Workforce Commission's (Commission) *Information Security Standards and Guidelines Manual*, section SG2.9, "Custodians or other designated staff are responsible for modifying, disabling or deleting the accounts of individuals who change roles within [the Texas Workforce Commission] TWC or are separated from their relationship with TWC" and "must have a documented process for periodically reviewing existing accounts for approved access."

In fiscal year 2010, the Commission's Tax Department did not regularly update access rights to a screen in the Commission's Tax System. Specifically, 7 (20.0 percent) of 35 of users tested who had access to the adjustment entry screen in the Tax System did not require that access to perform their job functions. These users had the ability to enter and edit transactions. After auditors brought this issue to the Commission's attention, the Commission removed these users' access rights.

The Commission tracks and reviews user transactions to ensure that only appropriate financial transactions are entered. In addition, the Commission performs periodic reviews to identify inactive users, duplicated accounts, and access violations. However, its periodic reviews do not ensure that users have continued appropriate access to the Tax System according to users' job functions. Granting improper access rights increases the risk of fraud and inappropriate financial transactions not being detected.

Corrective Action and Management's Responses

Corrective action was taken.

The University of Texas at Austin Should Strengthen Certain Aspects of Its Information Technology Operations

Issue 1

The University of Texas at Austin Should Strengthen its Management of System Access

Reference No. 11-555-11

Type of finding: Significant Deficiency

The University of Texas at Austin (University) did not promptly remove access to its accounting system for employees and affiliates who separated from the University. A total of 163 employees and affiliates still had access to the accounting system after they separated from the University. Four (2.5 percent) of the 163 employees and affiliates logged into the accounting system after their separation dates. However, auditors did not identify any inappropriate activity by those users.

The University's policy, *Managing Information Resources at The University of Texas at Austin*, states that user accounts of individuals who have had their status, roles, or affiliations with the University changed must be updated to reflect their current status. Additionally, accounts must be reviewed at least annually to ensure their current status is correct.

Title 1, Texas Administrative Code, Section 202.70(2), requires higher education institutions to take measures to protect data from unauthorized access, disclosure, modification, or destruction, whether accidental or deliberate. Title 1, Texas Administrative Code, Section 202.75(3)(B), requires a user's access to be removed when the user's employment status changes.

Monitoring and modifying system access as required reduces the risk of fraud, data corruption, and potential service disruption.

Corrective Action and Management's Responses

Corrective action was taken.

Issue 2

The University of Texas at Austin Should Comply with the Texas Administrative Code Password Standards

Reference No. 11-555-12

Type of finding: Significant Deficiency

The University did not consistently follow the requirements of Title 1, Texas Administrative Code, Section 202.75(3)(D), which requires information systems to use passwords based on industry best practices on password usage and to document risk management decisions.

Industry best practices, including those established by Microsoft Corporation, recommend that passwords be routinely changed or expire every 30 to 90 days. The University's policy does not require users to change passwords that often; instead, the policy recommends that users change passwords every six months. Texas higher education institutions can choose to establish different guidelines based on their needs, but they should document risk management decisions and detail the discussions and acceptance of the risk associated with departing from generally accepted best practices. The University was unable to provide such documentation.

Corrective Action and Management's Responses

Corrective action was taken.

Chapter 4-F

The University of Texas Medical Branch at Galveston Should Strengthen Certain Aspects of Its Financial and Information Technology Operations

Issue 1

The University of Texas Medical Branch at Galveston Should Strengthen Its Documentation for Capital Assets

Reference No. 11-555-13

Type of finding: Significant Deficiency

The University of Texas Medical Branch at Galveston (Medical Branch) was unable to provide documentation to support the acquisition cost for 19 (86.4 percent) of 22 equipment items that auditors tested. The Medical Branch disposed of the equipment items tested in fiscal year 2010. The Office of the Comptroller of Public Accounts' *State Property Accounting Process User's Guide* and the Library and Archives Commission's *Texas State Records Retention Schedule* require capital asset records to be maintained for three years after the disposal of assets. Not maintaining these records for required time periods could impair the Medical Branch's ability to substantiate the

value of assets or to demonstrate that it owned an asset that was stolen or destroyed.

Corrective Action and Management's Responses

Corrective action was taken.

Issue 2

The University of Texas Medical Branch at Galveston Should Strengthen Management of User Access to Internal and State Systems

Reference No. 11-555-14

Type of finding: Significant Deficiency

The Medical Branch did not appropriately manage user access to internal and state systems to ensure that access levels were appropriate for a user's job responsibilities, that it removed terminated employees' access, that there was proper segregation of duties, or that access was restricted to an appropriate number of users. Specifically:

- Although the Medical Branch reviews access to state systems semi-annually, auditors identified inappropriate access to the State Property Accounting System (SPA) and the Uniform Statewide Accounting System. Specifically, 3 (33.3 percent) of 9 SPA users and 3 (25.0 percent) of 12 USAS users had access that was not required for them to perform their job duties.
- 2 (5.9 percent) of 34 user accounts for Invision, the hospital revenue system, were for users whose employment had been terminated.
- 13 (59.1 percent) of 22 users of Invision had access to make code changes and move those changes to the production environment. For three code changes auditors tested, two had no evidence that the changes were authorized, two had no evidence that changes were tested prior to moving the changes to the production environment, and none had evidence of proper segregation of duties between the individual who made the changes and the individual who moved those changes to the production environment.
- 2 (50.0 percent) of 4 users of the Financial Management System and Payroll System had access to make code changes and move those changes to the production environment.
- 12 approved users had access to make data changes to certain blanket approved tables within the Financial Management System and Payroll

System, and those systems do not have controls to prevent or identify inappropriate changes.

- An excessive number of users—51 employees—had read and write access to the Medical Branch’s annual financial report file. That file is uploaded to the University of Texas System’s Financial Consolidated Reporting System.

Title 1, Texas Administrative Code, Section 202.75(3)(B), requires user access to be appropriately reviewed, managed, modified, or removed when a user’s employment or job responsibilities change. Additionally, Title 1, Texas Administrative Code, Section 202.70(8), requires higher education institutions to establish adequate controls and segregation of duties for tasks that are susceptible to fraudulent or other unauthorized activity.

Users with inappropriate access to key systems and information could disclose, modify, or destruct information resources and adversely affect the availability, integrity, utility, authenticity, and confidentiality of key information.

Corrective Action and Management’s Responses

Corrective action was taken.

Chapter 4-G

The University of Texas Southwestern Medical Center at Dallas Should Strengthen Certain Aspects of Its Information Technology Operations

Issue 1

The University of Texas Southwestern Medical Center at Dallas Should Strengthen Management of User Access to Internal and State Systems

Reference No. 11-555-15
(Prior Audit Issue 10-555-24)

Type of finding: Significant Deficiency

The University of Texas Southwestern Medical Center at Dallas (Medical Center) did not appropriately manage user access to internal and state systems to ensure that it removed terminated employees’ or contractors’ access, that access levels were appropriate for each user’s job responsibilities, or that there was proper segregation of duties. The Medical Center did not review user access to its information systems during fiscal year 2010. Auditors identified the following:

- 125 (8.4 percent) of 1,495 user accounts to the internal patient account system, Siemens, were for terminated employees, contractors, or users

who could not be identified. A total of 13 (10.4 percent) of those 125 user accounts also had current access to the network.

- 41 (2.7 percent) of 1,495 Siemens user accounts had access to (1) override prices in the Charge Description Master within Siemens and (2) post adjustments. Access to both of these features represents a weakness in segregation of duties.
- 4 (0.3 percent) of 1,495 Siemens user accounts had inappropriate access to modify the Charge Description Master within Siemens; the job duties of the employees associated with these user accounts did not require that level of access.
- 3 (0.5 percent) of 577 current user accounts to PeopleSoft, the accounting system for the Medical Center's hospitals, were for terminated employees.
- 137 (23.7 percent) of 577 PeopleSoft user accounts had not been accessed for 6 months or more or had never been accessed. Those user accounts also were not locked. A total of 80 (58.4 percent) of those 137 accounts had not been accessed for 6 months or more. A total of 57 (41.6 percent) of those 137 user accounts had never been accessed.
- 3 (30.0 percent) of 10 employees had inappropriate access to screens within the Uniform Statewide Accounting System (USAS) based on their job duties.
- 8 (1.9 percent) of 427 current user accounts for the overall accounting system, the Online Administrative System (OAS), were for terminated employees or contractors.
- One programmer had inappropriate super-user access to OAS, which allowed the programmer to make code changes and then migrate those changes to the production environment.
- Two users had access to all functions in the inventory system, IVIN, including entering data and overriding audit reports. Having full access to that system represents a weakness in segregation of duties and increases the risk that an individual could modify or delete information without any record of the change being properly recorded.

Title 1, Texas Administrative Code, Section 202.75(3)(B), requires user access to be appropriately reviewed, managed, modified, or removed when a user's employment or job responsibilities change. Additionally, Title 1, Texas Administrative Code, Section 202.70(8), requires higher education institutions to establish adequate controls and segregation of duties for tasks that are susceptible to fraudulent or other unauthorized activity.

When users have inappropriate access to key systems and information, they could disclose, modify, or destruct information resources and adversely affect the availability, integrity, utility, authenticity, and confidentiality of key information.

Corrective Action and Management's Responses

Corrective action was taken.

Chapter 4-H

The University of Texas Health Science Center at Houston Should Strengthen Controls Over Capital Assets

Issue 1

The University of Texas Health Science Center at Houston Should Strengthen Its Documentation for Capital Assets

Reference No. 11-555-16
(Prior Audit Issue 10-555-23)

Type of finding: Significant Deficiency

The University of Texas Health Science Center at Houston (Health Science Center) continued to have insufficient support for its capitalized asset balance because it did not have documentation for assets it purchased prior to fiscal year 2004.

Definition

Capitalized Assets - Real or personal property that has an estimated life of greater than one year and has a value equal or greater than the capitalization threshold established for that type of asset. Capitalized assets are reported in an agency's annual financial report.

Source: *State Property Accounting Process User's Guide*, Office of the Comptroller of Public Accounts, February 2008.

The State Auditor's Office reported in March 2010⁷ that the Health Science Center was not able to locate documentation to support the beginning valuations in its asset management system for 18 (24.7 percent) of the assets tested. As a result, auditors were unable to verify the beginning valuations for those 18 assets. According to the Health Science Center's records, the value of those 18 assets totaled \$12.5 million, or 12.4 percent of the assets tested.

The Health Science Center implemented a new financial system in 2003. This made locating documentation for the 18 assets discussed above more difficult because the Health Science Center acquired each of those 18 assets prior to fiscal year 2004. Without documentation, it would be difficult for the Health Science Center to prove ownership of an asset or its valuation in the event of theft or destruction of the asset.

⁷ See *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009*, State Auditor's Office Report No. 10-555, March 2010.

Corrective Action and Management's Responses

Corrective action was taken.

Chapter 4-I

Agencies and Higher Education Institutions Should Strengthen Their Review of Their Schedules of Expenditures of Federal Awards

Reference No. 11-555-17
(Prior Audit Issues 10-555-26 and 09-555-19)

Type of finding: Significant Deficiency

Schedule of Expenditures of Federal Awards (SEFA)

Each agency, college, and university that expends federal awards is required to prepare a Schedule of Expenditures of Federal Awards (SEFA). Federal awards include federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities [Office of Management and Budget (OMB) Circular A-133, Section .105].

Federal financial assistance includes any assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance [OMB Circular A-133, Section .105].

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts, July 2010.

The agencies and higher education institutions listed in Table 1 did not perform an adequate review of their fiscal year 2010 Schedules of Expenditures of Federal Awards (SEFAs) (see text box for additional information).

Because they did not perform an adequate review, the SEFAs these agencies and higher education institutions submitted to the Office of the Comptroller of Public Accounts (Comptroller's Office) contained errors. Table 1 summarizes the errors that auditors identified in these agencies' and higher education institutions' fiscal year 2010 SEFAs.

The 8 agencies and 18 higher education institutions listed below reported \$21.9 billion in federal expenditures, or 38.5 percent of the total federal expenditures the State of Texas reported for fiscal year 2010. The errors listed below were not material to the fiscal year 2010 SEFA for the State of Texas or to the fiscal year 2010 Comprehensive Annual Financial Report for the State of Texas.

Table 1

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2010 SEFAs								
Agency or Higher Education Institution	Incorrect Program Clustering ^a	Incorrect Pass-through Reporting ^b	Incorrect Preparation of SEFA Using Revenues ^c	Incorrect Classification of Expenditures ^d	Incorrect Inclusion of Expenditures ^e	Incorrect Exclusion of Expenditures ^f	Errors in Notes to the SEFA ^g	Incorrect Reporting of ARRA Expenditures ^h
Department of Aging and Disability Services						X		
Department of Agriculture		X			X	X		

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2010 SEFAs

Agency or Higher Education Institution	Incorrect Program Clustering ^a	Incorrect Pass-through Reporting ^b	Incorrect Preparation of SEFA Using Revenues ^c	Incorrect Classification of Expenditures ^d	Incorrect Inclusion of Expenditures ^e	Incorrect Exclusion of Expenditures ^f	Errors in Notes to the SEFA ^g	Incorrect Reporting of ARRA Expenditures ^h
Department of Public Safety					X		X	
Department of State Health Services		X						X
Department of Transportation		X						
Higher Education Coordinating Board						X		
Parks and Wildlife Department			X					
Sam Houston State University	X			X	X	X	X	
Texas A&M University System Health Science Center					X			
Texas A&M International University			X					
Texas Education Agency	X	X						
Texas Southern University					X			
Texas State University - San Marcos							X	
The University of Texas at Arlington					X		X	
The University of Texas at Austin	X				X	X	X	
The University of Texas at Brownsville		X						

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2010 SEFAs

Agency or Higher Education Institution	Incorrect Program Clustering ^a	Incorrect Pass-through Reporting ^b	Incorrect Preparation of SEFA Using Revenues ^c	Incorrect Classification of Expenditures ^d	Incorrect Inclusion of Expenditures ^e	Incorrect Exclusion of Expenditures ^f	Errors in Notes to the SEFA ^g	Incorrect Reporting of ARRA Expenditures ^h
The University of Texas at El Paso				X			X	
The University of Texas - Pan American							X	
The University of Texas Health Science Center at Houston							X	X
The University of Texas Health Science Center at San Antonio	X							
The University of Texas M. D. Anderson Cancer Center				X				X
The University of Texas Medical Branch at Galveston	X						X	
The University of Texas Southwestern Medical Center at Dallas	X						X	
University of Houston				X				
University of Houston - Downtown				X				
University of North Texas Health Science Center at Fort Worth	X							

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2010 SEFAs

Agency or Higher Education Institution	Incorrect Program Clustering ^a	Incorrect Pass-through Reporting ^b	Incorrect Preparation of SEFA Using Revenues ^c	Incorrect Classification of Expenditures ^d	Incorrect Inclusion of Expenditures ^e	Incorrect Exclusion of Expenditures ^f	Errors in Notes to the SEFA ^g	Incorrect Reporting of ARRA Expenditures ^h
--	---	---	---	---	--	--	--	---

- ^a Reported federal programs in an incorrect cluster.
- ^b Incorrectly classified expenditures as direct expenditures. The expenditures should have been classified as "Pass-Through to Non-State Entities" and "Pass-Through to Agencies or Universities."
- ^c Incorrectly prepared SEFA using federal revenues rather than expenditures.
- ^d Incorrectly classified expenditures between federal programs.
- ^e Overreported federal expenditures on its SEFA. Expenditures were reported based on the federal award year rather than the state fiscal year.
- ^f Underreported federal expenditures on its SEFA.
- ^g Errors were noted in the notes to the SEFAs.
- ^h Incorrectly reported expenditures of funds received from the American Recovery and Reinvestment Act.

Performing an adequate review of their SEFAs and supporting documentation would help the agencies and higher education institutions ensure that the SEFA information they submit to the Comptroller's Office is accurate.

Corrective Action and Management's Responses

Summary of Corrective Action	
Agency or Higher Education Institution	Corrective Action
Department of Aging and Disability Services	Corrective action was taken.
Department of Agriculture	Corrective action was taken.
Department of Public Safety	Corrective action was taken. However, see current year finding 12-555-05.
Department of State Health Services	Corrective action was taken.
Department of Transportation	Corrective action was taken.
Higher Education Coordinating Board	Corrective action was taken.
Parks and Wildlife Department	Corrective action was taken.
Sam Houston State University	Corrective action was taken.
Texas A&M University System Health Science Center	Corrective action was taken. However, see current year finding 12-555-05.
Texas A&M International University	See current year finding 12-555-05.
Texas Education Agency	Corrective action was taken.
Texas Southern University	Corrective action was taken. However, see current year finding 12-555-05.
Texas State University - San Marcos	Corrective action was taken.

Summary of Corrective Action	
Agency or Higher Education Institution	Corrective Action
The University of Texas at Arlington	See current year finding 12-555-05.
The University of Texas at Austin	See current year finding 12-555-05.
The University of Texas at Brownsville	Corrective action was taken.
The University of Texas at El Paso	Corrective action taken. However, see current year finding 12-555-05.
The University of Texas - Pan American	See current year finding 12-555-05.
The University of Texas Health Science Center at Houston	Corrective action was taken.
The University of Texas Health Science Center at San Antonio	Corrective action was taken. However, see current year finding 12-555-05.
The University of Texas M. D. Anderson Cancer Center	Corrective action was taken.
The University of Texas Medical Branch at Galveston	Corrective action was taken.
The University of Texas Southwestern Medical Center at Dallas	Corrective action was taken. However, see current year finding 12-555-05.
University of Houston	Corrective action was taken.
University of Houston - Downtown	Corrective action was taken.
University of North Texas Health Science Center at Fort Worth	Corrective action was taken.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The audit objective was to determine whether the State's basic financial statements present fairly, in all material respects, the balances and activities for the State of Texas for the fiscal year ended August 31, 2011.

The Statewide Single Audit is an annual audit for the State of Texas. It is conducted so that the State complies with the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133.

Scope

The scope of the financial portion of the Statewide Single Audit included an audit of the State's basic financial statements and a review of significant controls over financial reporting and compliance with applicable requirements. The opinion on the basic financial statements, published in the Comprehensive Annual Financial Report for the fiscal year ended August 31, 2011, was dated February 21, 2012.

The scope of the federal compliance portion of the Statewide Single Audit included an audit of the State's Schedule of Expenditures of Federal Awards (SEFA), a review of compliance for each major program, and a review of significant controls over federal compliance. The State Auditor's Office contracted with KPMG LLP to provide an opinion on compliance for each major program and internal control over compliance. The State Auditor's Office provided an opinion on the State's SEFA. Information on the federal compliance portion of the Statewide Single Audit is included in a separate report entitled *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2011*, by KPMG LLP.

Methodology

The audit methodology consisted of collecting information, identifying risk, conducting data analyses, performing selected audit tests and other procedures, and analyzing and evaluating the results against established criteria.

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

Information collected and reviewed included the following:

- Agency and higher education institution policies and procedures.
- Agency and higher education institution systems documentation.
- Agency and higher education institution accounting data.
- Agency and higher education institution year-end accounting adjustments.
- Agency and higher education institution fiscal year 2011 annual financial reports.
- Agency and higher education institution fiscal year 2011 SEFA submissions to the Office of the Comptroller of Public Accounts.

Information systems reviewed included the following:

- Agency and higher education institution internal accounting systems.
- Uniform Statewide Accounting System (USAS).
- Uniform Statewide Payroll/Personnel System (USPS).
- State Property Accounting (SPA) system.

Procedures and tests conducted included the following:

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

Criteria and standards used included the following:

- Texas statutes.
- Texas Administrative Code.
- General Appropriations Act (81st Legislature).
- The Office of the Comptroller of Public Accounts' policies and procedures.
- Office of the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*.

- The Office of the Comptroller of Public Accounts' *SPA Process User's Guide*.
- Agency and higher education institution policies.
- Office of Management and Budget Circular A-133.
- Generally accepted accounting principles as established by existing authoritative literature including, but not limited to, literature published by the Governmental Accounting Standards Board and the Financial Accounting Standards Board.

Other Information

Fieldwork was conducted from July 2011 through December 2011. Except as discussed in the following paragraph, we conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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.

The following members of the State Auditor's staff performed the audit work:

Jules Hunter, CPA, CIA (Project Manager)
William J. Morris, CPA (Assistant Project Manager)
Brianna C. Lehman, CPA (Assistant Project Manager)
Robert H. (Rob) Bollinger, CPA, CFE
Robert Burg, CPA
Mark Cavazos
Joe Curtis, CPA
Anton Dutchover
George Eure
Joe Fralin
Nicolas Frey
Priscilla Garza, CGAP
Lauren Godfrey, CGAP
Rachel Goldman, CPA
Frances Anne Hoel, CIA, CGAP
Norman Holz II
Joyce Inman, CGFM
Tracy Jarratt, CPA
Ashlee C. Jones, MAcy, CGAP, CFE
Thomas Andrew Mahoney
Kenneth Manke
Robert Pagenkopf
Jeannette Quiñonez, CPA
Jennifer Robinson
Anthony W. Rose, MPA, CPA, CGFM
Steven M. Summers, CPA, CISA
Sonya Tao, CFE
Tony White, CFE
Dennis Ray Bushnell, CPA (Quality Control Reviewer)
Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)
Lisa R. Collier, CPA (Assistant State Auditor)
Verma L. Elliott, CPA, CIA, CGAP, MBA (Audit Manager)
Angelica M. Ramirez, CPA (Audit Manager)

Agencies and Higher Education Institutions Audited

Financial accounts were audited at the following agencies:

- Department of Transportation
- Health and Human Services Commission
- Office of the Comptroller of Public Accounts
- Texas Workforce Commission

Schedules of expenditures of federal awards at the following agencies and higher education institutions were audited by either the State Auditor's Office or KPMG LLP:

- Adjutant General's Department
- Department of Aging and Disability Services
- Department of Assistive and Rehabilitative Services
- Department of Family and Protective Services
- Department of Housing and Community Affairs
- Department of Public Safety
- Department of Rural Affairs (which became part of the Department of Agriculture effective October 1, 2011)
- Department of State Health Services
- Department of Transportation
- Health and Human Services Commission
- Higher Education Coordinating Board
- Office of the Attorney General
- Office of the Governor
- Texas Education Agency
- Texas Southern University
- Texas Workforce Commission
- Water Development Board
- The University of Texas M. D. Anderson Cancer Center
- Sam Houston State University
- Texas A&M International University
- Texas A&M University System Health Science Center
- University of Houston
- University of Houston – Downtown
- University of North Texas Health Science Center at Fort Worth
- The University of Texas at Arlington

- The University of Texas at Austin
- The University of Texas at Brownsville
- The University of Texas at El Paso
- The University of Texas Health Science Center at San Antonio
- The University of Texas Medical Branch at Galveston
- The University of Texas Southwestern Medical Center

Follow up on prior year comprehensive annual financial report and schedule of expenditures of federal awards findings was conducted at the following agencies and higher education institutions:

- Parks and Wildlife Department
- Department of Agriculture
- Texas State University – San Marcos
- The University of Texas – Pan American
- The University of Texas Health Science Center – Houston

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Joe Straus III, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas “Tommy” Williams, Member, Texas Senate
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Harvey Hilderbran, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

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

Adjutant General's Department
Department of Aging and Disability Services
Department of Agriculture
Department of Assistive and Rehabilitative Services
Department of Family and Protective Services
Department of Housing and Community Affairs
Department of Public Safety
Department of State Health Services
Department of Transportation
Health and Human Services Commission
Higher Education Coordinating Board
Office of the Attorney General
Office of the Comptroller of Public Accounts
Office of the Governor
Parks and Wildlife Department
Sam Houston State University
Texas A& M University System Health Science Center
Texas A&M International University
Texas Education Agency
Texas Southern University
Texas State University - San Marcos
Texas Workforce Commission
The University of Texas - Pan American
The University of Texas at Arlington
The University of Texas at Austin
The University of Texas at Brownsville
The University of Texas at El Paso
The University of Texas Health Science Center at Houston
The University of Texas Health Science Center at San Antonio
The University of Texas M.D. Anderson Cancer Center
The University of Texas Medical Branch at Galveston
The University of Texas Southwestern Medical Center
University of Houston
University of Houston - Downtown
University of North Texas Health Science Center at Fort Worth
Water Development Board



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

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

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

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