State Auditor's Office

John Keel, CPA
State Auditor

State of Texas Financial Portion of the

Statewide Single Audit Report for the Year Ended August 31, 2014

February 2015

Report No. 15-555

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SAO Report No. 15-555
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Overall Conclusion

In our audit opinion dated February 20, 2015, 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, 2014. The Office of the Comptroller of Public Accounts published our audit opinion as part of the Comprehensive Annual Financial Report for fiscal year 2014, which it intends to post on its Web site at http://www.window.state.tx.us/finances/pubs/cafr/.

Basic Financial Statements

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

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

The consolidated financial statements provide a comprehensive view of the State's financial activities during the fiscal year and an overall picture of the financial position of the State at the end of the fiscal year. 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 fiscal year 2014 consolidated financial statements convey the use of approximately $127.1 billion during the fiscal year, an increase of $5.7 billion or 4.7 percent since the prior fiscal year.[1] The State's assets on August 31, 2014, totaled $260.3 billion, an increase of $21.8 billion or 9.1 percent since the prior fiscal year. The State's cash and cash equivalents increased by $2.7 billion, total capital assets increased by $5.0 billion, noncurrent unrestricted investments increased $7.6 billion, and noncurrent restricted investments increased $4.3 billion since the prior fiscal year.

On August 31, 2014, the Economic Stabilization Fund (Fund) balance was $6.7 billion. The Fund is reported in the General Fund on the governmental fund

[1] The $127.1 billion in annual expenditures exceeded the $99.7 billion appropriated for fiscal year 2014 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.

This audit was conducted in accordance with Texas Government Code, Section 2101.014.

For more information regarding this report, please contact Angelica Ramirez, Audit Manager, or John Keel at (512) 936-9500.

financial statements and in Governmental Activities on the government-wide financial statements.

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 five agencies should correct to improve the reliability of their financial information. Those weaknesses are discussed in Chapter 2-A through Chapter 2-D of this report.

The State Auditor's Office also audited the State's Schedule of Expenditures of Federal Awards (SEFA) in relation to the Comprehensive Annual Financial Report for fiscal year 2014. 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 (KPMG) audited the processes for preparing SEFA information at 16 agencies and 16 higher education institutions. That audit work included following up on SEFA findings identified in audits of prior fiscal years at three agencies and eight higher education institutions. Auditors identified errors related to the SEFA information at 4 agencies and 13 higher education institutions. Those errors are discussed in Chapter 2-E of this report.

To avoid duplication of effort, the State Auditor's Office relies on KPMG's testing of the internal controls over certain systems and processes. While testing the State's compliance with federal requirements, KPMG identified a material weakness in the managed care program at the Health and Human Services Commission that was caused by inadequate segregation of duties and the use of a manual calculation process for payments to managed care organizations. The managed care program is material to the State's financial statements, and payments to managed care providers for fiscal year 2014 totaled approximately $14.8 billion. The material weakness KPMG identified was related to both financial processes and federal compliance. For more information, see finding 2014-012 in *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2014*, by KPMG.

The State Auditor's Office conducts this audit so that the State can comply with federal legislation (the Single Audit Act Amendments of 1996); state statute (Texas Government Code, Section 403.013(c)); and grant requirements to obtain an opinion regarding the fair presentation of its basic financial statements and a report on internal controls related to those statements. The results of this audit are used primarily by companies that review the State's fiscal integrity to rate state-issued bonds, the Legislature, and federal agencies that award grants.

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 and higher education institutions 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 control, and data recovery.

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 consolidated balances and activities for the State of Texas for the fiscal year ended August 31, 2014.

The Statewide Single Audit is an annual audit for the State of Texas. It is conducted so that the State complies with (1) the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133 and (2) state statute requiring that an audited Comprehensive Annual Financial Report be provided to the Governor (Texas Government Code, Section 403.013(c)).

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

The scope of the federal compliance portion of the Statewide Single Audit included an audit of the State's SEFA, a review of compliance for each major program, and a review of significant controls over federal compliance. The State Auditor's Office contracted with KPMG to provide an opinion on compliance for each major program and internal control over compliance. The State Auditor's Office provided an opinion on the State's SEFA. 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, 2014*, by KPMG.

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

Contents

Independent Auditor's Report

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2014

Summary of Auditor's Results

Financial Statements

1.	Type of auditor's report issued:	Unmodified
2.	Internal control over financial reporting:	
	a. Material weakness identified?	No
	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 2014 was included in Chapter 2-E of this report. All other fiscal year 2014 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, 2014*, by KPMG LLP).

State Auditor's Office
John Keel, CPA
State Auditor

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

The Honorable Greg Abbott, Governor
The Honorable Glenn Hegar, Comptroller of Public Accounts
The Honorable Dan Patrick, Lieutenant Governor
The Honorable Joe Straus III, Speaker of the House of Representatives
and
Members of the Texas Legislature
State of Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of and for the year ended August 31, 2014, and the related notes to the consolidated financial statements, which collectively comprise the State of Texas's basic financial statements, and have issued our report thereon dated February 20, 2015. Our report includes a reference to other auditors who audited the financial statements of the Department of Transportation, the Texas Lottery Commission, and the University of Texas System as described in our report on the State of Texas's consolidated financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all the deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, that we consider to be significant deficiencies.

Summary of Findings	
Agency or Higher Education Institution	**Finding Numbers**
Office of the Comptroller of Public Accounts	15-555-01
Health and Human Services Commission and Department of Aging and Disability Services	15-555-02
Department of Motor Vehicles	15-555-03
Texas Education Agency	15-555-04
Multiple agencies and higher education institutions	15-555-05

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's consolidated 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*.

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

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 Employees Retirement System's Fiscal Year 2014 Financial Statements* (State Auditor's Office Report No. 15-008, November 2014).
- *A Report on the Audit of the Teacher Retirement System's Fiscal Year 2014 Financial Statements* (State Auditor's Office Report No. 15-010, November 2014).

- *A Report on the Audit of the Department of Housing and Community Affairs' Fiscal Year 2014 Financial Statements* (State Auditor's Office Report No. 15-014, December 2014).
- *A Report on the Audit of the Permanent School Fund's Fiscal Year 2014 Financial Statements* (State Auditor's Office Report No. 15-016, January 2015).

This report, insofar as it relates to the entities listed above, does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

State's Responses to Findings

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

Purpose of this Report

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

Sincerely,

John Keel, CPA
State Auditor

February 20, 2015

Schedule of Findings and Responses

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2014

Financial Statement Findings

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

Chapter 2-A

The Office of the Comptroller of Public Accounts Should Strengthen Its Financial Statement and Schedule Preparation and Review Process

Issue 1
The Office of the Comptroller of Public Accounts Should Strengthen Its Preparation and Review of the State's Comprehensive Annual Financial Report and Schedule of Expenditures of Federal Awards

Reference No. 15-555-01

Type of finding: Significant Deficiency

The Office of the Comptroller of Public Accounts (Comptroller's Office) did not (1) adequately prepare and (2) consistently perform a thorough review of the information that it used to compile the State's financial data. The Comptroller's Office used that data to prepare the State's fiscal year 2014 Comprehensive Annual Financial Report (CAFR) and Schedule of Expenditures of Federal Awards (SEFA). Because of significant weaknesses in its review process, the Comptroller's Office did not detect numerous errors that it made when it prepared the fiscal year 2014 CAFR and SEFA. The CAFR and SEFA are among the State's most important financial documents and are critical in allowing the State to demonstrate its financial position.

The Comptroller's Office also did not completely document its implementation of Governmental Accounting Standards Board (GASB) pronouncements that became effective for fiscal year 2014.

Preparation and Review of Statements and Schedules

The Comptroller's Office is responsible for compiling the State's financial information to prepare and issue the State's CAFR and SEFA. Auditors identified numerous errors in adjustments, note disclosures, schedules, and financial statements that the Comptroller's Office did not detect during its preparation and review of those items. The SEFA that the Comptroller's Office originally prepared also contained many errors, including the omission of necessary adjustments, incorrect names for certain Catalog of Federal Domestic Assistance programs, and inaccurate amounts in the note disclosures.

Additionally, the Comptroller's Office did not (1) consistently document its decisions regarding the adjustments, note disclosures, schedules, and financial statements or (2) retain supporting documentation for those items.

The Comptroller's Office corrected all significant errors that auditors brought to its attention before it finalized the CAFR and the SEFA. Adequate preparation and review of the CAFR and the SEFA is critical to helping ensure that the State's financial statements, note disclosures, and schedules are complete, accurate, and comply with financial reporting standards.

Implementation of GASB Pronouncements

The Comptroller's Office is responsible for ensuring that it prepares the State's CAFR in accordance with generally accepted accounting principles as prescribed or modified in GASB pronouncements. The Comptroller's Office had documentation to show that its *Reporting Requirements for Fiscal 2014 Annual Financial Reports of State Agencies and Universities* included all GASB pronouncements effective for fiscal year 2014. However, it did not have complete documentation to show that it had implemented all of the GASB pronouncements that became effective for fiscal year 2014 when it prepared the State's CAFR for fiscal year 2014. After performing additional audit work, however, auditors were able to determine that the Comptroller's Office had implemented those GASB pronouncements.

It is important for the Comptroller's Office to maintain evidence of its implementation of GASB pronouncements so that it can demonstrate its compliance with accounting principles.

Recommendations

The Comptroller's Office should:

- Improve its preparation and review of the information that it uses to compile the State's financial data and prepare the CAFR and SEFA to help ensure that the information in those documents is complete, accurate, and complies with financial reporting standards.
- Strengthen its review of the adjustments, note disclosures, schedules, and financial statements.
- Prepare and maintain complete documentation regarding its implementation of GASB pronouncements, including documentation showing how the State's CAFR complies with those pronouncements.

Management's Response

The Texas Comptroller of Public Accounts (Comptroller's office) will continue to strengthen its processes and procedures for the preparation, documentation and review of the information used to compile the state's financial statements. The Comptroller's office has endeavored to work closely with SAO auditors to provide timely, accurate and consistent information throughout the audit engagement. The compilation of the Comprehensive Annual Financial Report and Schedule of Expenditures of Federal Awards is a complex process requiring the substantial effort of not only Comptroller staff but also many other state government financial personnel. The breadth and complexity of the state's finances is significant and the Comptroller's office remains committed to maintaining staff that possess extensive knowledge of the state's financial position and understanding of generally accepted accounting principles. The Comptroller's office remains committed to constant improvement to maintain Texas' status as a national leader in quality financial reporting.

Person Responsible for Implementing Corrective Action:

Supervisor of the Financial Reporting Section

Target Implementation Date:

September 30, 2015

Chapter 2-B

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

Issue 1
The Health and Human Services Commission and the Department of Aging and Disability Services Should Improve Their Management and Monitoring of Certain Information Technology

Reference No. 15-555-02
(Prior Audit Issues 14-555-03)

Type of finding: Significant Deficiency

Auditors identified significant weaknesses in controls over the information technology that the Health and Human Services Commission (Commission) and the Department of Aging and Disability Services (Department) use to process payments for the Home and Community Based Services Program (Program). The Commission and Department did not implement recommendations to improve information technology controls that the State Auditor's Office made in its audit report for fiscal year 2013. Specifically, the Commission and Department did not monitor user access, did not deactivate user accounts when employment ended, did not modify or remove inappropriate access, and did not update their unsupported servers. To protect the integrity of their information, the Commission and the Department should improve their management and monitoring of the information technology that the Program uses.

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

User Access

Weaknesses in user access to the information technology the Program uses continued to exist in fiscal year 2014. Periodic review of user access is important in identifying possible unauthorized access. Not having a strong user access review process increases the risk of unauthorized or undetected access to, modification of, disclosure of, or destruction of data.

Auditors identified the following issues:

- A total of 182 user accounts were associated with individuals whose employment had been terminated. The majority of those terminations occurred in fiscal years 2014 and 2013; however, 84 of them occurred during fiscal years 2005 through 2012.

- A total of 32 user accounts allowed inappropriate access based on the job duties of the associated employees.

- A total of 70 user accounts were associated with users for whom the Commission and Department were unable to verify the employment status.

Title 1, Texas Administrative Code, Section 202.25(3) (B), requires a user's access authorization to be modified or removed when the user's employment or job responsibilities within a state agency change. In addition, the Commission's policies and procedures require all accounts to be disabled immediately upon termination or completion of a contract period and require account access to be reviewed at least every 12 months for appropriateness.

Unsupported Servers

Three servers that the Program uses are no longer supported by the vendor. The Commission has not installed security patches on one of those servers for more than two years. The Department has not installed security patches on one of those servers for more than nine years, and it has not installed security patches on another server for more than four years. Not patching servers increases the risk that data could be compromised.

Passwords

The password configurations for one database the Program uses to process payments do not meet the minimum requirements in the Commission's policies and procedures, the Texas Administrative Code, or industry best practices for length, complexity, and periodic changing. Passwords that are not sufficiently lengthy or complex or are not required to be changed periodically increase the risk of unauthorized access.

Auditors identified additional information technology issues. Due to the sensitivity of those issues, auditors communicated them to Commission and Department management separately in writing.

Recommendations

The Commission and the Department should:

- Develop and implement a process for reviewing user access to information technology that the Program uses.
- Disable employees' and contractors' access promptly upon termination of employment or services.
- Ensure that user access privileges align with job duties, and promptly modify user access when job duties change.
- Ensure that servers the Program uses are supported by the vendor and that security patches are up to date.
- Ensure that password controls for the database the Program uses comply with Commission policies and procedures and Texas Administrative Code requirements.

Management's Response

Bullets 1 - 3

HHSC Response

Upon implementation of the Access Compliance Review project in June 2015, annual system and application user lists will be provided to business owners for review and appropriate action.

The Health and Human Services Commision (HHSC) will, in the interim, provide the Department of Aging and Disability Services (DADS) business owners with monthly user lists for review and appropriate action. Upon notification from a DADS supervisor or business owner, HHSC will promptly add, modify, or terminate access for users.

DADS Response

DADS will, in accordance with (a) HHS Enterprise Information Security Policy, (b) HHS Circular C-021, (c) HHS Enterprise Information Security Standards and Guidelines, and (d) DADS IT Standard Operating Procedure No. 1517 - Requesting Access to Local Area Network and/or Mainframe, develop and implement a user review process for managing access to information technology resources. Specifically, the DADS Information Resources Manager will coordinate with HHSC and DADS executives, supervisors, and system owners to:

1. *Obtain monthly user access lists from HHSC and distribute the lists to applicable business owners who will verify, for each employee and contractor on the list, whether access is valid and appropriate and whether access privileges align with job duties.*

2. *Coordinate the prompt submission of Form 4743 to disable employee and contractor access promptly upon termination of employment or completion of contracted services, or modify employee and contractor access to align with current job duties when those duties have changed. DADS and HHSC will also monitor the CAPPS Termination List to further identify and reconcile access terminations for separated staff.*

In addition, DADS will send all supervisors a reminder regarding the steps that are required to appropriately disable or modify system access when an employee terminates or changes positions and when contractor's services are complete.

Bullets 4 and 5

HHSC and DADS Response

DADS submitted a Request for Solution to Data Center Services (DCS) to evaluate the feasibility of transforming the servers to current technology. Once the DCS cost estimate is received, DADS will conduct a cost benefit analysis to determine if expending resources to upgrade the servers is appropriate, given that plans are underway to retire the CARE application that resides on the servers. In the event DADS determines it is feasible to transform the servers, DADS will coordinate with HHSC to request vendor support for the servers and application of up to date software security patches.

To ensure that password controls for CARE databases comply with rules and regulations, DADS IT will coordinate with HHSC to implement controls to ensure the ARCTIC Logical Partition (LPAR) Database Administrator passwords meet the required security guidelines.

Estimated Completion Date:

Beginning March 2015 and monthly thereafter	*HHSC provides user lists to DADS*
Beginning April 2015 and monthly thereafter	*DADS provides feedback to HHSC Provisioning. Based on feedback user access is terminated or modified, as appropriate*
February 28, 2015	*Cost benefit analysis of solution completed based on DCS estimates*
March 6, 2015	*Decision on whether to remediate unsupported servers, take alternate action, or accept risk*
April 1, 2015	*If applicable, DADS will coordinate with HHSC to request that DCS take action to support servers and update security patches*
June 30, 2015	*Access Compliance Review project implemented*
August 31, 2015	*Begin enforcing database password controls and implement periodic reviews (Arctic LPAR)*

Title of Responsible Persons:

- *Access Management Director, Enterprise and Customer Support Services, HHSC*
- *Director of Information Technology, DADS*
- *Sourcing Management Services Director, IT Infrastructure and Operations, HHSC*
- *Director, IT Infrastructure and Operations, HHSC*

Chapter 2-C

The Department of Motor Vehicles Should Improve Controls Over Certain Information Technology

Issue 1

The Department of Motor Vehicles Should Improve Its Processes for Approving Changes to Tables in the Registration and Titling System

Reference No. 15-555-03

Type of finding: Significant Deficiency

The Department did not adequately identify, review, and approve changes to the registration fee tables in the Registration and Titling System. The

Department did not require that changes to those tables follow its change management process. Therefore, the Department did not review or approve table changes before implementing them in production, and it did not document table changes in its change management system.

Auditors identified four registration fees that the Department coded to the incorrect accounting fund in the registration fee tables in the Registration and Titling System. That caused the Department to incorrectly deposit $224,076 in fiscal year 2014 registration fee revenue into the State Highway Fund instead of into the General Revenue Fund in the Uniform Statewide Accounting System.

Title 1, Texas Administrative Code, Section 202.20(5), requires changes to data to be made only in an authorized manner to ensure data integrity. Approval and review of table changes is important to ensure the integrity of the information that the Department uses to (1) calculate the counties' share and the State's share of registration fee revenue and (2) determine the appropriate fund into which it will deposit the State's share.

Recommendation

The Department should develop and implement a process for reviewing, approving, and documenting changes to the registration fee tables in the Registration and Titling System.

Management's Response

Management concurs with the recommendation. The Accounting Operations Section is implementing a standard structure request form to document, review and approve changes to the Registration and Titling System (RTS) tables and any financial translation tables associated with RTS revenue. This form will serve as an internal mechanism to ensure (1) the tables changes are adequately evaluated and substantiated by statutes and (2) the changes are completed in all the applicable systems interfaced with RTS. The new Accounting Operations Section form will be used to supplement the existing IT Change Management process when RTS table changes are requested.

Persons Responsible: Chief Financial Officer, Accounting Director, and Chief Information Officer

Implementation Date: This structure request form and its related process will be completed and instituted by February 28, 2015.

Chapter 2-D

The Texas Education Agency Should Strengthen Access Controls to Certain Information Technology

Issue 1
The Texas Education Agency Should Strengthen Access Controls for Its Database Servers

Reference No. 15-555-04
(Prior Audit Issues 14-555-05and 13-555-01)

Type of finding: Significant Deficiency

The Texas Education Agency (Agency) should strengthen access controls for its database servers. The Agency did not fully implement recommendations to improve access controls that the State Auditor's Office initially made in its audit report for fiscal year 2012. Specifically, the Agency did not monitor user access, did not deactivate user accounts when employment ended, and did not change passwords for database server accounts.

Title 1, Texas Administrative Code, Section 202.20(1), requires agencies to protect information resources 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. Periodic review of user access is important in identifying possible unauthorized access. Not having a strong user access review process increases the risk of unauthorized or undetected access to, modification of, disclosure of, or destruction of data.

Recommendations

The Agency should:

- Routinely monitor user access to its database and servers to protect information resources.
- Immediately deactivate user accounts when the employment of personnel ends.
- Immediately change passwords for database and server accounts that the Agency does not deactivate when personnel responsible for those accounts leave the Agency.

Management's Response

Recommendation 1: *In July 2014, the ITS/SEDS Division developed a process to compare USERIDs against a master file of all valid employees and contractors. The process includes the identification of IDs that do not match the master, the review of the non-matched IDs by various management levels,* *the disablement of the IDs for 30 days, and then the deletion of the IDs. Currently we are in the management review step. Accounts identified as no longer needed are in the process of being disabled/deleted. The process is on-going, as we determine the steps, and supporting automation, that will cause the least impact to users and production systems. Once the initial cycle is complete, the review will be conducted on a regular basis (semiannually or quarterly). This review is intended to complement the recently implemented off-boarding process. Full implementation is expected by 08/31/1 5.*

Recommendation 2: *In August of 2014 TEA implemented the TEA HelpDesk application. This is our internal ticketing system where access requests are received, processed and archived. Automating this process allows appropriate staff to receive Off Boarding forms in a timely fashion and ensure access is disabled when the employment of personnel ends. Full implementation was 8/15/2014.*

Recommendation 3: *TEA is working diligently to remediate this finding. TEA piloted a new process to change application passwords and the process was not successful. TEA has determined that many legacy applications have the passwords hardcoded in the application which means that password resets require code changes and full life-cycle testing which took over 3 months in the pilot. TEA is currently researching alternative options to accomplish this recommendation that are more efficient and more feasible. TEA will work toward full implementation of the recommendation by 08/31/15.*

Chapter 2-E

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

Reference No. 15-555-05
(Prior Audit Issues 14-555-07, 13-555-02, 12-555-05, 11-555-17, 10-555-26, and 09-555-19)

Type of finding: Significant Deficiency

> **Schedule of Expenditures of Federal Awards (SEFA)**
>
> Each state entity that expends federal awards is required to prepare a Schedule of Expenditures of Federal Awards (SEFA) and submit it to the Office of the Comptroller of Public Accounts (Comptroller's Office). The expenditures are to be presented in the SEFA on the same accounting basis as each state entity's fund financial statements.
>
> Federal awards include federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities [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 2014 Schedules of Expenditures of Federal Awards (SEFAs) (see text box for additional information). Therefore, the SEFAs those agencies and higher education institutions submitted to the Office of the Comptroller of Public Accounts (Comptroller's Office) contained errors.

The 4 agencies and 13 higher education institutions discussed below reported $7.4 billion in federal expenditures, or 14 percent of the total federal expenditures the State of Texas reported for fiscal year 2014. The errors listed below were not material to the fiscal year 2014 SEFA for the State of Texas or to the fiscal year 2014 Comprehensive Annual Financial Report for the State of Texas. However, collectively, they represent control weaknesses that could be significant to the State's SEFA.

Department of Assistive and Rehabilitative Services

The Department of Assistive and Rehabilitative Services (DARS) incorrectly included $23,052,953 in direct expenditures for 7 Catalog of Federal Domestic Assistance (CFDA) programs and $4,737,237 in pass-through expenditures for 3 CFDAs on its SEFA. DARS also overstated federal revenue by the same amount in the notes to its SEFA.

Recommendation

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

Management's Response

DARS agrees with the recommendation and has reviewed the current processes and methodologies used in the preparation of the Schedule of Expenditures of Federal Awards (SEFA) and identified a strategy for improvement, will update written procedures, and train the appropriate staff so that the newly adopted procedures and quality reviews are adequate and in compliance with both state and federal reporting requirements. Implementation of these changes is underway and expected to be finalized by May 31, 2015.

Department of Public Safety

On its SEFA, the Department of Public Safety (DPS):

- Incorrectly reported expenditures in the notes to the SEFA. Specifically, it incorrectly excluded $1,590,968 in expenditures that were approved in fiscal year 2014 and, therefore, should have been reported in fiscal year 2014. In addition, DPS overstated by $1,047,889 the amount of deobligations it made in fiscal year 2014 related to expenditures that it incurred in prior years.

- Incorrectly overstated expenditures for one CFDA on its SEFA. Specifically, it (1) did not reduce expenditures reported by $1,417,825 when expenditures were disallowed in the year and (2) incorrectly excluded $650,656 in expenditures associated with projects that were approved or amended in the year. As a result, expenditures were overstated by $767,170 for one CFDA and federal revenue was overstated by the same amount in the notes to the SEFA.

- Incorrectly included an adjustment of negative $68,236 in expenditures for 2 CFDAs; that resulted in an understatement.

- Incorrectly classified $6,465 in pass-through expenditures for 1 CFDA as direct expenditures.

- Did not include all required information in the notes to its SEFA related to non-monetary assistance. Specifically, DPS did not report (1) the $3,777 original acquisition cost of federal surplus personal property and (2) the state agency that passed through that property to DPS.

Recommendations

DPS should:

- Strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Prepare and include all required information in the notes to its SEFA.

Management's Response

The Department agrees with the recommendations. In FY2014, the Department developed and implemented a new automated SEFA report.

The Department will:

- *Seek guidance from the Comptroller's office & FEMA to develop a new business process for the new Compliance reporting rules relating to FEMA Project Worksheets.*
- *Document the new SEFA process to include the preparation and review steps for its SEFA and the related notes.*

Implementation Date:

June 2015

Responsible Persons:

Deputy Assistant Director, Grants and Accounting

Manager, Financial Reporting

General Land Office

The General Land Office (GLO) incorrectly classified $21,745,813 in pass-through expenditures as direct expenditures for one CFDA on its SEFA.

Recommendation

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

Management's Response

Management agrees with the recommendation that the GLO should strengthen its review process to help ensure the SEFA is prepared correctly and submitted to the Comptroller's Office completely and accurately. The Financial Reporting Director has enhanced the process to ensure prior year reversals of accruals are appropriately classified between direct expenditures and pass-through expenditures.

Prairie View A&M University

On its SEFA, Prairie View A&M University (Prairie View A&M):

- Incorrectly excluded expenditures for 3 Student Financial Assistance CFDAs. Specifically, it incorrectly excluded $43,711 in expenditures for 2 CFDAs and incorrectly excluded a negative adjustment of $25,134 for 1 CFDA. As a result, Prairie View A&M (1) understated expenditures on its SEFA by $18,577 for 3 CFDAs; (2) understated federal revenue by $43,711 in the notes to its SEFA; and (3) overstated new loans processed by $25,134 in the notes to its SEFA.
- Did not include in the notes to its SEFA a required note regarding depository libraries for government publications.

Recommendations

Prairie View A&M should:

- Strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Prepare and include all required information in the notes to its SEFA.

Management's Response

Prairie View A&M University management agrees with your findings and recommendations as it pertains to the review of the SEFA.

Financial Administration management will implement the following:

- *Processes to strengthen its SEFA preparation and review process to help ensure the SEFA is prepared correctly and that the SEFA is submitted to the Comptroller's Office in a complete and accurate manner.*

- *Processes to ensure the SEFA includes all required information in the notes.*

Implementation Date: November 1, 2015

Responsible Person: Associate Vice President for Financial Administration

Sam Houston State University

On its SEFA, Sam Houston State University (SHSU):

- Incorrectly reported expenditures for 5 CFDAs in the Student Financial Assistance cluster of federal programs because it incorrectly included prior year expenditures and incorrectly excluded current year expenditures. As a result, SHSU (1) incorrectly excluded $2,320,135 in expenditures from its SEFA; (2) incorrectly excluded $850,366 in new loans processed from the notes to its SEFA; (3) did not report $36,703 in administrative costs in the notes to its SEFA; and (4) overstated federal revenue by $1,469,769 in the notes to its SEFA.
- Did not include in the notes to its SEFA a required note regarding depository libraries for government publications.

Recommendations

SHSU should:

- Strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Prepare and include all required information in the notes to its SEFA.

Management's Response

SHSU agrees with the recommendations and already established new accounting processes to ensure the SEFA is complete and accurate when submitted to the Comptroller's Office. This includes proper revenue and expense recognition processes along with the note preparation needed for depository libraries.

Responsible Person: Associate Vice President/Controller

Stephen F. Austin State University

On its SEFA, Stephen F. Austin State University (SFASU):

- Reported expenditures for 3 CFDAs using revenue instead of expenditures; that resulted in an overstatement of $12,015. In addition, it incorrectly excluded a net $12,015 from the notes to its SEFA.
- Incorrectly classified $15,046 in expenditures among 2 CFDAs.
- Understated federal revenue by $114,791 and incorrectly included a reconciling item for the same amount in the notes to its SEFA.
- Did not include in the notes to its SEFA a required note regarding depository libraries for government publications.

Recommendations

SFASU should:

- Use expenditure data to report expenditures for all CFDAs on its SEFA.
- Strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Prepare and include all required information in the notes to its SEFA.

Management's Response

Management Response: The university will clarify its procedures with the oversight agency and strengthen internal procedures to ensure completeness and accuracy in the Statement of Expenditures of Federal Awards (SEFA) preparation process.

Responsible Party: Vice President for Finance and Administration

Implementation Date: November 15, 2015 in conjunction with the preparation of the August 31, 2015 SEFA.

Texas A&M University

On its SEFA, Texas A&M University (TAMU):

- Incorrectly excluded $404,789 for 7 CFDAs and incorrectly reported those expenditures as a reconciling item in the notes to its SEFA.
- Overstated federal revenue by $27,580 in the notes to its SEFA and incorrectly reported the related expenditures as a reconciling item in the notes to the SEFA.
- Did not identify $159,172 in expenditures for 1 CFDA as American Recovery and Reinvestment Act expenditures on its SEFA.

Recommendations

TAMU should:

- Strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Correctly identify awards that are part of the American Recovery and Reinvestment Act on its SEFA.

Management's Response

Texas A&M University concurs with the audit recommendation to strengthen the preparation and review of the Schedule of Expenditures of Federal Awards (SEFA). Management is committed to improving the SEFA review process so that the SEFA is complete and accurately stated.

We will ensure the internal procedures for SEFA preparation include additional review steps by appropriate institutional personnel to correctly identify amounts which should be reported on the SEFA. For example, although ARRA grant funds were identified in the University's accounting system and the applicable CFDA number reported was defined as ARRA grant funds according to the CFDA (Catalog of Federal Domestic Assistance) federal website, TAMU will review that the attribute field for ARRA expenditures is entered in the State Comptroller's web application for the SEFA.

Responsible Persons: Director of Research Reporting
Assoc VP & Controller for Finance and Administration

Implementation Date: September 30, 2015

Texas Department of Transportation

On its SEFA, the Texas Department of Transportation (TxDOT):

- Incorrectly classified $1,430,337 in expenditures between 2 CFDAs.
- Incorrectly included $44,495 in prior year expenditures for 2 CFDAs. As a result, it also overstated federal revenue by $44,495 in the notes to its SEFA.

Recommendation

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

Management's Response

Management concurs with the recommendation. While we realize it is important to strengthen the SEFA preparation and review process, it is also important to highlight that the exceptions noted ($1.43 million and $44,495) represent .0425% and .00132% respectively of the approximate $3.36 billion reported on the subject schedule. The Finance Division of TxDOT will edit its SEFA procedures to include accessing the federal government's Catalog of Federal Domestic Assistance before SEFA submittal to ensure validity of CFDA numbers in addition to its existing procedures of validating against the Comptroller's database. The Department will also continue to work and coordinate with subrecipient agencies to ensure accurate pass-through reporting per Comptroller reporting requirements to ensure accurate accruals from the receiving agencies.

Implementation Date: August 2015

Responsible Person: Accounting Section Director

Texas Tech University

On its SEFA, Texas Tech University (Texas Tech):

- Incorrectly classified $238,385 in expenditures related to 2 CFDAs as part of the Research and Development cluster of federal programs.
- Did not report the $1,479,590 ending balance for Perkins loans from prior years in the notes to its SEFA.

- Incorrectly reported $9,752 as a reconciling item related to the Early Retirement Reinsurance Program; it should have reported that as an "other" reconciling item in the notes to its SEFA.

Recommendations

Texas Tech should:

- Strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Improve its process for identifying awards that are part of the Research and Development cluster of federal programs.
- Prepare and include all required information in the notes to its SEFA.

Management's Response

The Office of Research Accounting (ORA) is responsible for the annual preparation and submission of the SEFA. The errors reported on the fiscal year 2014 notes were due to data entry errors. ORA will implement a review process for the SEFA to ensure expenditures are accurately reported and classified and that SEFA notes are accurate and complete.

The Office of Research Services (ORS) is responsible for the classification of awards reported in the SEFA. ORS will review all current awards to ensure the R&D classification is correct. Going forward, ORS will implement a review process to ensure the R&D classification is supported prior to establishment in the accounting system.

Implementation Date

September 2015

Responsible Persons

Managing Director, ORA (SEFA Review)

Senior Associate Vice President for Research, ORS (R&D Classification)

The University of Texas at Arlington

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

- Did not certify its SEFA to the Comptroller's Office by November 1, 2014, as required by the Comptroller's Office's reporting requirements. UT-Arlington certified its SEFA on November 26, 2014.
- Did not provide adequate supporting documentation for (1) a net $2,032,453 in direct expenditures for 25 CFDAs and (2) a net $1,279,738 in pass-through expenditures for 23 CFDAs. As a result, auditors could not determine whether UT-Arlington's SEFA was accurate.
- Did not provide adequate supporting documentation for a net $3,172,034 that it reported as reconciling items in the notes to its SEFA. As a result, auditors could not verify whether federal revenue and federal expenditures on UT-Arlington's SEFA reconciled.
- Incorrectly reported expenditures for 6 CFDAs in the Student Financial Assistance cluster of federal programs because it incorrectly included prior year expenditures and incorrectly excluded current year expenditures. As a result, UT-Arlington (1) incorrectly excluded $1,387,072 in expenditures; (2) incorrectly included $843,589 in expenditures; (3) incorrectly excluded a net $546,493 in new loans processed from the notes to its SEFA; and (4) overstated federal revenue by a net of $3,010 in the notes to its SEFA.
- Did not report in the notes to its SEFA (1) the $1,587,136 ending balance for loans from prior years for the Federal Perkins loan program and (2) the $343,944 ending balance for loans from prior years for the Nursing Faculty Loan Program.
- Did not identify $163,379 in expenditures as American Recovery and Reinvestment Act expenditures on its SEFA.
- Did not include in the notes to its SEFA a required note regarding depository libraries for government publications.

Recommendations

UT-Arlington should:

- Certify its SEFA in a timely manner in accordance with the Comptroller's Office's requirements.
- Strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.

- Maintain adequate supporting documentation for all expenditures it reports on its SEFA.
- Prepare and include all required information in the notes to its SEFA.
- Correctly identify awards that are part of the American Recovery and Reinvestment Act on its SEFA.

Management's Response

Recommendation:
UT Arlington should certify its SEFA in a timely manner in accordance with the Comptroller's Office's requirements.

Response:
UT Arlington SEFA certification was delayed due to our year-end closing and Annual Financial Report (AFR) being delayed. We do not anticipate the same delays when closing FY 2015, therefore, plan to certify in a timely manner.

Responsible for Implementing Corrective Actions:
Associate Vice President for Business Affairs
All corrective actions will be implemented by June 30, 2015

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

Response:
UT Arlington management and staff are very concerned about the audit findings listed and will be working to prepare a business process guide and checklist related to requirements for preparing the SEFA.

Responsible for Implementing Corrective Actions:
Associate Vice President for Business Affairs
All corrective actions will be implemented by June 30, 2015

Recommendation:
UT Arlington should maintain adequate supporting documentation for all expenditures it reports on its SEFA.

Response:
UT Arlington management and staff are very concerned about the audit findings listed and will be working to prepare a business process guide and checklist related to requirements for preparing the SEFA.

Responsible for Implementing Corrective Actions:
Associate Vice President for Business Affairs
All corrective actions will be implemented by June 30, 2015

Recommendation:
UT Arlington should maintain adequate supporting documentation for all expenditures it reports on its SEFA.

Response:
UT Arlington management and staff are very concerned about the audit findings listed and will be working to prepare a business process guide and checklist related to requirements for preparing the SEFA.

Responsible for Implementing Corrective Actions:
Associate Vice President for Business Affairs
All corrective actions will be implemented by June 30, 2015

Recommendation:
UT Arlington should prepare and include all required information in the notes to its SEFA.

Response:
UT Arlington management and staff are very concerned about the audit findings listed and will be working to prepare a business process guide and checklist related to requirements for preparing the SEFA.

Responsible for Implementing Corrective Actions:
Associate Vice President for Business Affairs
All corrective actions will be implemented by June 30, 2015

Recommendation:
UT Arlington should correctly identify awards that are part of the American Recovery and Reinvestment Act on its SEFA.

Response:
UT Arlington management and staff are very concerned about the audit findings listed and will be working to prepare a business process guide and checklist related to requirements for preparing the SEFA. This should ensure American Recovery and Reinvestment Act funds are properly identified in the notes to its SEFA.

Responsible for Implementing Corrective Actions:
Associate Vice President for Business Affairs
All corrective actions will be implemented by June 30, 2015

Recommendation:
UT Arlington should prepare and include all required information in the notes to its SEFA.

Response:
UT Arlington management and staff are very concerned about the audit findings listed and will be working to prepare a business process guide and checklist related to requirements for preparing the SEFA. This should ensure all required information is included in the notes to its SEFA.

Responsible for Implementing Corrective Actions:
Associate Vice President for Business Affairs
All corrective actions will be implemented by June 30, 2015

The University of Texas at Austin

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

- Incorrectly classified $444,225 in administrative cost recoveries as new loans processed in the notes to its SEFA. As a result, it understated federal revenue by that same amount in the notes to its SEFA.
- Incorrectly classified $189,931 as a reconciling item for federal grants <u>to</u> the Texas A&M Research Foundation in the notes to its SEFA. It should have reported that amount as a reconciling item for federal grants <u>from</u> the Texas A&M Research Foundation.
- Incorrectly classified $14,289 in expenditures related to 1 CFDA as part of the Research and Development cluster of federal programs.
- Did not include all required information in the note to its SEFA related to non-monetary assistance received for two CFDAs. Specifically, it did not report the federal agency that provided the assistance or the state agency that passed through the assistance.
- Did not include in the notes to its SEFA a required note regarding depository libraries for government publications.

Recommendations

UT-Austin should:

- Strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Prepare and include all required information in the notes to its SEFA.

- Improve its process for identifying awards that are part of the Research and Development cluster of federal programs.

Management's Response

The University concurs with the finding.

Management is committed to improving review processes to ensure the SEFA submission is accurate. In FY 2014, staff turnover in leadership positions required staff new to SEFA to oversee the process and develop documentation. In preparation for FY 2015, the Offices of Accounting & Financial Management and Sponsored Projects have enhanced documentation procedures to specifically address all SEFA issues identified by SAO and ensure the integrity of the SEFA.

Implementation Date: August 2015

Responsible Persons: Assistant Director, Office of Sponsored Projects, Finance Manager, Office of Accounting & Financial Management

The University of Texas at Dallas

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

- Did not report the $837,023 ending balance for Perkins loans from prior years in the notes to its SEFA.
- Did not include in the notes to its SEFA a required note regarding depository libraries for government publications.

Recommendations

UT-Dallas should:

- Strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Prepare and include all required information in the notes to its SEFA.

Management's Response

Management agrees. In preparing the FY 2014 SEFA, accounting staff inadvertently left two footnotes off the schedule. Upon being notified, the *notes were corrected immediately and now appropriately disclose the prior year ending balance for Perkins loans and document that the UT Dallas library is a depository for government publications. A final review process has been established in order to mitigate the risk of this oversight in future years. The Associate Vice President and Controller is responsible for ensuring these items are included.*

The University of Texas at El Paso

On its SEFA, the University of Texas at El Paso (UTEP):

- Did not certify its SEFA to the Comptroller's Office by November 1, 2014, as required by the Comptroller's Office's reporting requirements. UTEP certified its SEFA on November 13, 2014.
- Did not provide adequate supporting documentation for $6,820,792 in pass-through expenditures for 30 CFDAs. As a result, auditors could not determine whether UTEP appropriately classified those expenditures as pass-through to state entities or pass-through to non-state entities.
- Incorrectly included $29,007 in expenditures for 2 Student Financial Assistance CFDAs and incorrectly excluded $509 in expenditures for 1 Student Financial Assistance CFDA. As a result, it overstated federal revenue by $28,497 in the notes to its SEFA.
- Incorrectly classified $3,052,843 in expenditures related to 10 CFDAs as part of the Research and Development cluster of federal programs.

Recommendations

UTEP should:

- Certify its SEFA in a timely manner in accordance with the Comptroller's Office's requirements.
- Strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Maintain adequate supporting documentation for all expenditures it reports on its SEFA.
- Improve its process for identifying awards that are part of the Research and Development cluster of federal programs.

Management's Response

Related to the Certification of the SEFA, the University went through a General Ledger system conversion to PeopleSoft in May 2014 and was not able to close the Fiscal Year timely. Consequently, many processes were delayed, including the ability to certify the SEFA. We believe we will be able to close our Fiscal Year timely this year and will be able to certify on time.

For the recommendations related to the SEFA preparation and maintenance of documentation, the conversion resulted in difficulties in gathering support data. These issues have been resolved and we will be able to provide adequate supporting documentation for review this Fiscal Year.

Responsible Party: Associate Vice President for Business Affairs/Comptroller

Related to the process improvement for identifying R&D Cluster awards we will review the classification on a monthly basis to ensure appropriate/correct coding is on file.

Responsible Party: Assistant Vice President for Research and Compliance Services

The University of Texas - Pan American

On its SEFA, the University of Texas - Pan American (UT-Pan American):

- Incorrectly recorded prior year Student Financial Assistance cluster adjustments of $685,345 as a reconciling item in the notes to its SEFA.
- Incorrectly excluded $8,010 in expenditures for 1 CFDA.
- Overstated federal revenue by $677,335 as a result of the two issues noted above.

Recommendations

UT-Pan American should:

- Strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Prepare and include all required information in the notes to its SEFA.

Management's Response

Management concurs with the Auditor's findings and recommendations. Responsible Person: Associate Comptroller and Implementation Date: March 31, 2015.

- *UT Pan American should have reported $685,345 prior year Student Financial Assistance cluster adjustment in the SFFA Note 2 - Reconciliation as a reduction of FY 2014 Operating Funds revenue. UT Pan American will modify its reporting methodology to ensure that any SEFA expenditure or revenue adjustments are reported correctly and not as a reconciling item.*

- *UT Pan American will modify its end of year procedures to ensure that once UT Pan American has certified the SEFA Federal Pass-through revenue and expenditure activity with other state agencies, all accrual transactions are posted to ensure that reconciled revenue and expenditure amounts are correct.*

The University of Texas at San Antonio

On its SEFA, the University of Texas at San Antonio (UTSA):

- Incorrectly classified $491,903 in expenditures among 6 CFDAs.

- Incorrectly included $222,013 in expenditures for one Student Financial Assistance CFDA. That occurred because UTSA incorrectly included expenditures from a prior fiscal year. As a result, UTSA also overstated federal revenue by $222,013 in the notes to its SEFA.

- Incorrectly classified $95,102 in pass-through expenditures as direct expenditures for 2 CFDAs.

Recommendation

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

Management's Response

Management agrees with the recommendation to enhance the SEFA preparation and review process. During fiscal year 2014, UTSA converted to a new financial reporting system, and the preparation of the SEFA for that *year was a manual process. The CFDA and pass-through misclassifications were due to data entry errors. Management will explore options for an automated report and will also implement additional review controls over the SEFA data. Management will also implement additional review controls to ensure that Student Financial Assistance amounts are included in the SEFA for the correct year.*

Point of contact - Assistant Vice President of Financial Affairs & Controller

Timeline for corrected action - October 31, 2015

The University of Texas Health Science Center at Houston

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

- Incorrectly excluded $443,168 in expenditures for 4 CFDAs. As a result, it understated federal revenue by $443,168 in the notes to its SEFA.
- Did not correctly identify American Recovery and Reinvestment Act (ARRA) expenditures in its SEFA. Specifically, it did not identify $140,249 in expenditures for 2 CFDAs as ARRA, and it incorrectly identified $15,280 in expenditures for 1 CFDA as ARRA.
- Incorrectly classified $20,270 in expenditures among 5 CFDAs.

Recommendations

UTHSC-Houston should:

- Strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Correctly identify ARRA awards on its SEFA.

Management's Response

The University concurs with the recommendations. The $443,168 incorrectly excluded was comprised solely of Program Income. Program Income will be included on the SEFA and the 2014 report has been corrected. The University will correctly identify ARRA awards on the SEFA.

Responsible Party: Associate Vice President, Sponsored Projects Administration

Date Due: February 28, 2015

The University of Texas Health Science Center at San Antonio

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

- Incorrectly included $639,644 in pass-through expenditures to the Texas A&M Research Foundation. It should have reported those expenditures as a reconciling item in the notes to its SEFA.
- Incorrectly included $10,085 in expenditures for 7 CFDAs and incorrectly excluded $3,251 in expenditures for 7 CFDAs due to incorrect classification of pass-through expenditures to state agencies.
- Incorrectly classified $2,990 in expenditures related to 1 CFDA as part of the Research and Development cluster of federal programs.

Recommendations

UTHSC-San Antonio should:

- Strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate.
- Prepare and include all required information in the notes to its SEFA.
- Improve its process for identifying awards that are part of the Research and Development cluster of federal programs.

Management's Response

We concur with the findings of the 2014 SAO SEFA audit. We have updated our procedures to exclude federal expenditures passed through to Texas A&M Research Foundation from the SEFA report, but to include them in the SEFA notes per the Comptroller's instructions. We have modified our procedures to examine all pass-through expenditures and accruals, and to resolve any discrepancies during the fiscal year. We have also updated our quality controls to better identify whether individual awards should be assigned to the research cluster of federal programs.

Chapter 3

Federal Award Findings and Questioned Costs

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2014 was included in Chapter 2-E of this report. All other fiscal year 2014 federal award information was issued in a separate report. See *State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2014*, 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, 2014

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, 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).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2011 (State Auditor's Office Report No. 12-555, February 2012).

A Report on the Audits of the Fiscal Year 2012 Financial Statements of the Department of Transportation, the Central Texas Turnpike System, and the Texas Mobility Fund (State Auditor's Office Report No. 13-016, January 2013).

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

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

The Summary Schedule of Prior Audit Findings (for the year ended August 31, 2014) has been prepared to address these responsibilities.

Chapter 4-A

The Department of Transportation Should Improve Certain Financial Reporting and Information Technology Controls

Issue 1
The Department of Transportation Should Improve Its Financial Reporting Controls for Bridges

Reference No. 14-555-01
(Prior Audit Issues 2012-1, 11-555-01, and 10-555-01)

Type of finding: Material Weakness

> **Material Weakness in Internal Control**
>
> A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
>
> Source: Section 265, *Codification of Statements on Auditing Standards*, American Institute of Certified Public Accountants, January 2013.

The State Auditor's Office initially reported in March 2010 that the Department of Transportation (Department) does not have a process that enables it to ensure that it has an accurate, comprehensive inventory of bridges.[2] Audit testing for fiscal year 2013 indicated that the Department still has not resolved that issue. Not having such a process prevents the Department from ensuring that it accurately reports the dollar amount associated with bridges in its annual financial report.

Because it does not have a process to ensure that it has an accurate, comprehensive inventory of completed bridges, the Department has had to make adjustments or restatements in its annual financial reports that have totaled $1.85 billion from fiscal year 2009 through fiscal year 2013.

Department Activities Related to Bridges in Fiscal Year 2013

For its 2013 annual financial report, the Department had to make $88.9 million in adjustments because it did not have an accurate, comprehensive inventory of bridges. That amount was less than similar adjustments the Department has had to make in prior fiscal years; however, without an adequate process to ensure the accuracy of its inventory of bridges, the Department still cannot ensure that its annual financial report is accurate.

The Department requires all of its 25 district offices to annually certify the accuracy of their individual lists of bridges each fiscal year. In addition, for fiscal year 2013, the Department created a new report that included lists of bridge projects in each district. The Department made those reports available to all district offices. However, the Department did not require the district offices to use those reports in their annual certifications or submit their reviews of those reports to the Department along with necessary corrections.

In fiscal year 2013, the Department also completed an informal reconciliation of the reports discussed above to its bridge database. However, that

[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).

reconciliation did not ensure that the information in the bridge database was accurate because:

- The reconciliation included only bridges placed into service in fiscal years 2012 and 2013.
- The Department did not have documented policies and procedures for that reconciliation.
- The Department did not retain supporting documentation for that reconciliation.
- The Department did not review that reconciliation.

> **Bridge Database**
>
> The Department's bridge database includes bridges considered complete that have been identified by either (1) the Department's district and area offices or (2) the Department's Finance Division through its review of non-traditional and pass-through toll agreements or its year-end identification of bridges for the annual financial report.
>
> Source: The Department of Transportation.

Corrective Action and Management's Responses

Corrective action was taken.

Issue 2
The Department of Transportation Should Strengthen Its Management of Access to the Right of Way Information System

Reference No. 14-555-02
(Prior Audit Issues 2012-2)

Type of finding: Significant Deficiency

One programmer at the Department had access to Right of Way Information System (ROWIS) production data and could authorize transactions within ROWIS, approve them, and submit them to the accounting system for payment. While that programmer did not approve any transactions within ROWIS or submit any transactions to the accounting system for payment during fiscal year 2013, that programmer should not have access to production data.

Title 1, Texas Administrative Code, Section 202.20(8), requires agencies to ensure adequate controls and separation of duties for tasks that are susceptible to fraudulent or other unauthorized activity. Allowing programmers access to production data increases the risk that unauthorized changes could be made without detection.

Corrective Action and Management's Responses

Corrective action was taken.

Chapter 4-B

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

Issue 1
The Health and Human Services Commission and the Department of Aging and Disability Services Should Improve Their Management and Monitoring of Certain Information Technology

Reference No. 14-555-03

Type of finding: Significant Deficiency

Auditors identified significant weaknesses in controls over the information technology that the Health and Human Services Commission (Commission) and the Department of Aging and Disability Services (Department) use to process payments for the Home and Community Based Services Program (Program). To protect the integrity of their information, the Commission and the Department should improve their management and monitoring of the information technology the Program uses. While the Department is the owner of the Program's data, the Commission is responsible for administering components of the information technology that the Program uses, including user access.

User Access

User access to the information technology the Program uses was not appropriate. Periodic review of user access is important in identifying possible unauthorized access. Not having a strong user access review process increases the risk of unauthorized or undetected access to, modification of, disclosure of, or destruction of data.

Auditors identified the following issues:

- A total of 167 user accounts were associated with individuals whose employment had been terminated. The majority of those terminations occurred in fiscal years 2013 and 2012; however, 57 of them occurred during fiscal years 2002 through 2011.
- A total of 68 user accounts allowed inappropriate access based on the job duties of the associated employees.
- A total of 24 user accounts were accounts that the Department was unable to associate with current employees or contractors.
- A total of 23 user accounts were accounts for which each user's associated agency was misidentified in the Commission's documentation.

Title 1, Texas Administrative Code, Section 202.25(3)(B), requires a user's access authorization to be modified or removed when the user's employment or job responsibilities within a state agency change. In addition, the Commission's policies and procedures require all accounts to be disabled immediately upon termination or completion of a contract period and require account access to be reviewed at least every 12 months for appropriateness.

Servers

Two servers that the Program uses are no longer supported by the vendor. One server had not received software security patches in more than three years, and the other server had not received software security patches in more than eight years. When server software is not patched, that increases the risk that data could be compromised.

Passwords

The password configurations for one database the Program uses to process payments do not meet the minimum requirements in the Commission's policies and procedures, the Texas Administrative Code, or industry best practices for length, complexity, and periodic changing. Passwords that are not sufficiently lengthy or complex or are not required to be changed periodically increase the risk of unauthorized access.

Change Management

The Department was unable to provide sufficient evidence for auditors to verify its assertion that only five employees could migrate code to the production environment for the application the Program uses. Auditors tested all nine application changes the Department made during fiscal year 2013 and determined there was an appropriate segregation of duties. However, when the names of the individuals who can migrate code to the production environment are not documented, there is a risk of unauthorized changes being made to applications without detection.

Auditors identified additional information technology issues. Due to the sensitivity of those issues, auditors communicated them to Commission and Department management separately in writing.

Corrective Action and Management's Responses

See current year finding 15-555-02.

Chapter 4-C

The Department of Motor Vehicles Should Improve Access Controls to Certain Information Technology

Issue 1
The Department of Motor Vehicles Should Improve Its Management of Access to the Registration and Titling System

Reference No. 14-555-04

Type of finding: Significant Deficiency

The Department of Motor Vehicles (Department) did not adequately manage and monitor user access to the Registration and Titling System and its related servers and database. Auditors identified 115 active user accounts that were associated with individuals who no longer needed access due to a change in job duties or employment.

Title 1, Texas Administrative Code, Section 202.25(3)(B), requires a user's access authorization to be modified or removed when the user's employment or job responsibilities within a state agency change. Periodic review of user access is important in identifying possible unauthorized access. Not having a strong user access review process increases the risk of unauthorized or undetected access to, modification of, disclosure of, or destruction of data.

Corrective Action and Management's Responses

Corrective action was taken.

Chapter 4-D

The Texas Education Agency Should Strengthen Access Controls to Certain Information Technology

Issue 1
The Texas Education Agency Should Strengthen Access Controls for Its Database Servers

Reference No. 14-555-05
(Prior Audit Issue 13-555-01)

Type of finding: Significant Deficiency

The Texas Education Agency (Agency) should strengthen access controls for its database servers. The Agency did not fully implement recommendations to improve access controls over its information technology systems as the State Auditor's Office recommended in the previous year. Specifically, the Agency did not monitor user access, did not deactivate user accounts when employment ended, and did not change passwords for database server accounts.

Title 1, Texas Administrative Code, Section 202.20(1), requires agencies to protect information resources 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. Periodic review of user access is important in identifying possible unauthorized access. Not having a strong user access review process increases the risk of unauthorized or undetected access to, modification of, disclosure of, or destruction of data.

Corrective Action and Management's Responses

See current year finding 15-555-04.

Chapter 4-E

The Parks and Wildlife Department Should Improve Its Reconciliations of Financial Data

Issue 1
The Parks and Wildlife Department Should Improve Its Reconciliation of Its Internal Accounting System to the Uniform Statewide Accounting System

Reference No. 14-555-06
(Prior Audit Issue 13-555-02)

Type of finding: Significant Deficiency

The Parks and Wildlife Department (Department) uses information from its internal accounting system and from the Uniform Statewide Accounting System (USAS) to prepare its Schedule of Expenditures of Federal Awards (SEFA) and the notes to its SEFA. While the Department reconciled the information in its internal accounting system with information in USAS, it did not make all necessary entries in USAS before fiscal year 2013 was closed.

The Comptroller of Public Accounts' *Reporting Requirements for Fiscal 2013 Annual Financial Reports of State Agencies and Universities* requires each state agency to ensure and certify that its financial data correctly reflects its financial position as of August 31, 2013, as recorded in USAS and the agency's internal accounting system.

Corrective Action and Management's Responses

Corrective action was taken.

Chapter 4-F

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

Reference No. 14-555-07
(Prior Audit Issues 13-555-02, 12-555-05, 11-555-17, 10-555-26, and 09-555-19)

Type of finding: Significant Deficiency

> **Schedule of Expenditures of Federal Awards (SEFA)**
>
> Each agency that expends federal awards is required to prepare a Schedule of Expenditures of Federal Awards (SEFA) and submit it to the Office of the Comptroller of Public Accounts (Comptroller's Office). The expenditures are to be presented in the SEFA on the same accounting basis as each agency's fund financial statements.
>
> Federal awards include federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities [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 2013 Schedules of Expenditures of Federal Awards (SEFAs) (see text box for additional information). Therefore, the SEFAs those agencies and higher education institutions submitted to the Office of the Comptroller of Public Accounts (Comptroller's Office) contained errors.

The 3 agencies and 8 higher education institutions discussed below reported $3.1 billion in federal expenditures, or 6 percent of the total federal expenditures the State of Texas reported for fiscal year 2013. The errors listed below were not material to the fiscal year 2013 SEFA for the State of Texas or to the fiscal year 2013 *Comprehensive Annual Financial Report* for the State of Texas. However, collectively, they represent control weaknesses that could be significant to the State's SEFA.

Department of Public Safety

On its SEFA, the Department of Public Safety (DPS):

- Reported $2,776,718 using revenue instead of expenditures for 6 Catalog of Federal Domestic Assistance (CFDA) programs on its SEFA.
- Incorrectly classified $3,616,427 in direct expenditures as pass-through expenditures for 3 CFDAs on its SEFA.
- Incorrectly included $699,764 in expenditures for 4 CFDAs and incorrectly excluded $22,799 in expenditures from its SEFA because it inappropriately included adjustments for prior periods.
- Incorrectly classified $155,994 in pass-through expenditures as direct expenditures for 4 CFDAs on its SEFA.
- Incorrectly classified $126,197 in pass-through expenditures for one CFDA. DPS should not have included those expenditures on its SEFA because it made those expenditures with state funds.

- Incorrectly classified $85,912 in expenditures among 8 CFDAs on its SEFA.
- Incorrectly included $2,168 in expenditures for one CFDA on its SEFA.
- Could not provide adequate supporting documentation for (1) an adjustment to reduce expenditures for 1 CFDA by $12,322 and (2) a reconciling item that it reported in the reconciliation note to its SEFA.
- Did not include all required information in the note to its SEFA related to non-monetary assistance. DPS did not report the original acquisition cost of $14,180, the applicable CFDA number, and the federal agency that provided the funds.

Corrective Action and Management's Responses

See current year finding 15-555-05.

General Land Office

The General Land Office (GLO) incorrectly classified $80,346,489 in direct expenditures as pass-through expenditures for one CFDA on its SEFA.

Corrective Action and Management's Responses

See current year finding 15-555-05.

Texas A&M AgriLife Extension Service

On its SEFA, the Texas AgriLife Extension Service (Extension):

- Reported $3,972,207 using revenues instead of expenditures for 14 CFDAs on its SEFA. That occurred because the Extension used revenue instead of expenditures to confirm pass-throughs from other state agencies.
- Incorrectly classified $15,143 in expenditures between two CFDAs on its SEFA.

Corrective Action and Management's Responses

Corrective action was taken.

Midwestern State University

On its SEFA, Midwestern State University (MSU):

- Incorrectly reported expenditures for four CFDAs in the Student Financial Assistance cluster of federal programs using award year instead of fiscal year. As a result, MSU incorrectly excluded a net $7,500 in expenditures from its SEFA and from the notes to its SEFA and overstated federal revenue by $40,909 in the notes to its SEFA.
- Overstated the ending balance of direct loans from prior years by $27,903,749 in the notes to its SEFA.
- Did not include in its SEFA a required note regarding depository libraries for government publications.

Corrective Action and Management's Responses

Corrective action was taken.

Texas Tech University

On its SEFA, Texas Tech University (TTU):

- Reported $63,158,963 using revenues instead of expenditures for 133 (98 percent) of 136 CFDAs on its SEFA.
- For one CFDA that TTU reported using expenditures, TTU (1) incorrectly excluded $155,912 in expenditures from its SEFA, (2) incorrectly excluded $155,912 in expenditures from the notes to its SEFA, and (3) understated federal revenue by $92,803 in the notes to its SEFA.
- Understated its balance of federal Perkins loans from prior years by $768,425 in the notes to its SEFA.
- Did not disclose that it outsourced its processing of federal Perkins loans to a service organization in the notes to its SEFA.

Corrective Action and Management's Responses

See current year finding 15-555-05.

The University of Texas at Arlington

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

- Incorrectly reported expenditures for six CFDAs in the Student Financial Assistance cluster of federal programs. That occurred primarily because UT-Arlington inappropriately included prior fiscal year expenditures. As a result, UT-Arlington incorrectly included $86,365,226 in expenditures on its SEFA. In addition, it (1) incorrectly excluded $282,626 in expenditures from its SEFA, (2) incorrectly included $64,856,949 in expenditures in the notes to its SEFA, (3) incorrectly excluded $173,251 in expenditures from the notes to its SEFA, and (4) overstated federal revenue by $21,545,123 in the notes to its SEFA.
- Incorrectly included $18,038 in expenditures for 4 CFDAs on its SEFA. That occurred because UT-Arlington used revenue instead of expenditures to confirm pass-throughs to other state agencies.
- Incorrectly classified $18,138 in expenditures between two CFDAs on its SEFA.
- Incorrectly included a $146,686 reconciling item in the reconciliation note to its SEFA. That occurred because UT-Arlington overstated its federal revenue by $146,686.

Corrective Action and Management's Responses

See current year finding 15-555-05.

The University of Texas at Austin

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

- Incorrectly reported expenditures for six CFDAs in the Student Financial Assistance cluster of federal programs. That occurred because UT-Austin inappropriately included prior fiscal year expenditures. As a result, UT-Austin incorrectly included $22,845,615 in expenditures on its SEFA and overstated federal revenue by $22,845,615 in the notes to its SEFA.
- Incorrectly classified $1,374,131 of direct expenditures as pass-through expenditures for 2 CFDAs on its SEFA.
- Incorrectly classified $740,968 in expenditures among 7 CFDA programs on its SEFA.
- Incorrectly classified $238,042 in expenditures related to 8 CFDAs as part of the Research and Development cluster of federal programs.

- Incorrectly moved expenditures among CFDAs during its pass-through confirmation process; as a result, it excluded $59,418 in expenditures and federal revenue from its SEFA and from the notes to its SEFA.

- Incorrectly classified $1,901 in administrative expenditure recoveries as expenditures for new federal Perkins loans issued in the notes to its SEFA.

- Did not include all required information in the note to its SEFA related to non-monetary assistance. Specifically, UT-Austin did not report $840 in assistance, the applicable CFDA number, or the federal agency that provided the funds.

Corrective Action and Management's Responses

See current year finding 15-555-05.

The University of Texas at El Paso

On its SEFA, the University of Texas at El Paso (UTEP):

- Incorrectly reported expenditures for four CFDAs in the Student Financial Assistance cluster of federal programs. That occurred primarily because UTEP inappropriately included prior fiscal year expenditures. As a result, UTEP incorrectly included $21,550,985 in expenditures on its SEFA. In addition, it (1) incorrectly excluded $235,014 in expenditures from its SEFA, (2) incorrectly excluded $235,014 in expenditures from the notes to its SEFA, and (3) overstated federal revenue by $21,550,985 in the notes to its SEFA.

- Incorrectly classified $5,028,276 in pass-through expenditures as direct expenditures for 29 CFDAs on its SEFA.

- Incorrectly classified $1,602,290 in expenditures related to 16 CFDAs as part of the Research and Development cluster of federal programs.

- Did not identify $8,900 in expenditures as American Recovery and Reinvestment Act expenditures on its SEFA.

- Incorrectly included $2,211 in pass-through expenditures to the Texas A&M Research Foundation on its SEFA. Additionally, UTEP incorrectly excluded the $2,211 in pass-through expenditures from the notes to its SEFA.

Corrective Action and Management's Responses

See current year finding 15-555-05.

The University of Texas – Pan American

On its SEFA, the University of Texas – Pan American (UT-Pan American):

- Incorrectly reported expenditures for four CFDAs in the Student Financial Assistance cluster of federal programs. That occurred primarily because UT-Pan American inappropriately included prior fiscal year expenditures. As a result, UT-Pan American incorrectly included $21,570,074 in expenditures on its SEFA. In addition, it incorrectly excluded $420,343 in expenditures from its SEFA and overstated federal revenue by $21,149,731 in the notes to its SEFA.

- Overstated the ending balance of direct loans from prior years by $54,223,140 in the notes to its SEFA.

Corrective Action and Management's Responses

See current year finding 15-555-05.

The University of Texas at San Antonio

On its SEFA, the University of Texas at San Antonio (UT-San Antonio) incorrectly reported expenditures for two CFDAs in the Student Financial Assistance cluster of federal programs. That occurred because UT-San Antonio inappropriately included prior fiscal year expenditures. As a result, UT-San Antonio incorrectly included $23,122,759 in expenditures on its SEFA and overstated federal revenue by $23,122,759 in the notes to its SEFA.

Corrective Action and Management's Responses

See current year finding 15-555-05.

The University of Texas Southwestern Medical Center

On its SEFA, the University of Texas Southwestern Medical Center (UTSWMC) incorrectly reported expenditures for five CFDAs in the Student Financial Assistance cluster of federal programs. That occurred primarily because UTSWMC inappropriately reported expenditures for the federal award year and not the fiscal year. As a result, UTSWMC (1) incorrectly excluded $349,955 in expenditures from its SEFA, (2) incorrectly included

$9,612 in expenditures on its SEFA, (3) incorrectly excluded $408,289 from the notes to its SEFA, (4) incorrectly included $58,334 in the notes to its SEFA, and (5) overstated federal revenue by $67,947 in the notes to its SEFA.

Corrective Action and Management's Responses

Corrective action was taken.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The audit objective was to determine whether the State's basic financial statements present fairly, in all material respects, the consolidated balances and activities for the State of Texas for the fiscal year ended August 31, 2014.

The Statewide Single Audit is an annual audit for the State of Texas. It is conducted so that the State complies with (1) the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133 and (2) state statute requiring that an audited Comprehensive Annual Financial Report be provided to the Governor (Texas Government Code, Section 403.013(c)).

Scope

The scope of the financial portion of the Statewide Single Audit included an audit of the State's basic financial statements and a review of significant controls over financial reporting and compliance with applicable requirements. The opinion on the basic financial statements, published in the Comprehensive Annual Financial Report for the fiscal year ended August 31, 2014, was dated February 20, 2015.

The scope of the federal compliance portion of the Statewide Single Audit included an audit of the State's Schedule of Expenditures of Federal Awards (SEFA), a review of compliance for each major program, and a review of significant controls over federal compliance. The State Auditor's Office contracted with KPMG LLP (KPMG) to provide an opinion on compliance for each major program and internal control over compliance. The State Auditor's Office provided an opinion on the State's SEFA. 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, 2014*, by KPMG.

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 and higher education institution officials knowledgeable about data. Auditors determined that the data was 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 2014 annual financial reports.
- Agency and higher education institution fiscal year 2014 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).

Procedures and tests conducted included the following:

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

Criteria used included the following:

- Texas statutes.
- Texas Administrative Code.
- General Appropriations Act (83rd Legislature).
- The Office of the Comptroller of Public Accounts' policies and procedures.
- The Office of the Comptroller of Public Accounts' *Reporting Requirements for Fiscal 2014 Annual Financial Reports of State Agencies and Universities*.

- Agency and higher education institution policies.
- U.S. 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.

Project Information

Audit fieldwork was conducted from June 2014 through February 2015. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- Brianna C. Lehman, CPA (Project Manager)
- Robert Pagenkopf, CFE (Assistant Project Manager)
- Jennifer Ranea Robinson, CPA (Assistant Project Manager)
- Robert H. (Rob) Bollinger, CPA, CFE
- Robert Burg, CPA, CFE
- Katherine Curtsinger
- Hillary Eckford, CIA
- George D. Eure, CPA
- Lauren Godfrey, CIA, CGAP
- Rachel Lynne Goldman, CPA
- Michael Goodwin
- Arnton W. Gray
- Justin H. Griffin, CISA
- Joyce Inman, CGFM

- Kyle Ketry
- Robert G. Kiker, CGAP
- Eric Ladejo, MPA
- Nicole McClusky-Erskine
- Bianca Pineda
- Jeannette Quiñonez, CPA
- Fabienne Robin, MBA
- Lilia C. Srubar, CPA
- Kelli Starbird
- Philip Stringer, CPA
- Sarah Vela
- Jessica Volkmann
- Emily Warren
- Julia Youssefnia, CPA
- Brenda Zamarripa, CGAP
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Angelica M. Ramirez, CPA (Audit Manager)

Agencies and Higher Education Institutions Audited

Financial accounts were audited at the following agencies:

- Department of Aging and Disability Services.
- Department of Motor Vehicles.
- Health and Human Services Commission.
- Office of the Comptroller of Public Accounts.
- Parks and Wildlife Department (follow-up on prior year finding only).
- Texas Education Agency.
- Texas Workforce Commission.

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

- Department of Aging and Disability Services.
- 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.
- General Land Office.
- Health and Human Services Commission.
- Higher Education Coordinating Board.
- Office of the Attorney General.
- Prairie View A&M University.
- Midwestern State University.

- Sam Houston State University.
- Stephen F. Austin State University.
- Texas A&M AgriLife Extension Service.
- Texas A&M University.
- Texas A&M University at Galveston.
- Texas Education Agency.
- Texas Tech University.
- Texas Workforce Commission.
- The University of Texas at Arlington.
- The University of Texas at Austin.
- The University of Texas at Dallas.
- The University of Texas at El Paso.
- The University of Texas at San Antonio.
- The University of Texas – Pan American.
- The University of Texas Health Science Center at Houston.
- The University of Texas Health Science Center at San Antonio.
- The University of Texas Southwestern Medical Center.
- Water Development Board.

Copies of this report have been distributed to the following:

Legislative Audit Committee

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

Office of the Governor

The Honorable Greg Abbott, Governor

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

Department of 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 Motor Vehicles
Department of Public Safety
Department of State Health Services
Department of Transportation
General Land Office
Health and Human Services Commission
Higher Education Coordinating Board
Midwestern State University
Office of the Attorney General
Office of the Comptroller of Public Accounts
Parks and Wildlife Department
Prairie View A&M University
Sam Houston State University
Stephen F. Austin State University
Texas A&M AgriLife Extension Service
Texas A&M University
Texas A&M University at Galveston
Texas Education Agency
Texas Tech University
Texas Workforce Commission
The University of Texas at Arlington
The University of Texas at Austin
The University of Texas at Dallas
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 - Pan American
The University of Texas at San Antonio
The University of Texas Southwestern Medical Center
Water Development Board