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First Assistant State Auditor

State of Texas Financial Portion of the  
**Statewide Single Audit Report for the  
Year Ended August 31, 2020**

February 2021  
Report No. 21-555



State of Texas Financial Portion of the  
**Statewide Single Audit Report for the Year  
Ended August 31, 2020**

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SAO Report No. 21-555  
February 2021

## Overall Conclusion

In our audit opinion dated February 23, 2021, 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, 2020. The Office of the Comptroller of Public Accounts (Comptroller's Office) prepared the basic financial statements and published our audit opinion as part of the Comprehensive Annual Financial Report (CAFR) for fiscal year 2020, which it intends to post on its website at <https://comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/>.

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; those financial statements combine financial information for more than 200 state agencies and higher education institutions.

### Economic Stabilization Fund

On August 31, 2020, the Economic Stabilization Fund balance was \$11.3 billion. That amount consisted primarily of \$5.9 billion in cash in the State Treasury, \$4.1 billion in current and non-current investments, and \$1.3 billion due from the General Revenue Fund. The General Revenue Fund transferred \$1.1 billion to the Economic Stabilization Fund in November 2020. The Economic Stabilization Fund is reported in the General Fund on the governmental fund financial statements and in Governmental Activities on the government-wide financial statements.

#### Basic Financial Statements

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

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

Source: Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

## Fiscal Year 2020 Financial Summary

- As of August 31, 2020, the State reported total assets of \$380.4 billion, which primarily consisted of \$159.9 billion in capital assets, \$128.2 billion in investments, and \$46.7 billion in cash and cash equivalents.
- As of August 31, 2020, the State reported total liabilities of \$250.3 billion, which consisted of \$77.0 billion for other postemployment benefits (OPEB) liabilities, \$67.1 billion for pension liabilities, and \$59.7 billion for bonds payable liabilities.
- As of August 31, 2020, the State reported a net position of \$117.1 billion. Net position is the total ending balance for the State.
- The fiscal year 2020 consolidated financial statements report the use of approximately \$198.8 billion<sup>1</sup> during the fiscal year.
- The State's Schedule of Expenditures of Federal Awards (SEFA) reported expenditures of \$95.1 billion related to federal awards.

The State is also the trustee or fiduciary for ten defined benefit plans and one defined contribution plan. It is also responsible for other assets that can be used only for trust beneficiaries. All state fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. These activities are reported separately from other financial activities because the State cannot use the assets to finance its operations. The State's fiduciary responsibilities include ensuring that assets reported in those funds are used for their intended purposes. The financial activity and balances for those fiduciary activities are not included in the fiscal year 2020 totals listed above.

Auditing the basic 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.

The State Auditor's Office also audited the State's SEFA in relation to the CAFR for fiscal year 2020 and issued an unmodified opinion. The Comptroller's Office prepares the SEFA by using self-reported SEFA data from all state agencies and

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<sup>1</sup> The \$198.8 billion in annual expenditures exceeded the \$123.6 billion appropriated for fiscal year 2020 primarily because:

- Certain expenditures (such as higher education institutions' expenditures of funds held outside the State Treasury) are included in the Comprehensive Annual Financial Report (CAFR) but are not included in the General Appropriations Act (GAA).
- The CAFR presents actual expenditures of federal funds, while the GAA presents estimated amounts for federal funds.
- Additional pension and OPEB-related expenditures were recorded in the CAFR to account for the effects of the implementation of GASB Statements Nos. 68, 71, 73, and 75 that are not included in the GAA.

higher education institutions that made federal expenditures during the fiscal year. The State Auditor's Office and CliftonLarsonAllen LLP (CLA) audited the processes for preparing SEFA information at 21 agencies and higher education institutions. Auditors identified errors related to the SEFA information at nine agencies and higher education institutions. Those errors are discussed in Chapter 2-A of this report.

As part of the audit work for SEFA, auditors performed prior-year finding follow-up work at seven agencies and higher education institutions and determined that recommendations for two of those findings were not yet fully implemented (see the Summary Schedule of Prior Year Audit Findings).

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 may be used by bond-rating companies, the Legislature, and federal agencies that award grants.

## ***Summary of Management's Response***

At the end of certain chapters 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, 2020.

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 Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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 CLA 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 Year Ended August 31, 2020*, by CLA.

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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, 2020*

## **Summary of Auditor's Results**

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### **Financial Statements**

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

### **Federal Awards**

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2020 was included in Chapter 2-A of this report. All other fiscal year 2020 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, 2020*, by CLA).





**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***

**Independent Auditor's Report**

The Honorable Greg Abbott, Governor  
The Honorable Glenn Hegar, Comptroller of Public Accounts  
The Honorable Dan Patrick, Lieutenant Governor  
The Honorable Dade Phelan, 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, 2020, 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 23, 2021. Our report includes a reference to other auditors who audited the financial statements of the Department of Transportation, the Employees Retirement System, 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Summary of Findings and Responses	
Agency or Higher Education Institution	Finding Numbers
Multiple agencies and higher education institutions	21-555-01

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State’s consolidated financial statements are free from 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 financial statements. 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 Teacher Retirement System's Fiscal Year 2020 Financial Statements* (State Auditor's Office Report No. 21-003, November 2020).
- *A Report on the Audit of the Department of Housing and Community Affairs' Fiscal Year 2020 Financial Statements* (State Auditor's Office Report No. 21-005, December 2020).
- *A Report on the Audit of the Permanent School Fund's Fiscal Year 2020 Financial Statements* (State Auditor's Office Report No. 21-006, December 2020).

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 described 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 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 over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the State's internal control over financial reporting 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 over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

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

February 23, 2021

# **Schedule of Findings and Responses**

*State of Texas Financial Portion of the  
Statewide Single Audit Report for the  
Year Ended August 31, 2020*

## Financial Statement Findings

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This chapter identifies the significant deficiencies related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. There are no significant deficiencies related to the State’s basic financial statements, but Chapter 2-A below discusses significant deficiencies related to the State’s Schedule of Expenditures of Federal Awards.

Chapter 2-A

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

Reference No. 21-555-01

(Prior Audit Issue 20-555-02, 19-555-01, 18-555-04, 17-555-04, 16-555-04, 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 [Title 2, U.S. 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 [Title 2, CFR, Section 200.40].

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Comptroller’s Office.

The agencies and higher education institutions discussed below did not appropriately prepare or adequately review their fiscal year 2020 Schedule of Expenditures of Federal Awards (SEFA) (see text box for additional information). Therefore, the SEFAs that they submitted to the Office of the Comptroller of Public Accounts (Comptroller’s Office) contained errors.

Those agencies and higher education institutions accounted for \$43,764,732,829 in federal expenditures, or 46 percent of the total federal expenditures that the State of Texas reported for fiscal year 2020. The errors listed below were not material to the fiscal year 2020 SEFA for the State of Texas or to the fiscal year 2020 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 State Health Services

The Department of State Health Services (DSHS) understated expenditures by \$51,301,233 related to the Coronavirus Relief Fund (CFDA 21.019) on its fiscal year 2020 SEFA. That occurred because DSHS reported SEFA expenditures based on advance payments made to vendors. DSHS should have reported expenditures for this program based on actual expenditures

incurred during fiscal year 2020. The Coronavirus Relief Fund was a new federal program for fiscal year 2020.

### **Recommendation**

DSHS should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including reporting only expenditures incurred during the fiscal year.

### **Views of Responsible Officials**

*DSHS acknowledges and agrees with the finding. Advanced payments is a new tool for DSHS and its contractors as advanced payments are not typical. This new financial method was implemented only due to the extraordinary public health measures being used to battle the COVID-19 pandemic and the never-before-seen volume and level of effort required to combat the virus that continues in FY21.*

### **Corrective Action Plan**

*The fiscal year 2020 SEFA is now correct. DSHS Accounting has reviewed the underlying cause and has already implemented a process improvement for advance payments. This process improvement will be documented in procedures and tested for accuracy of desired outcome.*

*Implementation Date: March 30, 2021*

*Responsible Person: DSHS Accounting Claims Unit Manager*

### **Texas Division of Emergency Management**

The Texas Division of Emergency Management (TDEM) incorrectly classified \$100,087,455 as pass through expenditures related to one CFDA program on its fiscal year 2020 SEFA. That occurred because TDEM miscoded select expenditures within its accounting system. TDEM should have reported those expenditures as direct expenditures instead of pass through expenditures.

## Recommendation

TDEM should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including classifying expenditures appropriately by expenditure type.

## Views of Responsible Officials

*TDEM acknowledges and agrees with the finding. TDEM will work to develop and implement corrective action to further improve our process.*

## Corrective Action Plan

*TDEM will review sub-recipient anomalies with various staff to ensure correct sub-recipient or contractor relationship is identified.*

*Implementation Date: February 1, 2021*

*Responsible Person: Division Chief and Section Chief - Finance*

## Health and Human Services Commission

On its fiscal year 2020 SEFA, the Health and Human Services Commission (HHSC):

- Incorrectly classified \$16,404,999 as direct expenditures related to 10 CFDA programs. HHSC should have reported those expenditures as pass through expenditures instead of direct expenditures.
- Incorrectly classified \$626,499,103 in expenditures related to 2 CFDA programs. Specifically, HHSC did not identify those expenditures on the SEFA as COVID-19-related expenditures as required. New for fiscal year 2020, entities are required to identify all COVID-19-related expenditures on their SEFAs.

## Recommendation

HHSC should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including ensuring that it:

- Classifies expenditures appropriately by expenditure type.
- Identifies and reports COVID-19-related expenditures.

## **Views of Responsible Officials**

*The Texas Health & Human Services Commission acknowledges and agrees with this finding. Through analysis of the exceptions identified in the audit, the Texas Health & Human Services Commission will develop and implement corrective action to further improve the preparation and review processes.*

## **Corrective Action Plan**

*The Texas Health & Human Services Commission has implemented significant process enhancements in this area. The Schedule of Expenditure of Federal Awards (SEFA) workplan will be revised to include procedures for the attributes to be tested for each relevant compliance requirement and coordination of an annual review with HHSC's financial reporting specialist at the Comptroller's Office prior to SEFA preparation. The annual review will ensure any applicable accounting and reporting updates are captured and documented in HHSC's SEFA workplan.*

*Implementation Date: January 28, 2021*

*Responsible Persons: Financial Analyst*

*Deputy Director Fund Accounting*

## **General Land Office**

The General Land Office (GLO) overstated expenditures on its fiscal year 2020 SEFA by \$4,428,606 as part of the Federal Disaster Grants - Public Assistance (Disaster Assistance) program, CFDA 97.036. That occurred because the GLO reported prior year expenditures on its current year's SEFA.

## **Recommendation**

The General Land Office should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including reporting expenditures in the appropriate fiscal year.

## **Views of Responsible Officials**

*The Texas General Land Office concurs with the recommendation.*



## Corrective Action Plan

*The Texas General Land Office will continue to train and develop our professional staff to perform timely reconciliations and reviews of expenditures and revenues for the Federal Disaster Grants – Public Assistance (Disaster Assistance) program, CFDA 97.036 as they relate to the Schedule of Expenditures of Federal Awards.*

*Implementation Date: April 1, 2021*

*Responsible Person: Sr. Director of Federal Finance, GLO-Financial Management*

## The University of Texas at Austin

On its fiscal year 2020 SEFA, the University of Texas at Austin (UT Austin):

- Incorrectly classified \$1,479,050 in expenditures related to 5 Catalog of Federal Domestic Assistance (CFDA) programs. Specifically, UT Austin classified those expenditures as part of the Research and Development cluster of federal programs; but those expenditures were not related to research and development and should not have been included in that cluster of federal programs.
- Incorrectly classified \$56,475 in expenditures as a generic CFDA program. Specifically, those expenditures were reported in CFDA 17.000 (U.S. Department of Labor), but they should have been reported in CFDA 17.600 (Mine Health and Safety Grants).
- Did not disclose on Note 8 to its SEFA \$483,936 in Disaster Assistance expenditures incurred in prior fiscal years as required. Specifically, UT Austin did not have a process to identify Federal Emergency Management Agency (FEMA) project worksheets approved in fiscal year 2020 that included expenditures incurred in prior fiscal years. As a result, UT Austin did not report any prior year expenditures for 5 FEMA project worksheets that were approved in fiscal year 2020 on Note 8.

## Recommendation

UT Austin should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including ensuring that it:

- Classifies expenditures in the appropriate clusters.
- Reports correct CFDA for each federal award.

- Reports expenditures on Note 8, when applicable.

### **Views of Responsible Officials**

*The University acknowledges and agrees with the findings. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective action to further improve the processes.*

### **Corrective Action Plan**

*Management is committed to improving the review processes to ensure the SEFA submission is accurate. We will validate cluster designations to ensure research and development expenses are appropriately accounted for in the appropriate cluster for federal programs. Additionally, SPAA will be conducting validation checks on new award setups monthly and conduct a CFDA review quarterly in addition to the validations completed by Accounting.*

*Implementation Date: August 2021*

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

### **Views of Responsible Officials**

*The University acknowledges and agrees with the findings. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective action to further improve the processes.*

### **Corrective Action Plan**

*Management will improve validation & reconciliation processes to ensure CFDA misclassifications do not occur. In addition, SPAA will be conducting validation checks on new award setups monthly and conduct a CFDA review quarterly in addition to the validations completed by Accounting.*

*Implementation Date: August 2021*

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

### **Views of Responsible Officials**

*The University acknowledges and agrees with the findings. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective action to further improve the processes.*

### **Corrective Action Plan**

*Management will implement the Note 8 calculation procedure conducted by the Texas State Auditor's Office within the audit to ensure proper reporting of this expense moving forward.*

*Implementation Date: August 2021*

*Responsible Persons: Finance Officer, Accounting & Financial  
Management*

*Finance Manager, Accounting & Financial  
Management*

### **University of North Texas**

On its fiscal year 2020 SEFA, the University of North Texas (UNT):

- Overstated the Outstanding Balance of Loans amount for 1 CFDA program by \$183,020,257 on Note 3a to its SEFA. The amount should have been reported as repayment/adjustment activity on Note 3a.
- Incorrectly excluded \$169,586 in administrative costs related to 1 Student Financial Assistance CFDA program. This error occurred because UNT did not have a process to include administrative costs related to that CFDA on its SEFA.

### **Recommendation**

The University of North Texas should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including ensuring that it:

- Reports outstanding balances correctly in the notes to its SEFA.
- Reports administrative costs as required.

### **Views of Responsible Officials**

*The University of North Texas (UNT) acknowledges and agrees with the audit findings. During the audit, it was discovered that the outstanding loans section was incorrectly reported causing an overstatement of \$183,020,257 on note 3. In addition, there was an exclusion of \$169,586 of administrative cost for student financial aid CFDA program. Upon notice of the findings, I have executed the below action plan.*

### **Corrective Action Plan**

*UNT immediately updated processes to ensure future reporting reports outstanding loans and administrative cost appropriately in the fiscal year.*

*Implementation Date: December 16, 2020*

*Responsible Person: Senior Principal Accountant*

### **University of Houston**

On its fiscal year 2020 SEFA, the University of Houston:

- Overstated expenditures by \$739,755 for Note 8. The overstatement occurred because the University of Houston incorrectly included expenditures associated with project worksheets that FEMA approved prior to fiscal year 2020.
- Misclassified \$2,546,211 in expenditures between two CFDA's. As a result of the misclassification, expenditures were overstated for CFDA 84.424 and understated for CFDA 84.425 by that amount. The misclassification occurred because the University of Houston did not have an adequate review process to verify that federal awards were properly categorized.

### **Recommendation**

The University of Houston should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including reporting expenditures in the appropriate fiscal year and CFDA.

## Views of Responsible Officials

*The University acknowledges and agrees with the finding and will develop a corrective action plan.*

## Corrective Action Plan

*The University will update their SEFA preparation and review procedures to include PW's in Note 8 based on Award Date and will improve its CFDA assignment and review procedures for new CFDA processes by ensuring that the CFDA is confirmed.*

*Implementation Date: February 28, 2021*

*Responsible Person: AVP Finance and Controller*

## The University of Texas at Arlington

The University of Texas at Arlington (UTA) understated expenditures on its fiscal year 2020 SEFA by \$247,954 for 1 Student Financial Assistance (SFA) CFDA program. That occurred because UTA incorrectly classified some SFA disbursements as “prepaid expenses” and excluded them from the fiscal year 2020 SEFA. However, SFA disbursements should be reported on the SEFA for the fiscal year in which they are made; therefore, those disbursements should have been included on UTA’s fiscal year 2020 SEFA.

## Recommendation

The University of Texas at Arlington should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including reporting expenditures in the appropriate fiscal year.

## Views of Responsible Officials

*The University of Texas at Arlington (UTA) acknowledges and agrees with the finding. As recommended, through analysis of the exception identified in the audit, UTA has implemented corrective action to further improve the processes.*

## Corrective Action Plan

*UTA immediately implemented process enhancements on December 15, 2020 upon discovery of the error. Financial Aid will verify that item types are established for Fall Term to record disbursements to students correctly to the general ledger. Student Financial Accounting will verify during the year-end reconciliation process that item types are set up correctly according to a list of non-exchange programs and will record corrections for any that were set up incorrectly. Annually, Financial Reporting will review and update the list for any new non-exchange awards received.*

*Implementation Date: December 15, 2020*

*Responsible Persons: Executive Director of Financial Aid  
Director of Financial Reporting*

## Texas Southern University

On its fiscal year 2020 SEFA, Texas Southern University (TSU):

- Overstated expenditures on Note 8 by \$797,870. The overstatement occurred because TSU incorrectly included expenditures associated with project worksheets that FEMA approved subsequent to fiscal year 2020.
- Reported \$128,347 of unsupported expenditures on Note 8. TSU could not provide support for the expenditures, including documentation showing when the expenditures were incurred. As a result, auditors could not determine whether the unsupported expenditures were correctly included on Note 8.

## Recommendation

Texas Southern University should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA notes correctly, including reporting expenditures in the appropriate fiscal year and maintaining adequate support for all expenditures reported.

## Views of Responsible Officials

*Research Financial Services, Financial Reporting, Facilities & Maintenance Services and Risk Management and Insurance Services agrees with the recommendation to correctly prepare Note 8 to the Schedule of Expenditures for Federal Awards, and to maintain appropriate supporting documentation for its expenditures.*

## Corrective Action Plan

*Texas Southern University agrees with the recommendation to strengthen its SEFA preparation and review process to ensure that it prepares its SEFA notes correctly, inclusive of reporting expenditures in the appropriate fiscal year and maintaining adequate support for all expenditures reported. Standard operating procedures are being designed to properly record Public Assistance (FEMA) Grant reimbursements to the general ledger in the correct accounting period and align appropriately with the SEFA reporting for state and grant funding specific to eligible costs associated with the repair, replacement or restoration of disaster damaged facilities to mitigate the risk of under/overstatements. Additionally, the controlled processes will entail maintaining the correct supporting documentation for each project; and involves the engagement of Financial Reporting, Facilities and Maintenance Services, Risk Management and Insurance Services and Research Financial Services.*

*Implementation Date: May 2021*

*Responsible Persons: Executive Director, Financial Accounting*

*Executive Director, Facilities and Maintenance Services*

*Risk Manager, Risk Management and Insurance Services*

*Director, Research Financial Services*

## ***Federal Award Findings and Questioned Costs***

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A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2020 was included in Chapter 2-A of this report. All other fiscal year 2020 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, 2020*, by CLA.



# Summary Schedule of Prior Audit Findings

*State of Texas Financial Portion of the  
Statewide Single Audit Report for the  
Year Ended August 31, 2020*

## **Summary Schedule of Prior Audit Findings**

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Federal regulations (Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*) 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).

*State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2015* (State Auditor’s Office Report No. 16-555, March 2016).

*State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2016* (State Auditor’s Office Report No. 17-555, February 2017).

*State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2017* (State Auditor's Office Report No. 18-555, February 2018).

*State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2018* (State Auditor's Office Report No. 19-555, February 2019).

*State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2019* (State Auditor's Office Report No. 20-555, February 2020).

The Summary Schedule of Prior Audit Findings (for the year ended August 31, 2020) has been prepared to address these responsibilities.

## The Texas Workforce Commission Should Strengthen Certain Controls Over Financial Reporting

### Issue 1

#### The Texas Workforce Commission Should Strengthen Its Financial Reporting Processes

Reference No. 20-555-01

#### Type of finding: Material Weakness

The Texas Workforce Commission (Commission) had processes to help

#### 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 265.07, *Communicating Internal Control Related Matters Identified in an Audit*.

#### Fund Definition

A **fund** is a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Source: Governmental Accounting Standards Board, Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, paragraph 208.

ensure that the financial information it reported to the State's accounting system reconciled to the Commission's internal accounting system. However, while it reported accurate financial information in its published fiscal year 2019 annual financial report, it did not accurately report fiscal year 2019 financial information related to net position to the State's accounting system. As a result, there was a material weakness in the Commission's internal control processes for financial reporting (see text box for additional information on material weaknesses).

The Office of the Comptroller of Public Accounts (Comptroller's Office) uses the State's accounting system to produce the State's Comprehensive Annual Financial Report. Therefore, the submission of incorrect financial data to the State's accounting system could lead the State to produce misstated financial statements.

Specifically, the Commission incorrectly reported to the State's accounting system net position balances for one of the funds that comprise the Commission's Unemployment Trust Fund (see text box for more information on funds). That one fund did not have any activity in fiscal year 2019; therefore, the Commission should not have reported an unrestricted net position balance of \$100.3 million and a restricted net position for debt retirement balance of negative \$100.3 million for that fund. This error occurred because

the journal entry that the Commission made did not appropriately correct the net position balances in the State's accounting system.

The *Comptroller's Office's Reporting Requirements for the Annual Financial Reports of State Agencies and Universities* requires each agency to ensure and certify that its financial data correctly reflected its financial position as of August 31, 2019, as recorded in the State's accounting system and the agency's internal accounting system.

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 the Commission's net position balances during its preparation of the State's Comprehensive Annual Financial Report.

### Implementation Status

*Corrective action was implemented.*

Chapter 4-B

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

Reference No. 20-555-02

(Prior Audit Issues 19-555-01, 18-555-04, 17-555-04, 16-555-04, 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 [Title 2, U.S. 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 [Title 2, CFR, Section 200.40].

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Comptroller's Office.

The agencies and higher education institutions discussed below did not appropriately prepare or adequately review their fiscal year 2019 Schedule of Expenditures of Federal Awards (SEFA) (see text box for additional information). Therefore, the SEFAs that they submitted to the Office of the Comptroller of Public Accounts (Comptroller's Office) contained errors.

Those agencies reported \$32,746,187,774 in federal expenditures, or 58 percent of the total federal expenditures that the State of Texas reported for fiscal year 2019. The errors listed below were not material to the fiscal year 2019 SEFA for the State of Texas or to the fiscal year 2019 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 Agriculture

The Department of Agriculture (Department) incorrectly classified \$58,911,752 of expenditures between 2 Catalog of Federal Domestic Assistance (CFDA) programs on its fiscal year 2019 SEFA. This occurred because the Department incorrectly reported all program expenditures under the administrative CFDA. The Department should have reported the expenditures under the corresponding direct program CFDA.

### **Implementation Status**

*Corrective action was implemented.*

### **Department of Housing and Community Affairs**

The Department of Housing and Community Affairs (Department) incorrectly classified \$554,256 for 2 CFDA programs on its fiscal year 2019 SEFA. This occurred because the Department did not accurately allocate expenditures between direct and pass through expenditure categories.

### **Implementation Status**

*Corrective action was implemented.*

### **Health and Human Services Commission**

The Health and Human Services Commission (Commission) did not report cash rebates received during fiscal year 2019 related to the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) in the Notes to the SEFA. As a result, the Commission's fiscal year 2019 SEFA Note 6 was understated by \$211,626,201. This occurred because the Commission had inadequate procedures and review processes to ensure complete and accurate reporting of all required SEFA notes.

### **Implementation Status**

*Corrective action was implemented.*

During fiscal year 2019, four higher education institutions had uncorrected recommendations from issues identified during the audit of its fiscal year 2018 Schedule of Expenditures of Federal Awards (SEFA). Auditors conducted limited procedures to follow up on the status of the findings related to the preparation of its SEFAs in fiscal years 2018 and 2019. Two higher education institutions partially implemented the recommendations from the prior audit. Two higher education institutions fully implemented the recommendations from the prior audit.

Reference No. 19-555-01

**Type of finding: Significant Deficiency**

The higher education institutions discussed below did not appropriately prepare or adequately review their fiscal year 2018 SEFAs.

**The University of Texas at Austin**

On its fiscal year 2018 SEFA, the University of Texas at Austin (UT Austin):

- Incorrectly classified \$2,280,241 in expenditures related to 2 generic CFDA programs.
- Incorrectly classified \$12,976 in expenditures related to 3 CFDA as part of the Research and Development cluster of federal programs. Those expenditures should not have been classified as part of the Research and Development cluster of federal programs.

**Implementation Status**

*This finding was reissued as current year reference number 21-555-01.*

**The University of Texas M.D. Anderson Cancer Center**

On its fiscal year 2018 SEFA, the University of Texas M.D. Anderson Cancer Center (M.D. Anderson):

- Incorrectly excluded \$26,696,473 in expenditures because it did not include expenditures paid from program income for 6 CFDA. As a result, M.D. Anderson (1) understated expenditures on its SEFA by \$26,696,473 and (2) understated federal revenue by \$26,696,473 in Note 2 to its SEFA.
- Incorrectly classified \$3,877,918 in expenditures related to 1 CFDA as part of the Research and Development cluster of federal programs. Those

expenditures should not have been classified as part of the Research and Development cluster of federal programs.

- Incorrectly classified \$83,808 in expenditures for 2 CFDA programs on its SEFA.
- Incorrectly based its SEFA on revenues rather than expenditures for the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program. As a result, M.D. Anderson could not determine whether Note 8, a required disclosure related to that program, applied to expenditures for that program.

### **Implementation Status**

*Corrective action was implemented.*

### **The University of Texas Medical Branch at Galveston**

On its fiscal year 2018 SEFA, the University of Texas Medical Branch at Galveston (UTMB):

- Overstated federal revenue by \$415,789 and incorrectly included a reconciling item related to that revenue in Note 2 to its SEFA. That occurred because UTMB incorrectly included revenue received on non-fixed fee contracts in its calculation of the reconciling item for federal revenue received on the fixed fee basis contract in Note 2 to its SEFA.
- Incorrectly classified \$878,548 in expenditures related to 6 CFDA as part of the Research and Development cluster of federal programs. Those expenditures should not have been classified as part of the Research and Development cluster of federal programs.

### **Implementation Status**

*Corrective action was implemented.*



## The University of Texas Southwestern Medical Center

On its fiscal year 2018 SEFA, the University of Texas Southwestern Medical Center (UT Southwestern):

- Overstated expenditures by \$1,247,151 for 1 Student Financial Assistance CFDA program. UT Southwestern did not make any disbursements for this program in fiscal year 2018. Instead, that amount represented the entire balance of the program. As a result, UT Southwestern (1) overstated the outstanding balance of loans by \$1,236,735 in Note 3a to its SEFA, (2) understated the beginning balance of outstanding loans by \$10,416 in Note 3a to its SEFA, and (3) overstated new loans processed amount by \$1,247,151 in Note 2 and Note 3a to its SEFA.
- Incorrectly classified \$360,220 in expenditures using a generic CFDA (43.000) instead of the CFDA identified in the award agreement (43.003).
- Overstated federal revenue by \$112,085 in Note 2 to its SEFA and incorrectly included a reconciling item (specifically, federal revenue received under a vendor relationship between the agency and the federal government) related to that revenue in Note 2 to its SEFA. That occurred because UT Southwestern incorrectly reported federal revenue received from vendor relationships with non-federal government entities.
- Incorrectly included \$212,064 in expenditures related to 2 CFDA's on its SEFA; it should have included those expenditures as a reconciling item (specifically, federal revenue received under a vendor relationship between the agency and the federal government) in Note 2 of its SEFA. As a result, UT Southwestern overstated expenditures on its SEFA by \$212,064.
- Overstated \$176,270 in expenditures related to 2 CFDA's. That occurred because UT Southwestern included non-federal expenditures on its SEFA. As a result, UT Southwestern overstated federal revenue by \$176,270 in Note 2 to its SEFA.

### Recommendation

UT Southwestern should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including ensuring that it:

- Prepares its SEFA beginning and outstanding balances and new loans processed correctly in the notes to its SEFA.

- Reports appropriate expenditures for each federal award and cluster of federal programs.
- Reports correct CFDA's for each federal award.
- Reports federal revenues and reconciling items correctly and only when appropriate in the notes to its SEFA.

### **Implementation Status**

*Partially implemented.*

### **Views of Responsible Officials 2018**

- *Overstated expenditures by \$1,247,151 for 1 Student Financial Assistance CFDA program. UT Southwestern did not make disbursements for this program in fiscal year 2018. Instead, that amount represented the entire balance of the program. As a result, UT Southwestern (1) overstated the outstanding balance of loans by \$1,236,735 in Note 3a to its SEFA (2) understated the beginning balance of outstanding loans by \$10,416 in Note 3a to its SEFA, and (3) overstated new loans processed amount by \$1,247,151 in Note 2 and Note 3a to its SEFA.*

*UT Southwestern acknowledges and agrees that a data entry error occurred that resulted in an overstatement of expenditures. We have added an additional step to our review process to reduce the risk of future errors – see detail below.*

### **Corrective Action Plan 2018**

*We have updated our report review procedures to include the Financial Aid Office as a reviewer. This will allow the business owner to provide an additional review of the report to ensure accuracy.*

*Implementation Date: February 8, 2019*

*Responsible Person: Director of Fiscal Reports and Accounting Operations*

### **Views of Responsible Officials 2018**

- *Incorrectly classified \$360,220 in expenditures using a generic CFDA (43.000) instead of the CFDA identified in the award agreement (43.003).*

*UT Southwestern acknowledges and agrees that a data entry error of CFDA 43.000 rather than 43.003 resulted in classifying the respective expenditures to the National Aeronautics and Space Administration (NASA) generic CFDA, rather than to NASA's specific program, Exploration.*

#### **Corrective Action Plan 2018**

*We recently realigned SPA personnel to create a dedicated award set-up team, and have reiterated the importance for each person to review their entries carefully and assure all CFDA entries are accurate and directly represent the CFDA provided within the NOA—original or as amended. Further, we are reviewing options as to how we can enhance system controls and quality reviews within the entry process.*

*Implementation Date: February 8, 2019 – June 01, 2019*

*Responsible Person: Director of Post Award Accounting*

#### **Views of Responsible Officials 2018**

- *Overstated federal revenue by \$112,085 in Note 2 to its SEFA and incorrectly included a reconciling item (specifically, federal revenue received under a vendor relationship between the agency and the federal government) related to that revenue in Note 2 to its SEFA. That occurred because UT Southwestern incorrectly reported federal revenue received from vendor relationships with non-federal government entities.*

*UT Southwestern acknowledges and agrees that revenue recognized under an agreement(s) with the Dallas VA Research Corporation was incorrectly reported on UT Southwestern's SEFA.*

#### **Corrective Action Plan 2018**

*We recently realigned SPA personnel to create a dedicated award set-up team, and have reiterated the importance for each individual to assure any assignment of a CFDA requires sufficient and appropriate support narrated within the award—original and/or as amended. Further, we are reviewing options as to how we can enhance system controls and quality reviews within the entry process.*

*Implementation Date: February 8, 2019 – June 01, 2019*

*Responsible Person: Director of Post Award Accounting*

### **Views of Responsible Officials 2018**

- *Incorrectly included \$212,064 in expenditures related to 2 CFDA's on its SEFA; it should have included those expenditures as a reconciling item (specifically, federal revenue received under a vendor relationship between the agency and the federal government) in Note 2 of its SEFA. As a result, UTSW overstated expenditures on its SEFA by \$212,064*

*UT Southwestern acknowledges that expenditures incurred under an agreement with the VA North Texas Health Care System to support residents and fellows in training was incorrectly reported on its SEFA.*

### **Corrective Action Plan 2018**

*We recently realigned SPA personnel to create a dedicated award set-up team, and have reiterated the importance for each individual to assure any assignment of a CFDA requires sufficient and appropriate support narrated within the award—original and/or as amended. Further, we are reviewing options as to how we can enhance system controls and quality reviews within the entry process.*

*Implementation Date: February 8, 2019 – June 01, 2019*

*Responsible Person: Director of Post Award Accounting*

### **Views of Responsible Officials 2018**

- *Overstated \$176,270 in expenditures related to 2 CFDA's. That occurred because UT Southwestern included non-federal expenditures on its SEFA. As a result, UT Southwestern overstated federal revenue by \$176,270 in Note 2 to its SEFA.*

*UT Southwestern acknowledges that the above referenced expenditures were reported on its SEFA, with likely insufficient support. In particular and for the respective expenditures, the correlating agreement included a multitude of federal requirements, typically required and present within a federal flow through agreement. However, UT Southwestern acknowledges that there was also no specific reference to a CFDA therein.*

### **Corrective Action Plan 2018**

*We recently realigned SPA personnel to create a dedicated award set-up team, and have reiterated the importance for each individual to assure any assignment of a CFDA requires sufficient and appropriate support narrated*

*within the award—original and/or as amended. Further, we are reviewing options as to how we can enhance system controls and quality reviews within the entry process.*

*Implementation Date: February 8, 2019 – June 01, 2019*

*Responsible Person: Director of Post Award Accounting*

### **Views of Responsible Officials 2019**

*The University acknowledges and agrees with the finding that its corrective action plan is partially implemented. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective action to further improve compliance.*

### **Corrective Action Plan 2019**

*The University will implement additional processes to more effectively monitor the necessary attributes to properly report expenditures incurred against the University's federal awards. Combined with this monitoring, we will update our reporting template via auto-population of specific attributes, rather than the manual input, which had been deployed previously. These enhanced processes and quality control measures will assure proper expense categorization, by sponsor, within the various aspects of the SEFA, as well as Note 2.*

*Implementation Date: May 31, 2020*

*Responsible Person: Assistant Vice President of Sponsored Programs*

### **Views of Responsible Officials 2020**

*UT Southwestern acknowledges and agrees with the finding that its corrective action plan is partially implemented. Through analysis of the exceptions identified in the audit, UT Southwestern will implement corrective action to further improve compliance.*

### **Corrective Action Plan 2020**

*UT Southwestern has further enhanced its financial reporting capabilities through additional query builds, dual balance check controls, and sensitivity analysis. In addition to these enhancements, we will conduct an assessment of all business process improvements, reporting enhancements, and controls used to report SEFA expenditures. These additional measures will yield proper*

*expense categorization, by sponsor, within all aspects of the SEFA and assure end-to-end process validation.*

*Implementation Date: May 31, 2021*

*Responsible Person: Assistant Vice President Sponsored Programs  
Administration*

# Appendices

Appendix 1

## **Objective, Scope, and Methodology**

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### **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, 2020.

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 Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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, 2020, was dated February 23, 2021.

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 CliftonLarsonAllen LLP (CLA) 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 Year Ended August 31, 2020*, by CLA.

## Methodology

The audit methodology included collecting information, verifying certain information collected, conducting data analyses, performing selected audit tests, and other procedures, and analyzing and evaluating the results against established criteria.

To avoid duplication of effort, the State Auditor's Office relied on CLA's testing of the internal controls over certain systems and processes as they related to the financial portion of the Statewide Single Audit.

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 the audit.

### Sampling Methodology

As part of the audit procedures performed on the SEFA, auditors selected a risk-based sample of generic Catalog of Federal Domestic Assistance numbers (CFDAs) to test that the correct unique identifying number was reported.

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, which consisted of accounting data from agency and higher education institution internal accounting systems and accounting data from the Uniform Statewide Accounting System.
- Agency and higher education institution year-end accounting adjustments.
- Agency and higher education institution fiscal year 2020 annual financial reports.
- Agency and higher education institution fiscal year 2020 SEFA submissions to the Office of the Comptroller of Public Accounts (Comptroller's Office).



Information systems reviewed included the following:

- Agency internal accounting systems.
- Uniform Statewide Accounting System.

Procedures and tests conducted included the following:

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

Criteria used included the following:

- Texas statutes.
- The Texas Administrative Code.
- The General Appropriations Act (86th Legislature).
- The Comptroller's Office policies and procedures.
- The Comptroller's Office's *Reporting Requirements for the Annual Financial Reports of State Agencies and Universities*.
- Agency and higher education institution policies and procedures.
- Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.
- 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 2020 through February 2021. 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 the State Auditor's Office and those performing the audit be independent, and 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. The State Auditor's Office implemented safeguards to maintain its independence to perform this audit. 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:

- Jeannette Quiñonez Garcia, CPA (Project Manager)
- Anca Pinchas, CPA, CISA, CIDA (Assistant Project Manager)
- Philip Stringer, CPA (Assistant Project Manager)
- Nimita Azam, M.Sc. Finance
- Robert (Rob) H. Bollinger, CPA, CGMA, CFE
- Mohammad Ali Bawany, CISA
- Morgan Burandt, CPA
- Robert Burg, MPA, CPA, CFE
- Chase Dierschke, Macy, CIA
- Kristin Auriel Rene' Franklin, MSA
- Lauren Futch, CPA
- Elizabeth Gallegos, MAcc
- Jennifer Grant, CFE
- Taylor L. Huff, CFE
- Joyce Inman, CGFM

- Eric Ladejo, MPA, CFE, CIA
- Alana Montoro
- Robert Pagenkopf, MBA, CFE
- Fabienne Robin, MBA
- Nakeesa Shahparasti, CPA, CFE, CISA
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Michael Owen Clayton, CPA, CISA, CFE, CIDA (Audit Manager)

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

- Adam K. Ryan (Project Manager)
- Adam Berry, CFE (Assistant Project Manager)
- Brandy Corbin
- Rebecca Franklin, CFE, CISA, CGAP
- Allison Fries, CFE
- Rachel Goldman, CPA
- Lauren Ramsey
- Daniel Thu
- Ann E. Karnes, CPA (Quality Control Reviewer)
- Becky Beachy, CIA, CGAP (Audit Manager)

## ***Agencies and Higher Education Institutions Audited***

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Financial accounts were audited at the following agencies:

- Health and Human Services Commission.
- Office of the Comptroller of Public Accounts.
- Office of the Governor.
- Texas Education Agency.
- Texas Workforce Commission.

Schedule of Expenditures of Federal Awards at the following agencies and higher education institutions were audited by either the State Auditor's Office or CLA:

- Department of Agriculture.
- Department of Family and Protective Services.
- Department of Housing and Community Affairs (auditors performed only prior-year finding follow-up work).
- Department of State Health Services.
- General Land Office.
- Health and Human Services Commission.
- Office of the Attorney General.
- Sam Houston State University.
- Texas A&M University.
- Texas Division of Emergency Management.
- Texas Education Agency.
- Texas Southern University.
- Texas State University.
- Texas Tech University.
- Texas Workforce Commission.

- The University of Texas at Arlington.
- The University of Texas at Austin.
- The University of Texas at El Paso.
- The University of Texas Rio Grande Valley.
- The University of Texas at San Antonio.
- The University of Texas M.D. Anderson Cancer Center (auditors performed only prior-year finding follow-up work).
- The University of Texas Medical Branch at Galveston (auditors performed only prior-year finding follow-up work).
- The University of Texas Southwestern Medical Center (auditors performed only prior-year finding follow-up work).
- University of Houston.
- University of North Texas.

Copies of this report have been distributed to the following:

### **Legislative Audit Committee**

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair  
The Honorable Dade Phelan, Speaker of the House, Joint Chair  
The Honorable Jane Nelson, Senate Finance Committee  
The Honorable Robert Nichols, Member, Texas Senate  
The Honorable Greg Bonnen, House Appropriations Committee  
The Honorable Morgan Meyer, 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 Agriculture  
Department of Family and Protective Services  
Department of Housing and Community Affairs  
Department of State Health Services  
General Land Office  
Health and Human Services Commission  
Office of the Attorney General  
Office of the Comptroller of Public Accounts  
Sam Houston State University  
Texas A&M University  
Texas Division of Emergency Management  
Texas Education Agency  
Texas Southern University  
Texas State University  
Texas Tech University  
Texas Workforce Commission  
The University of Texas at Arlington  
The University of Texas at Austin  
The University of Texas at El Paso  
The University of Texas Rio Grande Valley  
The University of Texas at San Antonio  
The University of Texas M.D. Anderson Cancer Center  
The University of Texas Medical Branch at Galveston  
The University of Texas Southwestern Medical Center  
University of Houston  
University of North Texas



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