



The Implementation Status of Prior State Auditor's Office Recommendations

April 25, 2017

Members of the Legislative Audit Committee:

The State Auditor's Office has compiled the following data to provide information regarding the implementation status of recommendations made in prior audit reports. Texas Government Code, Section 321.014(f), requires agencies, higher education institutions, and other audited entities to report to the State Auditor's Office on the implementation status of audit report recommendations. The State Auditor's Office requests status reports annually.

The State Auditor's Office provides a Web interface for audited entities to report the implementation status of audit report recommendations (see text box for definitions of implementation status). That system groups recommendations by chapter or subchapter as they appeared in the original audit report. As a result, audited entities report an implementation status for the recommendations on a chapter or subchapter basis.¹

From September 1, 2015, through June 30, 2016, the State Auditor's Office issued 15 performance audit reports to state agencies and higher education institutions that contained 212 recommendations. Specifically, recommendations were made to state agencies and higher education institutions in 61 report chapters.² Of those, the audited entities self-reported that they had fully implemented the recommendations in 34 (55.7 percent) chapters; that they had substantially implemented the recommendations in 10 (16.4 percent) chapters; and that implementation was incomplete or ongoing for the recommendations in the remaining 17 (27.9 percent) chapters.

For the purpose of this project, auditors followed up on the implementation status of the recommendations made in 10 report chapters for which the entities reported the recommendations as fully implemented. Auditors verified that the recommendations in 9 of those 10 report chapters were fully implemented. However, auditors determined that a recommendation in one report chapter tested was substantially

Definitions of Implementation Status

The definition of each implementation status is as follows:

- **Fully Implemented:** Successful development and use of a process, system, or policy to implement a recommendation.
- **Substantially Implemented:** Successful development but inconsistent use of a process, system, or policy to implement a recommendation.
- **Incomplete or Ongoing:** Ongoing development of a process, system, or policy to address a recommendation.
- **Not Implemented:** Lack of a formal process, system, or policy to address a recommendation.

¹ For purposes of this report, "chapters" refers to individual chapters or subchapters in the original audit reports.

² An Audit Report on the Criminal Justice Information System at the Department of Public Safety and the Texas Department of Criminal Justice (State Auditor's Office Report No. 16-025, May 2016) included a report chapter that contained recommendations to two different agencies. For this project, auditors counted that chapter as two report chapters containing recommendations.

implemented. The recommendation determined to be substantially implemented was addressed to the Employees Retirement System.

The attachment to this letter contains (1) detailed information regarding the implementation status of the recommendations on which the State Auditor's Office followed up and (2) a summary of self-reported implementation status for the audit reports the State Auditor's Office issued from September 1, 2015, through June 30, 2016.

Sincerely,

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

Attachment

cc: The Honorable Greg Abbott, Governor
Executive Directors of the Following State Agencies
Employees Retirement System
Department of Agriculture
Department of Public Safety
Department of Transportation
General Land Office
Texas Board of Nursing
Texas Lottery Commission

Objective, Scope, and Methodology

The project objective was to determine the implementation status of prior State Auditor's Office recommendations.

The project scope included the recommendations made in 61 chapters in audit reports that the State Auditor's Office issued from September 1, 2015, through June 30, 2016. The scope excluded recommendations in the statewide Single Audit (financial and federal compliance audits), audit recommendations made to non-state entities, and recommendations reviewed by recurring audits.

For the purpose of this project, auditors followed up on the implementation status of the recommendations made in 10 report chapters that the entities had reported as fully implemented as of December 30, 2016.

The project methodology consisted of sampling recommendations made in 34 chapters that the audited entities self-reported as fully implemented. Auditors used a nonstatistical, random sample for selecting the recommendations for review. Auditors reviewed documentation for evidence of an entity's implementation of the recommendations. Auditors determined whether the entity had fully implemented the recommendation at the conclusion of fieldwork.

The information in this report was not subject to the tests and confirmations that would be performed in an audit.

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

- Joseph T. Fredrick, CPA (Project Manager)
- John Felchak
- Alejandra Moreno Del Angel
- George D. Eure, CPA (Quality Control Reviewer)
- Michael Stiernberg, JD (Audit Manager)



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Attachment

Section 1

Verified Status of State Auditor's Office Recommendations

Definitions of Implementation Status

The definition of each implementation status is as follows:

- **Fully Implemented:** Successful development and use of a process, system, or policy to implement a recommendation.
- **Substantially Implemented:** Successful development but inconsistent use of a process, system, or policy to implement a recommendation.
- **Incomplete or Ongoing:** Ongoing development of a process, system, or policy to address a recommendation.
- **Not Implemented:** Lack of a formal process, system, or policy to address a recommendation.

Table 1 shows the recommendations on which auditors followed up and their implementation status (see text box for definitions of implementation status). Those recommendations were directed to the Office of the Comptroller of Public Accounts, Employees Retirement System, Department of Public Safety, Texas Lottery Commission, Department of Transportation, General Land Office, Department of Agriculture, and Texas Board of Nursing. Please note that the recommendations were grouped into the chapter or subchapter level as presented in the original audit reports. As a result, for Table 1, some recommendations have multiple parts. For purposes of this report, auditors assigned letters to recommendations with multiple parts in Table 1.

Table 1

Implementation Status of State Auditor's Office Recommendations for Reports Issued from September 1, 2015, through June 30, 2016				
Number	Recommendation	Self-reported Implementation Status	Implementation Status Determined by Auditors	Auditor Comments
Article I - General Government				
304 - Office of the Comptroller of Public Accounts^a				
<i>An Audit Report on the Major Events Trust Fund (State Auditor's Office Report No. 16-001, September 2015)</i>				
1	The METF [Major Events Trust Fund] should ensure that all employees complete required ethics training within the required time frame.	Fully Implemented	Fully Implemented	
2	The METF should:	Fully Implemented	Fully Implemented	
A	<ul style="list-style-type: none"> ▪ Consistently obtain and review detailed documentation for payment requests to ensure that costs are (1) associated with approved major events and (2) allowable. 			
B	<ul style="list-style-type: none"> ▪ Require local governments and local organizing committees to provide original vendor invoices when they request a disbursement from the METF. 			

**Implementation Status of State Auditor's Office Recommendations for Reports Issued
from September 1, 2015, through June 30, 2016**

Number	Recommendation	Self-reported Implementation Status	Implementation Status Determined by Auditors	Auditor Comments
327 - Employees Retirement System (ERS) <i>An Audit Report on Benefits Proportionality at the Office of the Comptroller of Public Accounts, the Teacher Retirement System, and the Employees Retirement System (State Auditor's Office Report No.16-003, September 2015)</i>				
3	ERS should ensure that it accurately reallocates state group insurance contributions to higher education institutions at the end of each biennium.	Fully Implemented	Substantially Implemented	ERS accurately applied its procedures for ensuring the accurate reallocation of state group insurance contributions due to universities at the end of the 2014-2015 biennium. However, ERS inaccurately applied its procedures for ensuring the accurate reallocation of state group insurance contributions due to junior colleges at the end of that biennium.
Article V - Public Safety and Criminal Justice				
405 - Department of Public Safety <i>An Audit Report on Selected Contracts at the Department of Public Safety (State Auditor's Office Report No.16-023, May 2016)</i>				
4	The Department should: <ul style="list-style-type: none"> A ▪ Enhance its risk assessment process and consider data security when determining what to monitor for the FAST [Fingerprint Applicant Services of Texas] contract. B ▪ Develop and implement a process to determine when the FAST contractor hires new employees, and perform a fingerprint-based background check on all contractor employees who work on the contract. C ▪ Verify that the FAST contractor complies with data encryption requirements. D ▪ Verify that the FAST contractor has properly trained its employees on handling personally identifiable information. E ▪ Verify that the FAST contractor obtains the required test of FAST. F ▪ Work with the FAST contractor to develop and implement a plan for opening the remaining fingerprinting locations. G ▪ Verify the information that it uses to assess the FAST contractor's compliance with rejection rate requirements to ensure that information is complete and accurate. H ▪ Develop, document, and implement a process to track and evaluate complaints regarding the FAST contractor. I ▪ Verify that the FAST contractor complies with its HUB subcontracting plan. J ▪ Strengthen its review process to ensure that it makes payments to the FAST contractor in a timely manner to prevent incurring interest penalties. 	Fully Implemented	Fully Implemented	

**Implementation Status of State Auditor's Office Recommendations for Reports Issued
from September 1, 2015, through June 30, 2016**

Number	Recommendation	Self-reported Implementation Status	Implementation Status Determined by Auditors	Auditor Comments
Article VII - Business and Economic Development				
362 - Texas Lottery Commission <i>An Audit Report on the Texas Lottery Commission's Administration of Selected Instant Ticket Contracts (State Auditor's Office Report No. 16-028, May 2016)</i>				
5	The Commission should: <ul style="list-style-type: none"> A <ul style="list-style-type: none"> ▪ Develop, document, and implement procedures to maintain documentation supporting correct delivery truck seal numbers, and consistently verify and affirm that correct seal numbers are present when it receives deliveries of instant tickets. B <ul style="list-style-type: none"> ▪ Consistently comply with its policy to perform background checks on all key contractor personnel. C <ul style="list-style-type: none"> ▪ Develop, document, and implement procedures to ensure that it receives all required second chance drawing reports. D <ul style="list-style-type: none"> ▪ Develop, document, and implement formal procedures to verify and document that final instant ticket artwork agrees with the contracted and approved artwork. E <ul style="list-style-type: none"> ▪ Develop, document, and implement a risk assessment to identify contract requirements with a high risk of noncompliance, and incorporate the results of that risk assessment into its monitoring. F <ul style="list-style-type: none"> ▪ Develop, document, and implement procedures to verify that it receives required test game files and test game instant tickets. 	Fully Implemented	Fully Implemented	
601 - Department of Transportation <i>An Audit Report on Selected Business Opportunity Programs at the Department of Transportation (State Auditor's Office Report No. 16-002, September 2015)</i>				
6	The Department should: <ul style="list-style-type: none"> A <ul style="list-style-type: none"> ▪ Develop policies and procedures for developing, approving, and communicating Department-specific HUB [historically underutilized business] goals at the beginning of each fiscal year. B <ul style="list-style-type: none"> ▪ Estimate the value of contracts to assist in the development of HUB goals. C <ul style="list-style-type: none"> ▪ Develop and document a consistent methodology for determining whether subcontracting opportunities exist for each contract across the Department's districts, divisions, and offices. D <ul style="list-style-type: none"> ▪ Develop and implement an approved mentor-protégé program that includes all required elements. E <ul style="list-style-type: none"> ▪ Submit required progress reporting documentation as required. F <ul style="list-style-type: none"> ▪ Accurately submit goals and attainment in its Legislative Appropriations Requests. 	Fully Implemented	Fully Implemented	

**Implementation Status of State Auditor's Office Recommendations for Reports Issued
from September 1, 2015, through June 30, 2016**

Number	Recommendation	Self-reported Implementation Status	Implementation Status Determined by Auditors	Auditor Comments
G	<ul style="list-style-type: none"> ▪ Develop and implement a process to verify that contractors submit all required progress assessment reports prior to payment. 			
H	<ul style="list-style-type: none"> ▪ Implement a process to monitor contractor compliance with the HUB subcontracting plans. 			
7	The Department should:	Fully Implemented	Fully Implemented	
A	<ul style="list-style-type: none"> ▪ Give the State Use Program preference when procuring items available through that program. 			
B	<ul style="list-style-type: none"> ▪ Develop and implement a process to ensure that it reports all exceptions to the State Use Program to the Comptroller's Office as required. 			
Article VI - Natural Resources				
305 - General Land Office				
<i>An Audit Report on the General Land Office's Administration of Real Estate Transactions (State Auditor's Office Report No. 16-018, March 2016)</i>				
8	The Office should:	Fully Implemented	Fully Implemented	
A	<ul style="list-style-type: none"> ▪ Post instructions for purchasing property on its Web site. 			
B	<ul style="list-style-type: none"> ▪ Strengthen property disposition procedures related to preferential rights for adjacent land owners to include (1) evaluating whether the Office should grant preferential rights and (2) documenting the reason for granting or not granting preferential rights. 			
C	<ul style="list-style-type: none"> ▪ Comply with its procedure requiring a current appraisal to determine the market value for property dispositions, and strengthen those procedures to include a requirement to document any reason for not using a current appraisal. 			
D	<ul style="list-style-type: none"> ▪ Strengthen and implement property disposition procedures to ensure compliance with statutory requirements to report to the Legislative Budget Board any properties sold for less than the appraised value. 			
E	<ul style="list-style-type: none"> ▪ Maintain documentation related to property sales, including key information that the Office presents to the board and evidence of board approval. 			
551 - Department of Agriculture				
<i>An Audit Report on Financial Reporting and Contracting at the Department of Agriculture (State Auditor's Office Report No. 16-019, March 2016)</i>				
9	The Department should develop, document, and implement a process to accurately compile and report required information on appropriation item transfers, professional fees, consulting fees, legal fees, and proprietary purchases on its <i>Report of Non-Financial Data</i> .	Fully Implemented	Fully Implemented	

**Implementation Status of State Auditor's Office Recommendations for Reports Issued
from September 1, 2015, through June 30, 2016**

Number	Recommendation	Self-reported Implementation Status	Implementation Status Determined by Auditors	Auditor Comments
Article VIII - Regulatory				
507 - Texas Board of Nursing <i>An Audit Report on Financial Processes at the Texas Board of Nursing (State Auditor's Office Report No. 16-022, April 2016)</i>				
10	The Board should: <ul style="list-style-type: none"> A ▪ Review its classification of purchases to ensure that it codes purchases correctly. B ▪ Maintain required supporting documents for all purchases. C ▪ Consistently follow its policies and procedures to review and approve each purchase prior to the completion of the purchase. D ▪ Monitor contract expenditures to ensure that they do not exceed established total contract amounts. 	Fully Implemented	Fully Implemented	
^a The State Auditor's Office originally issued <i>An Audit Report on the Major Events Trust Fund</i> (State Auditor's Office Report No. 16-001, September 2015) to the Office of the Comptroller of Public Accounts; however, the 84th Legislature transferred administration of the Major Events Trust Fund to the Office of the Governor, which provided the responses for the implementation status presented in this table. As a result, for this report, auditors determined whether the Office of the Governor had fully implemented the recommendations.				

Source: Auditors' verification of agencies' self-reported implementation status. As noted in the report, this work did not include the same tests and confirmations that would be performed in an audit.

Section 2

Self-reported Implementation Status for Recommendations Issued to State Entities and Higher Education Institutions from September 1, 2015, through June 30, 2016

Table 2 shows a summary of the self-reported implementation status for the recommendations addressed to state agencies and higher education institutions in performance audit reports that the State Auditor’s Office released from September 1, 2015, through June 30, 2016. The information below reflects the implementation status as reported to the State Auditor’s Office by state agencies and higher education institutions on or before December 30, 2016. The audited entities self-reported that they had fully implemented the recommendations made in 34 chapters¹ and substantially implemented the recommendations in 10 chapters. Implementation of the recommendations in 17 chapters was reported as incomplete or ongoing.

Table 2

Self-reported Implementation Status of Recommendations Issued from September 1, 2015, through June 30, 2016						
Entity Number and Name	Total Number of Chapters Containing Recommendations	Number Reported as Fully Implemented	Number Reported as Substantially Implemented	Number Reported as Incomplete/Ongoing	Percent Reported as Fully Implemented	Related Report(s)
304 - Office of the Comptroller of Public Accounts ^a	8	3	2	3	38%	<i>An Audit Report on the Major Events Trust Fund</i> (State Auditor’s Office Report No. 16-001, September 2015) <i>An Audit Report on Benefits Proportionality at the Office of the Comptroller of Public Accounts, the Teacher Retirement System, and the Employees Retirement System</i> (State Auditor’s Office Report No. 16-003, September 2015)

¹ The recommendations were grouped into the chapter or subchapter level as presented in the original audit report. For this report, “chapters” refers to both chapters and subchapters. In addition, some recommendations may have multiple parts.

**Self-reported Implementation Status of Recommendations Issued
from September 1, 2015, through June 30, 2016**

Entity Number and Name	Total Number of Chapters Containing Recommendations	Number Reported as Fully Implemented	Number Reported as Substantially Implemented	Number Reported as Incomplete/Ongoing	Percent Reported as Fully Implemented	Related Report(s)
305 - General Land Office	6	6	0	0	100%	<i>An Audit Report on the General Land Office's Administration of Real Estate Transactions (State Auditor's Office Report No. 16-018, March 2016)</i> <i>An Audit Report on Incentive Compensation at the Permanent School Fund, General Land Office, Employees Retirement System, and Teacher Retirement System (State Auditor's Office Report No. 16-030, June 2016)</i>
313 - Department of Information Resources	1	0	0	1	0%	<i>An Audit Report on Selected Agencies' Use of Department of Information Resources Information Technology Staffing Services Contracts (State Auditor's Office Report No. 16-020, March 2016)</i>
320 - Texas Workforce Commission	1	1	0	0	100%	<i>An Audit Report on Selected Agencies' Use of Department of Information Resources Information Technology Staffing Services Contracts (State Auditor's Office Report No. 16-020, March 2016)</i>
323 - Teacher Retirement System	1	0	0	1	0%	<i>An Audit Report on Incentive Compensation at the Permanent School Fund, General Land Office, Employees Retirement System, and Teacher Retirement System (State Auditor's Office Report No. 16-030, June 2016)</i> ^b

**Self-reported Implementation Status of Recommendations Issued
from September 1, 2015, through June 30, 2016**

Entity Number and Name	Total Number of Chapters Containing Recommendations	Number Reported as Fully Implemented	Number Reported as Substantially Implemented	Number Reported as Incomplete/Ongoing	Percent Reported as Fully Implemented	Related Report(s)
327 - Employees Retirement System	2	2	0	0	100%	<i>An Audit Report on Benefits Proportionality at the Office of the Comptroller of Public Accounts, the Teacher Retirement System, and the Employees Retirement System (State Auditor's Office Report No. 16-003, September 2015)</i> <i>An Audit Report on Incentive Compensation at the Permanent School Fund, General Land Office, Employees Retirement System, and Teacher Retirement System (State Auditor's Office Report No. 16-030, June 2016)</i>
347 - Texas Public Finance Authority	5	2	3	0	40%	<i>An Audit Report on Financial Processes at the Texas Public Finance Authority (State Auditor's Office Report No. 16-029, May 2016)</i>
362 - Texas Lottery Commission	2	2	0	0	100%	<i>An Audit Report on the Texas Lottery Commission's Administration of Selected Instant Ticket Contracts (State Auditor's Office Report No. 16-028, May 2016)</i>
405 - Department of Public Safety	7	4	1	2	57%	<i>An Audit Report on Selected Contracts at the Department of Public Safety (State Auditor's Office Report No. 16-023, May 2016)</i> <i>An Audit Report on the Criminal Justice Information System at the Department of Public Safety and the Texas Department of Criminal Justice (State Auditor's Office Report No. 16-025, May 2016)</i>
507 - Texas Board of Nursing	4	3	0	1	75%	<i>An Audit Report on Financial Processes at the Texas Board of Nursing (State Auditor's Office Report No. 16-022, April 2016)</i>

**Self-reported Implementation Status of Recommendations Issued
from September 1, 2015, through June 30, 2016**

Entity Number and Name	Total Number of Chapters Containing Recommendations	Number Reported as Fully Implemented	Number Reported as Substantially Implemented	Number Reported as Incomplete/Ongoing	Percent Reported as Fully Implemented	Related Report(s)
529 - Health and Human Services Commission	2	1	1	0	50%	<i>An Audit Report on Selected Agencies' Use of Department of Information Resources Information Technology Staffing Services Contracts (State Auditor's Office Report No. 16-020, March 2016)</i> <i>An Audit Report on a Selected Contract at the Department of State Health Services (State Auditor's Office Report No. 16-031, June 2016)</i>
537 - Department of State Health Services	3	0	0	3	0%	<i>An Audit Report on Selected Agencies' Use of Department of Information Resources Information Technology Staffing Services Contracts (State Auditor's Office Report No. 16-020, March 2016)</i> <i>An Audit Report on a Selected Contract at the Department of State Health Services (State Auditor's Office Report No. 16-031, June 2016)</i>
551 - Department of Agriculture	8	6	2	0	75%	<i>An Audit Report on Financial Reporting and Contracting at the Department of Agriculture (State Auditor's Office Report No. 16-019, March 2016)</i>
601 - Department of Transportation	5	3	0	2	60%	<i>An Audit Report on Selected Business Opportunity Programs at the Department of Transportation (State Auditor's Office Report No. 16-002, September 2015)</i>
696 - Texas Department of Criminal Justice	4	0	0	4	0%	<i>An Audit Report on the Criminal Justice Information System at the Department of Public Safety and the Texas Department of Criminal Justice (State Auditor's Office Report No. 16-025, May 2016)</i>

**Self-reported Implementation Status of Recommendations Issued
from September 1, 2015, through June 30, 2016**

Entity Number and Name	Total Number of Chapters Containing Recommendations	Number Reported as Fully Implemented	Number Reported as Substantially Implemented	Number Reported as Incomplete/Ongoing	Percent Reported as Fully Implemented	Related Report(s)
735 - Midwestern State University	1	0	1	0	0%	<i>An Audit Report on Benefits Proportionality at Higher Education Institutions</i> (State Auditor's Office Report No. 16-024, May 2016)
772 - School for the Deaf	1	1	0	0	100%	<i>An Audit Report on Deferred Maintenance for the School for the Deaf</i> (State Auditor's Office Report No. 16-008, October 2015)
Totals	61	34	10	17		

^a The State Auditor's Office originally issued *An Audit Report on the Major Events Trust Fund* (State Auditor's Office Report No. 16-001, September 2015) to the Office of the Comptroller of Public Accounts. The 84th Legislature transferred administration of the Major Events Trust Fund to the Office of the Governor; therefore, the Office of the Governor provided the implementation status information presented in this table. Of the five chapters with recommendations in Report 16-001, the Office of the Governor reported three as fully implemented and two as substantially implemented.

^b The Teacher Retirement System was also discussed in *An Audit Report on Benefits Proportionality at the Office of the Comptroller of Public Accounts, the Teacher Retirement System, and the Employees Retirement System* (State Auditor's Office Report No. 16-003, September 2015). However, that report did not address any recommendations to the Teacher Retirement System.

Source: Agencies' self-reported implementation status in the State Auditor's Office's Audit and Results system as of December 30, 2016. Auditors only verified the accuracy of the self-reported implementation status for the recommendations noted in Table 1. As noted in the report, this work did not include the same tests and confirmations that would be performed in an audit.