State of Texas Financial Portion of the

Statewide Single Audit Report for the Year Ended August 31, 2015

March 2016

Report No. 16-555

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Overall Conclusion

In our audit opinion dated February 22, 2016, 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, 2015. The Office of the Comptroller of Public Accounts published our audit opinion as part of the Comprehensive Annual Financial Report (CAFR) for fiscal year 2015, which it posted on its Web site at http://www.texastransparency.org/State_Finance/Budget_Finance/Reports/Comprehensive_Annual_Financial/.

Basic Financial Statements

The State's basic financial statements include both governmentwide and fund financial statements:

- Governmentwide 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. Compiling the State's consolidated financial statements is a major undertaking and consists of financial information for more than 200 state agencies and higher education institutions.

For fiscal year 2015, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Those standards require governments to begin recording on the face of their financial statements a liability for pension plans administered through trusts, rather than disclosing those amounts in the notes to their financial statements. Specifically, a government will incur a "net pension liability" if the total obligation to members exceeds the value of the net assets the government has set aside to pay those benefits. As a result of implementing those new standards, the State recognized $35.8 billion in net pension liability. Additionally, the State's ending net position was $147.7 billion, a decrease of $27.9 billion, which was primarily due to the decrease of $24.8 billion in unrestricted net position as a result of the implementation of GASB Statements Nos. 68 and 71.

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 Lisa Collier, First Assistant State Auditor, at (512) 936-9500.

The fiscal year 2015 consolidated financial statements convey the use of approximately $133.7 billion during the fiscal year, an increase of $6.6 billion or 5.2 percent since the prior fiscal year.[1] The State's assets on August 31, 2015, totaled $270.2 billion, an increase of $9.9 billion or 3.8 percent since the prior fiscal year. The State's cash and cash equivalents increased by $4.8 billion, total capital assets increased by $6.7 billion, and noncurrent unrestricted investments decreased by $1.1 billion.

On August 31, 2015, the Economic Stabilization Fund balance was $9.6 billion. That amount consisted of $8.5 billion in cash and cash equivalents, as well as $1.1 billion due from the General Revenue Fund. The $1.1 billion due from the General Revenue Fund was transferred to the Economic Stabilization Fund in November 2015. The Economic Stabilization Fund is reported in the General Fund on the governmental fund financial statements and in Governmental Activities on the governmentwide 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 three agencies should correct to improve the reliability of their financial information. Those weaknesses are discussed in Chapter 2-A and Chapter 2-B of this report.

The State Auditor's Office also audited the State's Schedule of Expenditures of Federal Awards (SEFA) in relation to the CAFR for fiscal year 2015. The Office of the Comptroller of Public Accounts prepares the SEFA by using self-reported 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 13 agencies and 14 higher education institutions. Auditors identified errors related to the SEFA information at 1 agency and 14 higher education institutions. Those errors are discussed in Chapter 2-C of this report.

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[1] The $133.7 billion in annual expenditures exceeded the $97.3 billion appropriated for fiscal year 2015 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.
- Additional pension-related expenditures were recorded in the Comprehensive Annual Financial Report to account for the effects of the implementation of GASB Statements Nos. 68 and 71 that are not included in the General Appropriations Act.

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 access rights to modify capitation rates, which are the basis 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 2015 totaled approximately $16.7 billion. The material weakness KPMG identified was related to both financial processes and federal compliance. For more information, see finding 2015-023 in the *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2015*, 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 Response

At the end of each chapter in this report, auditors made recommendations to address the issues identified during this audit. The agencies and higher education institutions agreed with the recommendations in this report.

Audit Objective and Scope

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, 2015.

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 CAFR 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, in relation to its opinion on the CAFR. 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, 2015*, by KPMG.

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Independent Auditor’s Report

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2015

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?	Yes
b. Significant deficiencies identified not considered to be material weaknesses?	Yes
c. Noncompliance material to financial statements noted?	No

Federal Awards

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2015 was included in Chapter 2-C of this report. All other fiscal year 2015 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, 2015*, by KPMG LLP).

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

The Honorable 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 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 units and remaining fund information of the State of Texas as of and for the year ended August 31, 2015, 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 22, 2016. 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

Summary of Finding	
Agency or Higher Education Institution	**Finding Number**
Office of the Comptroller of Public Accounts	16-555-02

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

Summary of Findings	
Agency or Higher Education Institution	**Finding Numbers**
Office of the Comptroller of Public Accounts	16-555-01
Health and Human Services Commission and Department of Aging and Disability Services	16-555-03
One agency and multiple higher education institutions	16-555-04

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 entities.

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 2015 Financial Statements* (State Auditor's Office Report No. 16-010, December 2015).
- *A Report on the Audit of the Teacher Retirement System's Fiscal Year 2015 Financial Statements* (State Auditor's Office Report No. 16-009, December 2015).
- *A Report on the Audit of the Department of Housing and Community Affairs' Fiscal Year 2015 Financial Statements* (State Auditor's Office Report No. 16-011, December 2015).
- *A Report on the Audit of the Permanent School Fund's Fiscal Year 2015 Financial Statements* (State Auditor's Office Report No. 16-012, January 2016).

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 solely 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,

Lisa R. Collier, CPA, CIDA
First Assistant State Auditor

February 22, 2016

Schedule of Findings and Responses

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2015

Financial Statement Findings

This chapter identifies the material weakness and 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 Improve Certain Controls Over Financial Reporting

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

Reference No. 16-555-01
(Prior Audit Issue 15-555-01)

Type of finding: Significant Deficiency

The Office of the Comptroller of Public Accounts (Comptroller's Office) improved its processes for preparing and reviewing the State's fiscal year 2015 Comprehensive Annual Financial Report (CAFR) and the Schedule of Expenditures of Federal Awards (SEFA).

However, the Comptroller's Office should strengthen those processes to ensure that it obtains significant and necessary information. The Comptroller's Office did not ensure that it obtained the audited annual financial report for a major governmental fund, which it needed to prepare the State's fiscal year 2015 CAFR. As a result, the nonspendable and restricted fund balances in the State's fiscal year 2015 CAFR were misclassified by $13.5 billion for the Permanent School Fund. That misclassification was also included in the State's governmental activities in the governmentwide statement of net position and in the note disclosures to the financial statements. The Comptroller's Office's review process did not detect that error in the fiscal year 2015 CAFR that the Comptroller's Office initially prepared. The CAFR is among the State's most important financial documents and is critical in enabling the State to demonstrate its financial position.

The Comptroller's Office corrected all significant errors that auditors brought to its attention before it finalized the fiscal year 2015 CAFR. Adequate preparation and review of the CAFR is critical to helping ensure that the State's financial statements and note disclosures are complete, accurate, and comply with financial reporting standards.

Recommendation

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 to help ensure that information is complete, accurate, and complies with financial reporting standards.

Views of Responsible Officials and Corrective Action Plan

The Comptroller's office concurs that additional improvement is needed in the preparation and review of information used to compile the State's financial data and prepare the CAFR. Fiscal Integrity management has initiated a review of existing controls within the Financial Reporting Section to determine where current policies, procedures, and practices need to be modified. Improvements to policies will be finalized and communicated to section staff. Financial Reporting Section staff will receive training on new policies and procedures by June 1, 2016.

Person Responsible for Implementing Corrective Action:
Fiscal Integrity Department Manager

Target Implementation Date:
June 1, 2016

Issue 2
The Office of the Comptroller of Public Accounts Should Strengthen Its Processes for Reviewing Adjusting Journal Entries and Its Annual Financial Report

Reference No. 16-555-02

Type of finding: Material Weakness

The Office of the Comptroller of Public Accounts – Fiscal Program Department (Comptroller's Office) had a process to review adjusting journal entries. However, that process did not detect an error that resulted in materially misstated fiscal year 2015 financial statements. As a result, auditors concluded that there was a material weakness in internal control at the Comptroller's Office (see text box for additional information on material weaknesses).

> **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 an entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
>
> Source: American Institute of Certified Public Accountants AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.

The Comptroller's Office's financial statements understated oil and natural gas production tax revenue by $1.1 billion on the fund financial statements. That occurred because the

Comptroller's Office made an adjusting journal entry that incorrectly recognized $1.1 billion of oil and natural gas production tax revenue in the State Highway Fund, rather than in the State's General Revenue Fund.

The Comptroller's Office's review process for adjusting journal entries did not detect the incorrect adjusting journal entry or prevent it from being recorded in the financial accounting system. In addition, the Comptroller's Office did not identify the $1.1 billion understatement in oil and natural gas tax revenue before the Comptroller's Office finalized its annual financial report.

To ensure that the issue discussed above did not affect the accuracy of the State's Comprehensive Annual Financial Report, the Comptroller's Office made appropriate adjustments to oil and natural gas production tax revenue during its preparation of the State's Comprehensive Annual Financial Report.

Recommendation

The Comptroller's Office should strengthen its process for reviewing adjusting journal entries and its annual financial report to ensure that it prepares and presents materially accurate financial statements.

Views of Responsible Officials and Corrective Action Plan

The Office of the Comptroller of Public Accounts issues financial statements for the following departments: the Comptroller of Public Accounts, the Comptroller Judiciary Section, the Comptroller Fiscal Programs, the Comptroller Treasury, the Texas Treasury Safekeeping Trust Company, and the Comptroller State Energy Conservation Office. The issue raised by auditors affects the Comptroller - Fiscal Programs Department (Department).

The Department processed a journal entry that recognized $1.1 billion in oil and natural gas production taxes in the State Highway Fund, rather than the General Fund in an effort to comply with Article 3, section 49-g of the Texas Constitution, which allocates these revenues for the sole purpose of constructing, maintaining, and acquiring rights-of-way for public roadways other than toll roads. The more appropriate accounting for the transaction would have recognized the movement of funds as a transfer to the State Highway Fund, rather than as revenue. Fund assets, liabilities, and net assets were not affected by this inconsistency.

Department management concurs that the review of an adjustment recognizing $1.1 billion in oil and natural gas production taxes in the State Highway Fund did not detect an inconsistency in how the Department recognized similar tax revenue.

Although the inconsistency was not detected during the review process before the Department annual financial report was finalized, the Department feels that the inconsistency would have been detected subsequently by multiple compensating controls prior to final inclusion in the State's Comprehensive Annual Financial Report.

Department management will review existing policies and procedures to determine where improvements are necessary. Any improvements will be implemented and staff will receive training on the review process to ensure that inconsistencies are detected and corrected prior to inclusion in the published Department annual financial report.

Person Responsible for Implementing Corrective Action:
Supervisor of the Financial Reporting Section

Target Implementation Date:
September 30, 2016

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. 16-555-03
(Prior Audit Issues 14-555-03 and 15-555-02)

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 claims from the Home and Community Based Services Program and the Texas Home Living Waiver Program (Programs). The Commission and the Department did not fully implement recommendations to improve information technology controls that the State Auditor's Office made in its audit reports for fiscal years 2013 and 2014. Specifically, the Commission and the Department did not consistently monitor user access, did not consistently deactivate user accounts when individuals' employment ended, and did not consistently modify or remove inappropriate access. To protect the integrity of their information, the Commission and the Department should improve their management and monitoring of the information technology that the Programs use.

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

User Access

Weaknesses in user access to the information technology the Programs use continued to exist in fiscal year 2015. Periodic review of user access is important in identifying potential 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 9,698 active user accounts associated with the Intellectual Disabilities Client Assessment Registration (ID CARE) system. However, 5,066 (52 percent) of those user accounts were inactive. Specifically:

- No individuals had ever logged into ID CARE through 2,332 of those user accounts.
- No individuals had logged into ID CARE in fiscal year 2015 through 2,734 of those user accounts.

Auditors also identified 1,622 disabled user accounts that the Commission had not deleted in accordance with its policies and procedures.

In addition, auditors reviewed 1,003 of the 9,698 active user accounts discussed above that were associated with central agency operations and identified the following issues:

- A total of 189 (19 percent) user accounts were associated with individuals whose employment had been terminated.
- A total of 9 (1 percent) user accounts were associated with individuals for whom the Commission and the Department were unable to verify their employment status.
- A total of 25 individuals had two separate, active user accounts. The Commission asserted that 37 of those 50 user accounts were not necessary.

Title 1, Texas Administrative Code, Chapter 202, requires agencies to develop information technology policies and procedures. Commission information technology security standards and guidelines require user accounts to be restricted to appropriate individuals, require application owners to review user accounts at least every 12 months, require that user accounts be modified or terminated when employment changes are made, and require inactive user accounts to be disabled and deleted.

Passwords

The password configurations for one database the Programs use to process payments did not meet the minimum requirements in the Commission's policies and procedures for passwords. When entities do not require users to change passwords periodically, or allow users to reuse passwords frequently, that increases the risk of unauthorized access to systems and data.

Recommendations

The Commission and the Department should:

- Develop and implement a process for reviewing user access to information technology that the Programs use.
- Disable employees' and contractors' access immediately upon termination of employment or services in compliance with Commission policies and procedures.
- Consistently delete disabled user accounts in compliance with Commission policies and procedures.
- Ensure that password configurations for the databases the Programs use comply with Commission policies and procedures.

Views of Responsible Officials and Corrective Action Plan

The Health and Human Services Commission (HHSC) and the Department of Aging and Disability Services (DADS) will develop and implement a user review process for managing access to information technology resources in accordance with (a) HHS Enterprise Information Security Policy, (b) HHS Circular C-021, (c) HHS Enterprise Information Security Standards and Guidelines (EISSG), and Enterprise Identity and Access Management (EIAM) procedures, and (d) DADS IT Standard Operating Procedure No. 1517 - Requesting Access to Local Area Network and/or Mainframe. Specifically, the HHSC IT Director/Enterprise Customer Service and Support and the DADS IT Director/Information Resources Manager will coordinate with HHSC and DADS executives, supervisors, and EIAM system owners to:

1. *Disable employees' and contractors' access upon notification of termination of employment.*
2. *Disable the backlog of user access requests as appropriate. DADS and HHSC are jointly working together on a current initiative to manually*

disable user access. It is estimated that this initiative will be completed by May 1, 2016.

3. *Automate the de-provisioning of access. HHSC IT Operations has an additional initiative underway to develop reports and scripts to automatically disable user accounts as appropriate. This initiative is targeted to be completed by September 1, 2016.*

4. *HHSC has migrated from Arctic Logical Partition (LAR) to hhsc4sppdb13 server to bring password configurations in compliance with security guidelines. Database Administrator (DBA) passwords now meet the required security guidelines.*

Implementation Date:
September 1, 2016

Responsible Persons:
Director, Enterprise and Customer Support Services (ECSS), HHSC

Director, Enterprise Identity and Access Management (EIAM), HHSC

IT Director, IT Business Operations, DADS

Chapter 2-C

State Entities Should Strengthen the Preparation and Review of Their Schedules of Expenditures of Federal Awards

Reference No. 16-555-04
(Prior Audit Issues 15-555-05, 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, and Title 2, Code of Federal Regulations (CFR), Section 200.38].

Federal financial assistance includes any assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, non-cash contributions or donations of property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance [OMB Circular A-133, Section .105, and Title 2, CFR, Section 200.40].

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

The agency and higher education institutions discussed below did not appropriately prepare or adequately review their fiscal year 2015 Schedules of Expenditures of Federal Awards (SEFAs) (see text box for additional information). Therefore, the SEFAs that those state entities submitted to the Office of the Comptroller of Public Accounts (Comptroller's Office) contained errors.

The agency and higher education institutions discussed below reported approximately $3.8 billion in federal expenditures, or 7 percent of the total federal expenditures the State of Texas reported for fiscal year 2015. The errors listed below were not material to the fiscal year 2015 SEFA for the State of Texas or to the fiscal year 2015 Comprehensive Annual Financial Report for the State of Texas. However, collectively, they represent control weaknesses that could be significant to the State's SEFA.

Prairie View A&M University

Prairie View A&M University (Prairie View A&M) incorrectly included expenditures for two Student Financial Assistance Catalog of Federal Domestic Assistance (CFDA) programs on its SEFA. Specifically, it incorrectly included $947,520 for 2 CFDAs. As a result, Prairie View A&M (1) overstated expenditures on its SEFA by $947,520 for 2 CFDAs; (2) overstated federal revenue by $47,520 in the notes to its SEFA; and (3) overstated new loans processed for the Federal Direct Student Loans Program by $900,000 in the notes to its SEFA.

Recommendation

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.

Views of Responsible Officials and Corrective Action Plan

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

Financial Management Services will update its SEFA preparation procedures to include additional controls for the verification of the student loan data to ensure that the SEFA submitted to the Comptroller's Office is complete and accurate.

Implementation Date: November 1, 2016 (that is the due date of the FYE 2016 SEFA)

Responsible Person: Associate Vice President, Financial Management Services

Sam Houston State University

Sam Houston State University (SHSU) incorrectly excluded expenditures for three Student Financial Assistance CFDAs from its SEFA. Specifically, it incorrectly excluded $2,380,458 for 3 CFDAs. As a result, SHSU (1) understated expenditures on its SEFA by $2,380,458 for 3 CFDAs; (2) understated federal revenue by $60,651 in the notes to its SEFA; and (3) understated new loans processed for the Federal Direct Student Loans Program by $2,319,807 in the notes to its SEFA.

Recommendation

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.

Views of Responsible Officials and Corrective Action Plan

SHSU agrees with the stated findings and has established report controls to correct this deficiency and ensure the SEFA is complete and accurate when *submitted to the Comptroller's Office. This includes the recognition of revenue and expenses related to administrative allowances.*

Responsible Person: Interim Controller

Implementation date: January 2016

Stephen F. Austin State University

Stephen F. Austin State University (SFASU) incorrectly excluded expenditures for one Student Financial Assistance CFDA from its SEFA. Specifically, it incorrectly excluded $63,031 for 1 CFDA. As a result, SFASU (1) understated expenditures on its SEFA by $63,031 for 1 CFDA and (2) did not report $63,031 in administrative costs in its notes to its SEFA.

Recommendation

SFASU 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.

Views of Responsible Officials and Corrective Action Plan

Based on the AICPA Government Auditing Standards and Single Audit Guide, we agree with the SAO that the administrative costs charged to the Perkins loan program should have been included on the SEFA as both revenue and expense. Accordingly, we will include these amounts as federal revenues and expenses on the SEFA.

Responsible Parties: Vice President of Finance and Administration and Controller

Implementation Date: November 2016 in conjunction with the preparation of the 08/31/16 SEFA

Texas A&M University

Texas A&M University (TAMU) excluded $167,036 from the notes to its SEFA for the ending balance for loans from prior years for the Health Professions Student Loans Program.

Recommendation

TAMU should strengthen its SEFA note preparation and review process to help ensure that it submits complete and accurate information to the Comptroller's Office.

Views of Responsible Officials and Corrective Action Plan

Texas A&M University agrees with the finding and will continue to strengthen its processes and procedures for the preparation, documentation, and review of SEFA notes. We will update our internal procedures for SEFA preparation to include additional reviews by appropriate institutional personnel to correctly identify ending loan balances to be reported in the SEFA note.

Implementation Date: February 5, 2016

Responsible Persons: Director of Research Reporting and Associate Vice President and Controller for Finance & Administration

Texas Department of Agriculture

On its SEFA, the Texas Department of Agriculture (TDA):

- Incorrectly excluded $257,976 in expenditures for 2 CFDAs. As a result, TDA understated federal revenue by $257,976 in the notes to its SEFA.
- Incorrectly classified $405,912 in expenditures between 2 CFDAs.

Recommendation

TDA 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.

Views of Responsible Officials and Corrective Action Plan

TDA will strengthen its internal operational and financial procedures for the SEFA preparation and review process resulting in a more timely identification and correction, if any, of variances prior to the SEFA submission. Estimated amounts identified in the finding were trued up to actuals and adjustments were recorded to FY 2015.

Responsible Party: Accounting Coordinator for Financial Services and Coordinator Food & Nutrition Financial Operations

Implementation date: June 30, 2016

Texas Tech University

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

- Did not identify $24,497 in expenditures for 1 CFDA as American Recovery and Reinvestment Act (ARRA) expenditures.
- Incorrectly classified $136,058 in expenditures related to 2 generic CFDAs.

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.
- Correctly identify ARRA awards on its SEFA.

Views of Responsible Officials and Corrective Action Plan

All ARRA awards to TTU have ended, and there will be no further expenditures to report.

Procedures have been documented within Accounting Services to guide staff on the appropriate use of generic CFDAs. Accounting Services management will re-train staff on these procedures. Additional edit checks will be added to existing monitoring reports to identify setup errors so that corrections can be made prior to SEFA preparation.

Implementation Date:
August 2016

Responsible Person:
Managing Director, Accounting Services

The University of Texas at Arlington

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

- Incorrectly classified $1,329,737 in direct expenditures for 8 CFDAs as reconciling items (specifically, federal revenue received under a vendor relationship between the agency and the federal government) in Note 2 to its SEFA. As a result, UT-Arlington, understated expenditures by $1,329,737 for 8 CFDAs.
- Did not identify $13,441 in expenditures for 1 CFDA as ARRA expenditures.
- Incorrectly reported expenditures in the notes to its SEFA for the ending balance for loans from prior years for three Student Financial Assistance CFDAs. Specifically, it incorrectly reported $396,282 for the Federal Perkins Loan Program; $111,720 for the Nurse Faculty Loan Program; and $28,620 for the ARRA-Nurse Faculty Loan Program.

Recommendations

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.
- Correctly identify ARRA awards on its SEFA.
- Prepare and include only required information in the notes to its SEFA.

Views of Responsible Officials and Corrective Action Plan

The University of Texas at Arlington agrees with the findings and will adopt the following corrective action plan:

The University will strengthen its review process to ensure that its SEFA is prepared correctly and is complete and accurate. This will include a thorough review of the status of the relationship of awards to the University to ensure they are properly classified.

Responsible Party: Associate VP for Business Affairs and Controller

The University will review awards to ensure that all ARRA awards are properly identified and reported on its SEFA.

Responsible Party: Associate VP for Business Affairs and Controller

The University will calculate ending balances for loans from prior years according to new detail in reporting requirements and clarification received from SAO during 2015 SEFA audit.

Responsible Party: Associate VP for Business Affairs and Controller

Implementation Date: September 30, 2016

Auditor Follow-up Comment

To clarify, auditors referred UT-Arlington to the American Institute of Certified Public Accountants' *Audit Guide for Government Auditing Standards and Single Audits*.

The University of Texas at Austin

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

- Incorrectly classified $135,310 in expenditures related to 1 CFDA as part of the Research and Development cluster of federal programs.
- Incorrectly reported expenditures in the notes to its SEFA for the ending balance for loans from prior years for two Student Financial Assistance CFDAs. Specifically, it (1) incorrectly included $46,568 for the Nurse Faculty Loan Program and (2) incorrectly excluded $1,856,885 for the Federal Perkins Loan Program.
- Incorrectly classified $116,751 in expenditures related to 3 generic CFDAs.

Recommendations

UT-Austin should:

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

Views of Responsible Officials and Corrective Action Plan

The University concurs with the finding.

Management will continue to make efforts in correctly classifying programs under the Research and Development cluster. The Specialists with oversite of federal programs will be instructed to review award documentation at time of account set-up to assist in ensuring the correct classification for funds has been identified.

Management is committed to improving the review processes to ensure the SEFA submission is accurate. Documentation will be revised to ensure ending loan balances for Nurse Faculty Loan Program and Federal Perkins Loan Programs are correctly calculated.

Management will continue to review generic CFDAs during the summer in preparation for the annual financial report. Specifically, management will review awards that have been established on credit, and at the time of award to ensure that the correct CFDA has been used.

Implementation Date: August 2016

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

The University of Texas at Dallas

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

- Incorrectly excluded $37,918 for 1 Student Financial Assistance CFDA. As a result, UT-Dallas understated federal revenue by $37,918 in the notes to its SEFA.
- Incorrectly classified $96,189 in pass-through expenditures as direct expenditures for 1 CFDA.
- Incorrectly classified $375,409 in expenditures related to 3 generic CFDAs.

Recommendation

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.

Views of Responsible Officials and Corrective Action Plan

UT Dallas agrees with the recommendation to strengthen controls over the preparation and review of the Schedule of Expenditures of Federal Awards. Preparation documents will be updated to ensure that all federal non-exchange transactions are recognized when eligibility requirements are met. Pass-through validation processes will be updated to include the review of vendor data to ensure all Texas state entities are included in the confirmation process. Finally, more detailed reviews will be implemented to ensure that generic CFDA's are only used after every avenue of communication with the federal agency has been exhausted.

Implementation Date: September 2016

Responsible Person: Director of Accounting and Financial Reporting

The University of Texas at El Paso

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

- Incorrectly included $137,669 in expenditures for 2 Student Financial Assistance CFDAs and incorrectly excluded $87,453 in expenditures for 1 Student Financial Assistance CFDA. As a result, UTEP overstated federal revenue by $50,216 in the notes to its SEFA.
- Incorrectly classified $3,151,584 in expenditures related to 10 CFDAs as part of the Research and Development cluster of federal programs.
- Incorrectly classified $7,300 in expenditures among 2 Student Financial Assistance CFDAs. As a result, (1) UTEP did not report $7,300 in new loans processed for the Nurse Faculty Loan Program in the notes to its SEFA; (2) overstated the new loans processed for the ARRA-Nurse Faculty Loan Program by $7,300 in the notes to its SEFA; and (3) did not identify $7,300 in expenditures for 1 CFDA as ARRA expenditures.
- Incorrectly reported expenditures in the notes to its SEFA for the ending balance for loans from prior years for four Student Financial Assistance CFDAs. Specifically, it (1) incorrectly included $3,941,520 for the Federal Perkins Loan Program, $6,340,163 for the Federal Direct Student Loans Program, and $69,519 for the ARRA-Nurse Faculty Loan Program and (2) incorrectly excluded $277,047 for the Nurse Faculty Loan Program.

Recommendations

UTEP 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.
- Correctly identify ARRA awards on its SEFA.

Views of Responsible Officials and Corrective Action Plan

We concur with the findings.

<u>Related to the incorrect classification of Student Financial Aid Assistance</u>: We have determined the cause of the errors and will ensure proper accounting adjustments are made for timing at fiscal year-end.

Responsible Party: Associate Vice President for Business Affairs/Comptroller

Implementation Date: September 30, 2016

<u>Related to the process improvement for identifying R&D Cluster awards</u>: We will improve our reviews of the cluster classifications on a monthly basis to ensure appropriate/correct coding is on file.

Responsible Party: Assistant Vice President for Research and Compliance Services

Implementation Date: June 30, 2016

<u>Related to the identification of ARRA awards on the SEFA</u>: We have correctly marked the previously unidentified award. As this is the final ARRA funded award we have, this will be adequate.

Responsible Party: Associate Vice President for Business Affairs/Comptroller

Implementation Date: September 30, 2016

The University of Texas Health Science Center at Houston

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

- Did not correctly identify ARRA expenditures. Specifically, it did not identify $53,135 in expenditures for 2 CFDAs as ARRA, and it incorrectly identified $651 in expenditures for 1 CFDA as ARRA.

- Incorrectly reported expenditures in the notes to its SEFA for the ending balance for loans from prior years for two Student Financial Assistance CFDAs. Specifically, UTHSC-Houston incorrectly included $297,040 for the Federal Perkins Loan Program and $26,643 for the Health Professions Student Loans Program.

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.

Views of Responsible Officials and Corrective Action Plan

UTHealth concurs with the recommendation to strengthen its SEFA process for both findings noted. Additional Post Award Finance members are in training to participate in compilation of SEFA information to add further assistance in future SEFA processes within the short time constraints afforded. This will assist to assure ARRA funding is identified as the diminutive amount remaining of this funding concludes, as well as provide an additional review of loan numbers received from other university areas for inclusion in SEFA reporting.

Responsible Party: Director of Post Award Finance

Date Due: February 28, 2016

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 $117,138 in expenditures for 1 CFDA. As a result, UTHSC-San Antonio overstated federal revenue by $117,138 in the notes to its SEFA.
- Incorrectly reported expenditures in the notes to its SEFA for the ending balance for loans from prior years for two Student Financial Assistance CFDAs. Specifically, UTHSC-San Antonio incorrectly excluded $11,700 for

the Nurse Faculty Loan Program and $143,044 for the Health Professions Student Loans Program.

Recommendation

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.

Views of Responsible Officials and Corrective Action Plan

Management concurs and will continue to fine tune processes in place to ensure the accuracy and completeness of the SEFA report. Specifically, (1) exclude any expenditures in programs where the sponsoring state agency designates us as a vendor (as opposed to a pass-thru entity) and (2) include in the notes the ending loan balances for all federal student assistance programs on our general ledger, and not only for those with new expenditures in the report year.

Responsible Party: AVP for Business Affairs

Implementation Date: March 1, 2016

The University of Texas M.D. Anderson Cancer Center

On its SEFA, the University of Texas M.D. Anderson Cancer Center (Cancer Center):

- Incorrectly classified $4,115 in direct expenditures for 1 CFDA as pass – through expenditures.
- Incorrectly classified $1,248,747 in pass-through expenditures as direct expenditures for 6 CFDAs.

Recommendation

The Cancer Center 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.

Views of Responsible Officials and Corrective Action Plan

The Cancer Center will continue to strengthen its SEFA preparation and review process to help ensure that the SEFA is prepared correctly and that the SEFA submitted to the Comptroller's Office is complete and accurate.

Implementation Date: August 2016

Responsible Person: Executive Director of Grants and Contracts

The University of Texas - Pan American

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

- Incorrectly classified $26,837 in expenditures among 2 CFDAs.
- Incorrectly classified $16,000 in pass-through expenditures as direct expenditures for 1 CFDA.
- Incorrectly included $65,306 in pass-through expenditures from the Texas A&M Research Foundation on its SEFA. It should have reported that amount as a reconciling item for federal grants <u>from</u> the Texas A&M Research Foundation in the notes to its SEFA.
- Incorrectly reported expenditures in the notes for the ending balance for loans from prior years for one Student Financial Assistance CFDA. Specifically, UT-Pan American incorrectly included $607,467 for the Federal Perkins Loan Program.

UT-Pan American became a part of the University of Texas Rio Grande Valley at the beginning of fiscal year 2016.

Recommendations

The University of Texas Rio Grande Valley 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.

Views of Responsible Officials and Corrective Action Plan

Management concurs with the State Auditor's findings and recommendations. For Fiscal Year 2016, by August 31, 2016, the University of Texas Rio Grande Valley (UTRGV) will enhance the SEFA preparation and *review process, including preparing all required information in the notes, and review by the UTRGV Internal Auditor, to help ensure that the SEFA submitted to the Comptroller's Office is complete and accurate.*

- *Incorrectly classified $26,837 in expenditures among 2 CFDAs.*

Response: UTPA's expenditures were reported correctly in the general ledger; however, the funding agency paid from the incorrect CFDA number (CFDA 11.419).

The Grants team, under the direction of the Director of Grants and Contracts, will confirm that the funding agency pays using the correct CFDA number.

- *Incorrectly classified $16,000 in pass-through expenditures as direct expenditures for 1 CFDA.*

Response: Expenditures of $16,000 from The University of Arkansas were incorrectly classified and reported as direct instead of pass-through expenditures.

The Grants team, under the direction of the Director of Grants and Contracts, will confirm all expenditures categorized as pass-through to ensure proper reporting.

- *Incorrectly included $65,306 in pass-through expenditures from the Texas A&M Research Foundation on its SEFA. It should have reported that amount as a reconciling item for federal grants from the Texas A&M Research Foundation in the notes to its SEFA.*

Response: As discussed with SEFA auditor, UTPA reported the Texas A&M Research Foundation expenditures within the body of the SEFA as this was the practice in prior years.

The Grants team, under the direction of the Director of Grants and Contracts, has documented this reporting requirement to apply this to future Note 2 SEFA reporting.

- *Incorrectly reported expenditures in the notes for the ending balance for loans from prior years for one Student Financial Assistance CFDA. Specifically, UT-Pan American incorrectly included $607,467 for the Federal Perkins Loan Program.*

Response: Management concurs with the response by the State Auditor's Office as it pertains to the Federal Perkins Loan Program. The University will prepare and document procedures and definitions as it pertain to Note 3 of the SEFA report. The documentation of procedures will specifically address *the ending balance for loans from prior years as of the end of the current reporting period. Information will be made available for future reference when preparing Note 3 of the SEFA report.*

The Associate Comptroller for Treasury Operations has documented this reporting requirement to apply this clarified definition to future SEFA reporting.

The University of Texas at San Antonio

The University of Texas at San Antonio (UTSA) incorrectly classified $119,707 in expenditures on its SEFA related to 1 generic CFDA.

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.

Views of Responsible Officials and Corrective Action Plan

Management acknowledges and agrees with the finding. In a few rare cases, the CFDA was inadvertently entered wrong into the financial system. The Office of Sponsored Project Administration will improve its secondary reviews of CFDA numbers entered into the financial system at award set up. Through a post-review and query analysis, projects identified in the financial system that reflect generic CFDA numbers will require further examination of the sponsor notice of award. This process will detect errors of generic CFDA numbers being inappropriately assigned and incorrectly entered. The Controller's Office will also institute additional monitoring controls over CFDA numbers.

Point of contact -
Assistant Vice President, Office of Sponsored Project Administration
Assistant Vice President for Financial Affairs & Controller

Timeline for corrected action - March 1, 2016

Federal Award Findings and Questioned Costs

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2015 was included in Chapter 2-C of this report. All other fiscal year 2015 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, 2015*, 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, 2015

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).

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).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2014 (State Auditor's Office Report No. 15-555, February 2015).

The Summary Schedule of Prior Audit Findings (for the year ended August 31, 2015) has been prepared to address these responsibilities.

Chapter 4-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.

Views of Responsible Officials and Corrective Action Plan

See current year finding 16-555-01.

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. 15-555-02
(Prior Audit Issue 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.

Views of Responsible Officials and Corrective Action Plan

See current year finding 16-555-03.

Chapter 4-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.

Views of Responsible Officials and Corrective Action Plan

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. 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.

Views of Responsible Officials and Corrective Action Plan

Corrective action was taken.

Chapter 4-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.

Views of Responsible Officials and Corrective Action Plan

Corrective action was taken.

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.

Views of Responsible Officials and Corrective Action Plan

Corrective action was taken.

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.

Views of Responsible Officials and Corrective Action Plan

Corrective action was taken.

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.

Views of Responsible Officials and Corrective Action Plan

See current year finding 16-555-04.

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.

Views of Responsible Officials and Corrective Action Plan

See current year finding 16-555-04.

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.

Views of Responsible Officials and Corrective Action Plan

See current year finding 16-555-04.

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.

Views of Responsible Officials and Corrective Action Plan

See current year finding 16-555-04.

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.

Views of Responsible Officials and Corrective Action Plan

Corrective action was taken.

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.

Views of Responsible Officials and Corrective Action Plan

See current year finding 16-555-04.

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.

Views of Responsible Officials and Corrective Action Plan

See current year finding 16-555-04.

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.

Views of Responsible Officials and Corrective Action Plan

See current year finding 16-555-04.

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.

Views of Responsible Officials and Corrective Action Plan

See current year finding 16-555-04.

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.

Views of Responsible Officials and Corrective Action Plan

See current year finding 16-555-04.

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.

Views of Responsible Officials and Corrective Action Plan

See current year finding 16-555-04.

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.

Views of Responsible Officials and Corrective Action Plan

See current year finding 16-555-04.

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.

Views of Responsible Officials and Corrective Action Plan

See current year finding 16-555-04.

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.

Views of Responsible Officials and Corrective Action Plan

See current year finding 16-555-04.

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, 2015.

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, 2015, was dated February 22, 2016.

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, in relation to its opinion on the CAFR. 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, 2015*, by KPMG.

Methodology

The audit methodology included 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 2015 annual financial reports.
- Agency and higher education institution fiscal year 2015 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.

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 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 Year 2015 Annual Financial Reports of State Agencies and Universities.*
- Agency and higher education institution policies and procedures.
- 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 August 2015 through February 2016. 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 of the Comprehensive Annual Financial Report:

- Robert Pagenkopf, MBA, CFE (Project Manager)
- Jeannette Quiñonez Garcia, CPA (Assistant Project Manager)
- Jennifer Ranea Robinson, CPA (Assistant Project Manager)
- Shahpar M. Ali, CPA, M/SBT, CISA
- Robert Henry (Rob) Bollinger, CPA, CFE
- Robert P. Burg, CPA, MPA, CFE
- Salem Chuah, CPA
- Katherine M. Curtsinger
- Hillary Eckford, CIA
- Rachel Lynne Goldman, CPA

- Taylor L. Huff
- Joyce Inman, CGFM
- Kyle Ketry
- Jack Lee, CPA
- Nicole McClusky, MACC
- Sarah Jane M. Puerto
- Fabienne Robin, MBA
- Philip Stringer, CPA
- Jessica Volkmann
- Julia Youssefnia, CPA
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Michelle Ann Duncan Feller, CIA, CPA (Quality Control Reviewer)
- Angelica M. Ramirez, CPA (Audit Manager)

The following members of the State Auditor's staff performed the audit of the Schedule of Expenditures of Federal Awards:

- Lilia C. Srubar, CPA (Project Manager)
- Bianca Pineda, CGAP (Assistant Project Manager)
- Frances Mikus Barker, MSA
- Naima Hafeez, MBA
- Scott Labbe, CPA
- Lisa Lack
- Eric Ladejo, MPA
- Sonya Tao, CFE
- Tony White, CFE
- Brenda Zamarripa, CGAP
- Michelle Ann Duncan Feller, CIA, CPA (Quality Control Reviewer)

- Audrey O’Neill, CIA, CFE, CGAP (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 (followed up on prior-year finding only).
- Health and Human Services Commission.
- Office of the Comptroller of Public Accounts.
- 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.
- Prairie View A&M University.
- Sam Houston State University.
- Stephen F. Austin State University.

- Texas A&M University.
- Texas Tech University.
- Texas Education Agency.
- 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 M.D. Anderson Cancer Center.
- The University of Texas – Pan American.[2]
- The University of Texas at San Antonio.

[2] The University of Texas - Pan American became a part of the University of Texas Rio Grande Valley at the beginning of fiscal year 2016.

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
Office of the Comptroller of Public Accounts
Prairie View A&M University
Sam Houston State University
Stephen F. Austin State University
Texas A&M University
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 M.D. Anderson Cancer Center
The University of Texas – Rio Grande Valley
The University of Texas at San Antonio