



Statewide Single Audit Report for the Year Ended August 31, 2022

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

- The State's basic financial statements for fiscal year 2022 were materially correct and presented in accordance with accounting principles generally accepted in the United States of America.
- The State's Schedule of Expenditures of Federal Awards for fiscal year 2022 was materially correct in relation to the State's basic financial statements.
- We also issued a report on internal control over financial reporting and on compliance and other matters as required by auditing standards.

In our audit opinion dated February 22, 2023, 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, 2022. 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 Annual Comprehensive Financial Report (ACFR) for fiscal year 2022, 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.

Audit Objectives | p.33

This audit was conducted in accordance with Texas Government Code, Section 403.013(c), and Title 31, United States Code, Section 7502.

INDEPENDENT AUDITOR'S REPORT

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SCHEDULE OF FINDINGS AND RESPONSES

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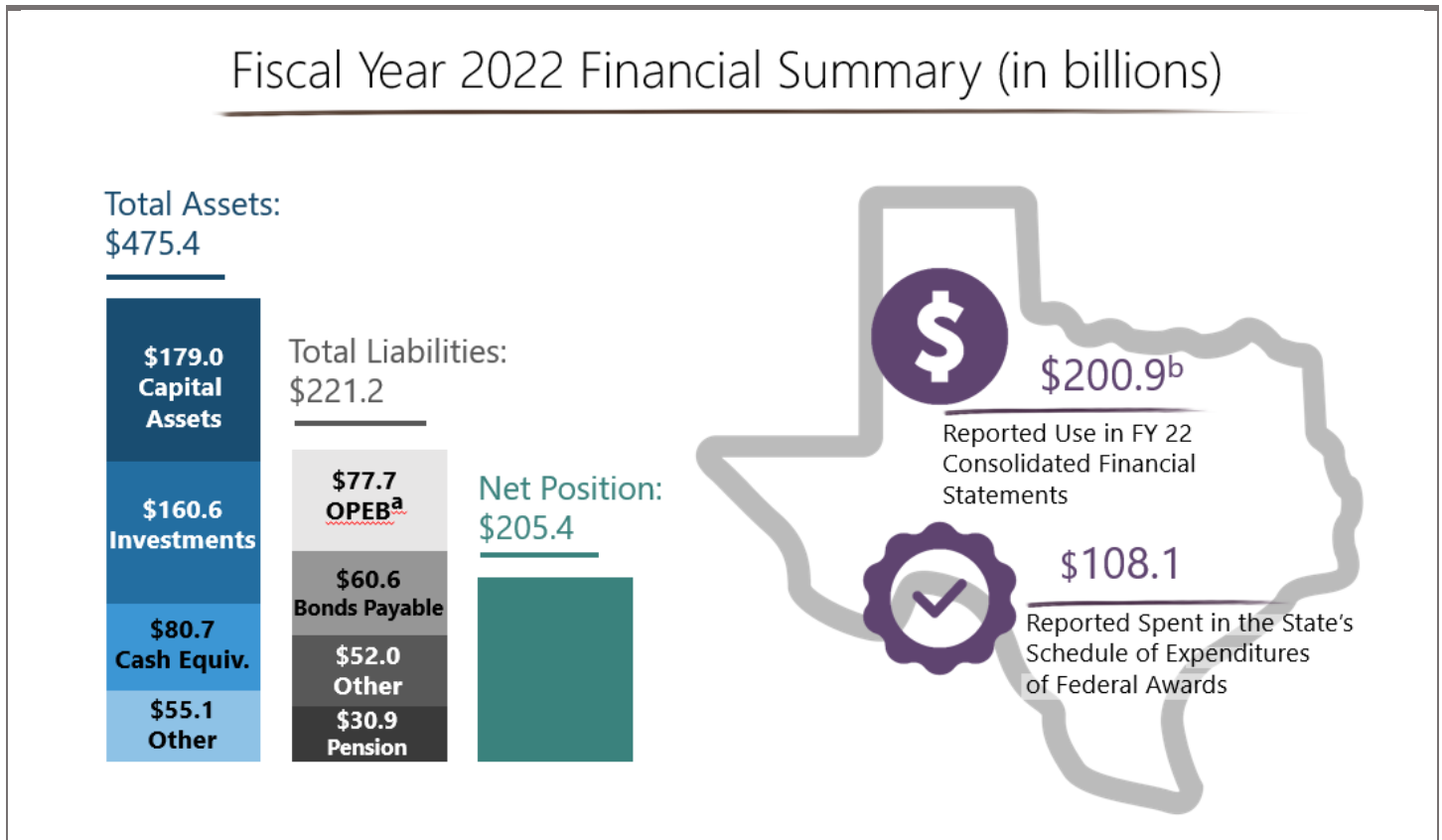
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Summary Schedule of Prior
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Schedule of Expenditures of
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Figure 1 summarizes the State’s key financial information for fiscal year 2022.

Figure 1



^a OPEB is other postemployment benefits.

^b The \$200.9 billion in annual expenditures exceeded the \$140.4 billion appropriated for fiscal year 2022 in the General Appropriations Act (GAA) primarily because:

- Certain expenditures (such as higher education institutions’ expenditures of funds held outside the State Treasury) are included in the Annual Comprehensive Financial Report (ACFR) but are not included in the GAA.
- The ACFR presents actual expenditures of federal funds, while the GAA presents estimated amounts for federal funds.
- Additional pension and OPEB-related expenditures are included in the ACFR but are not included in the GAA.

Fiduciary Funds

The State is the trustee or fiduciary for 11 defined benefit pension and OPEB plans and 1 defined contribution pension plan. The State 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. Those 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 2022 totals presented above.

Auditor Responsibilities

Auditing the basic financial statements is not limited to verifying the numbers in those statements. Conducting this audit also requires the State Auditor's Office to obtain a sufficient understanding of the agencies and higher education institutions and their operating environments—including obtaining an understanding of the internal controls over systems and processes that the agencies and higher education institutions use to record their financial activities—to assess the risk of material misstatement of the financial statements. Through that effort, auditors identified a material weakness that one agency should correct to improve the reliability of its financial information. That weakness is discussed in Chapter 2-A of this report.

Schedule of Expenditures of Federal Awards

The State Auditor's Office also audited the State's SEFA in relation to the ACFR for fiscal year 2022 and issued an unmodified opinion. The Comptroller's Office prepares the SEFA by using self-reported SEFA data from all state agencies and higher education institutions that made federal expenditures during the fiscal year. The State Auditor's Office and CliftonLarsonAllen LLP (CLA) audited the processes for preparing SEFA information at 14 agencies and higher education institutions. Auditors identified errors related to the SEFA information at seven

agencies and higher education institutions. Those errors are discussed in Chapter 2-B of this report.

As part of the audit work for SEFA, auditors performed prior-year finding follow-up work at nine agencies and higher education institutions and determined that recommendations for 3 of those findings were not yet fully implemented (see the Summary Schedule of Prior Year Audit Findings in Chapter 4 of this report).

Compliance with the Single Audit Act.

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 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.



Chapter 1 Summary of Auditor's Results

Financial Statements

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

Federal Awards

Findings regarding the Schedule of Expenditures of Federal Awards for fiscal year 2022 are included in Chapter 2-B of this report. All other fiscal year 2022 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, 2022*, 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, 2022, and the related notes to the consolidated financial statements, which collectively comprise the State of Texas's basic financial statements, and have issued our report thereon dated February 22, 2023. 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, the Texas Treasury Safekeeping Trust Company, 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.

Report on 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.

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

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

Summary of Findings and Responses

Agency or Higher Education Institution	Finding Numbers
Office of the Comptroller of Public Accounts	23-555-01

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

Summary of Findings and Responses

Agency or Higher Education Institution	Finding Numbers
Department of Public Safety	23-555-02
Department of State Health Services	23-555-03
Health and Human Services Commission	23-555-04
Texas Department of Agriculture	23-555-05
Texas Education Agency	23-555-06
Texas Water Development Board	23-555-07
The University of Texas M.D. Anderson Cancer Center	23-555-08

Report on 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 the 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 2022 Financial Statements*](#) (State Auditor's Office Report No. 23-010, December 2022).

- [*A Report on the Audit of the Department of Housing and Community Affairs' Fiscal Year 2022 Financial Statements*](#) (State Auditor's Office Report No. 23-013, December 2022).
- [*A Report on the Audit of the Permanent School Fund's Fiscal Year 2022 Financial Statements*](#) (State Auditor's Office Report No. 23-015, December 2022).

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

Government Auditing Standards requires the auditor to perform limited procedures on the State's responses to the findings identified in our audit and 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 and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the State's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

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

February 22, 2023



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

Chapter 2-A Controls Over Financial Reporting

Office of the Comptroller of Public Accounts

Reference No. 23-555-01

Type of finding: Material Weakness

The Office of the Comptroller of Public Accounts (Comptroller's Office) had a process to identify major funds, as defined by the Governmental Accounting Standards Board (GASB).

However, that process did not properly identify a major enterprise fund for fiscal year 2022. As a result, auditors concluded that there was a material weakness in the Comptroller's Office's internal control processes for financial reporting (see text box for additional information about material weaknesses).

The Comptroller's Office's major fund analysis did not identify that the Texas Water Development Board Funds, an enterprise fund, had met the required criteria to be reported as a major fund in the proprietary statements for fiscal year 2022. As a result, the Texas Water Development Board Funds were reported in the other nonmajor enterprise column in the proprietary statement of net position; proprietary statement of revenues, expenses, and changes in net position; and the proprietary statement of cash flows. The Texas Water Development Board Funds consist of \$15.5 billion in assets and \$10.2 billion in liabilities, and it has a net position of \$5.3 billion.

Material Weakness in Internal Control

A **material weakness** is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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.

Sources: American Institute of Certified Public Accountants AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.

The Comptroller's Office corrected the presentation of its financial statements during the preparation of the State's fiscal year 2022 Annual Comprehensive Financial Report once auditors brought this to management's attention. As a result, the issue discussed above did not affect the accuracy of that report.

Recommendation

The Comptroller's Office should continue to strengthen its process for reviewing its major fund analysis to ensure that it properly identifies and accurately presents all major funds in the Annual Comprehensive Financial Report in accordance with GASB requirements.

Management's Response

Views of Responsible Officials

The Office of the Comptroller of Public Accounts (Comptroller's office) acknowledges and agrees with the finding. Although the Comptroller's office process related to major funds analysis properly identified all major funds as defined by the Governmental Accounting Standards Board (GASB), visual oversight resulted in the exclusion of the Texas Water Development Board Funds.

Corrective Action Plan

The Comptroller's office has implemented system and process enhancements to more effectively identify funds that meet the criteria of a major fund. The conditional formatting in the financial reporting software was changed to illuminate relevant cells with more visual contrast in order to more easily identify funds that meet the major funds thresholds. In addition, management will conduct a second level review to ensure that the Comptroller's office properly identifies major funds.

Implementation Date: February 2023

Responsible Person: Supervisor, Financial Reporting Section

Chapter 2-B

Schedules of Expenditures of Federal Awards

The agencies and higher education institutions discussed below did not appropriately prepare or adequately review their fiscal year 2022 Schedules of Expenditures of Federal Awards (SEFAs) (see text box on the next page for additional information). Therefore, the SEFAs that they submitted to the Office of the Comptroller of Public Accounts (Comptroller's Office) contained errors.

State entities should strengthen the preparation and review of their Schedules of Expenditures of Federal Awards.

Those agencies and higher education institutions reported \$89,877,739,403 in federal expenditures, or 83 percent of the total federal expenditures that the State of Texas reported for fiscal year 2022. The errors listed below were not material to the fiscal year 2022 SEFA for the State of Texas or to the fiscal year 2022 Annual Comprehensive Financial Report for the State of Texas. However, collectively, they represent control weaknesses that could be significant to the State's SEFA.

Schedule of Expenditures of Federal Awards (SEFA)

Each state entity that expends federal awards is required to prepare a 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 200.1].

Federal financial assistance includes 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 200.1].

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

Department of Public Safety

Reference No. 23-555-02

Type of finding: Significant Deficiency

On its fiscal year 2022 SEFA, the Department of Public Safety (DPS):

- Overstated Disaster Assistance expenditures by \$1,730,468 on Note 8. The overstatement occurred because DPS incorrectly included (1) expenditures associated with project worksheets that the Federal Emergency Management Agency (FEMA) approved in fiscal year 2021 and (2) expenditures incurred in fiscal year 2022 that were associated with a project worksheet approved during fiscal year 2022. On its SEFA for Note 8, an agency should report only expenditures that were incurred in a **prior** fiscal year and associated with a project worksheet that FEMA approved in the current fiscal year.
- Understated expenditures by \$1,496,291 for Assistance Listing Number (ALN) 97.067, Homeland Security Grant Program, because all expenditures for the program were not recorded in the DPS general ledger.
- Did not identify \$169,511,417 in expenditures for ALN 21.019, Coronavirus Relief Fund, as COVID-19 related on the SEFA as required.

Recommendation

DPS 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, recording all expenditures in its general ledger, and identifying and reporting COVID-19 related expenditures as required.

Management's Response

Views of Responsible Officials

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

The Department of Public Safety will implement significant process enhancements to ensure the Schedule of Federal Awards is done according to the Financial Reporting Requirements established by the Comptroller of Public Accounts.

Corrective Action Plan

DPS will increase the formalization of the SEFA procedures to ensure training, roles and responsibilities are clearly defined and auditable for compliance.

Implementation Date: September 1, 2023

Responsible Person: Grants Manager
Deputy Administrator, Financial Reporting

Department of State Health Services

Reference No. 23-555-03

Type of finding: Significant Deficiency

On its fiscal year 2022 SEFA, the Department of State Health Services (DSHS) did not disclose on Note 8 to its SEFA \$5,436,745 in Disaster Assistance Expenditures incurred in prior fiscal years as required. Specifically, DSHS should have disclosed the expenditures that were incurred in the prior fiscal year and associated with a project worksheet approved during fiscal year 2022.

Recommendation

DSHS should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including reporting expenditures on Note 8 when applicable.

Management's Response

Views of Responsible Officials

DSHS agrees with the finding and will work to develop and implement a corrective action to further improve reporting of SEFA Note 8.

Corrective Action Plan

DSHS will strengthen its SEFA preparation and review process by establishing the validity of an item or total reported, and by seeking clarification from data source owners, to help ensure accurate SEFA reporting, to include Note 8.

Implementation Date: July 31, 2023

Responsible Person: Accounting Director and AFR Accountant

Health and Human Services Commission

Reference No. 23-555-04

Type of finding: Significant Deficiency

On its fiscal year 2022 SEFA, the Health and Human Services Commission (HHSC):

- Incorrectly excluded \$6,357,238 in provider relief fund payments. As a result, HHSC (1) understated expenditures on its SEFA by \$6,357,238 and (2) understated federal revenue by \$6,357,238 in Note 2 to its SEFA.
- Incorrectly classified \$40,801,750 for ALN 21.027, Coronavirus State and Local Fiscal Recovery Funds, as pass-through expenditures. HHSC should have reported those expenditures as direct expenditures.
- Incorrectly classified \$12,650,812 related to 2 ALNs as direct expenditures. HHSC should have reported those expenditures as pass-through expenditures.

Recommendation

HHSC should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly by reporting Provider Relief Fund awards appropriately on its SEFA and in Note 2, and classifies expenditures appropriately by expenditure type.

Management's Response

Views of Responsible Officials

The Texas Health and Human Services Commission (HHSC) acknowledges and agree with the findings. Through analysis of the exceptions identified in the audit, HHSC will work to develop and implement corrective action to further improve the processes.

Corrective Action Plan

The findings are primarily associated with one-time COVID-19 funds that were exceptional in terms of typical agency implementation. HHSC has implemented significant process enhancements for the Schedule of Expenditures of Federal Awards (SEFA) preparation. The monitoring manual will be revised to include procedures for the attributes to be tested for each relevant compliance requirement and required documentation to retain and support the review. The SEFA workplan will also 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.

Implementation Date: February 1, 2023

Responsible Person: Manager V, State and Federal Reporting

Texas Department of Agriculture

Reference No. 23-555-05

Type of finding: Significant Deficiency

On its fiscal year 2022 SEFA, the Texas Department of Agriculture (TDA) understated expenditures by \$1,796,107 related to 4 ALNs. The understatement occurred because TDA incorrectly calculated the non-monetary dollar amount of food distributions. As a result, Note 1 and Non-Monetary Reconciling Items in Note 2 each were understated by \$1,796,107.

Recommendation

TDA should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly by accurately calculating non-monetary dollar amounts.

Management's Response

Views of Responsible Officials

The understatement of expenditures amount was accrued due to time constraints of the SEFA report due date and the reconciliation timing. Therefore, the Texas Department of Agriculture (TDA) acknowledges the findings. Through analysis of the exceptions identified in the audit, TDA will work to develop and implement corrective action to further improve the processes.

Corrective Action Plan

TDA has already implemented significant process enhancements in this area. The monitoring manual will be revised to incorporate testing techniques for each relevant compliance requirement and the necessary records to keep on file to support the review. Furthermore, TDA will run current year and prior year data for the SEFA report so that prior year reports can be reconciled.

Implementation Date:

Update monitoring manual and procedures - March 9, 2023

Perform annual SEFA reconciliation - September 30, 2023

Responsible Person: Director for USDA Foods

Texas Education Agency

Reference No. 23-555-06

Type of finding: Significant Deficiency

On its fiscal year 2022 SEFA, the Texas Education Agency (TEA) incorrectly classified \$201,441,187 in expenditures related to 2 ALNs. Specifically, TEA did not identify the expenditures as COVID-19 related on the SEFA as required.

Recommendation

TEA should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including identifying and reporting COVID-19-related expenditures as required.

Management's Response

Views of Responsible Officials

The Agency acknowledges and agrees with the finding. Through an oversight, TEA failed to mark two of the nine ALNs as COVID-19 relief grants. The two missed ALNs were not part of the COVID ALN 84.425 group and were listed separately on the SEFA and overlooked. The Agency will implement a corrective action plan to prevent this from occurring when future SEFAs are prepared.

Corrective Action Plan

The Agency plans to add a specific review to ensure that all COVID ALNs are marked in the Comptroller's online SEFA application. This will be in addition to our normal SEFA review process.

Implementation Date: October 2023

Responsible Person: Director of Accounting

Texas Water Development Board

Reference No. 23-555-07

Type of finding: Significant Deficiency

On its fiscal year 2022 SEFA, the Texas Water Development Board (TWDB) incorrectly classified \$28,762,182 related to 2 ALNs as direct expenditures. TWDB should have reported those expenditures as pass-through expenditures.

Recommendation

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

Management's Response

Views of Responsible Officials

The Texas Water Development Board acknowledges and agrees with the finding. The agency shall update its internal operating and reporting procedures to correctly classify expenditures in the future.

Corrective Action Plan

The Texas Water Development Board revised its internal operating and reporting procedures immediately upon learning of this finding.

Implementation Date: February 1, 2023

Responsible Person: Accounting Director

The University of Texas M.D. Anderson Cancer Center

Reference No. 23-555-08

Type of finding: Significant Deficiency

On its fiscal year 2022 SEFA, the University of Texas M.D Anderson Cancer Center (M.D Anderson) understated expenditures by \$4,884,178 for ALN 97.036, Federal Disaster Grants – Public Assistance (Presidentially Declared Disasters). The understatement occurred because M.D. Anderson incorrectly excluded expenditures incurred in fiscal year 2021 that were associated with project worksheets that FEMA approved in fiscal year 2022. As a result, the federal revenue in Note 2 was understated by the same amount.

Recommendation

M.D. Anderson should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly by including all expenditures that occurred in prior fiscal years from project worksheets that were approved in the current fiscal year.

Management's Response

Views of Responsible Officials

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

Corrective Action Plan

The University will implement processes to strengthen its SEFA preparation and review process to help ensure that the SEFA is prepared correctly by including all expenditures that occurred in prior fiscal years from project worksheets that were approved in the current fiscal year.

Implementation Date: August 2023

Responsible Person: Associate Director, Finance

Chapter 3

Federal Award Findings and Questioned Costs

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2022 was included in Chapter 2-B of this report. All other fiscal year 2022 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, 2022*, by CLA.



Summary Schedule of Prior Audit Findings

Chapter 4

Summary Schedule of Prior Audit Findings

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).
- [*State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2020*](#) (State Auditor's Office Report No. 21-555, February 2021).
- [*State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2022*](#) (State Auditor's Office Report No. 22-555, February 2022).

The Summary Schedule of Prior Audit Findings (for the year ended August 31, 2022) has been prepared to address these responsibilities.

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

Reference No. 22-555-01

(Prior Audit Issue 21-555-02, 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

The agencies and higher education institutions discussed below did not appropriately prepare or adequately review their fiscal year 2021 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.

State entities should strengthen the preparation and review of their Schedules of Expenditures of Federal Awards.

Those agencies and higher education institutions reported \$84,665,343,646 in federal expenditures, or 74 percent of the total federal expenditures that the State of Texas reported for fiscal year 2021. The errors listed below **were not** material to the fiscal year 2021 SEFA for the State of Texas or to the fiscal year 2021 Annual Comprehensive Financial Report for the State of Texas. However, collectively, they represent control weaknesses that could be significant to the State's SEFA.

Schedule of Expenditures of Federal Awards (SEFA)

Each state entity that expends federal awards is required to prepare a 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 200.1].

Federal financial assistance includes 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 200.1].

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

Department of State Health Services

The Department of State Health Services (DSHS) overstated expenditures by \$6,615,618 related to 1 Assistance Listing Number (formerly known as Catalog of Federal Domestic Assistance number) on its fiscal year 2021 SEFA. The overstatement occurred because DSHS incorrectly calculated the non-monetary dollar amount of vaccines. As a result, Note 1 and Non-Monetary Reconciling Items in Note 2 also were overstated by the same amount.

Implementation Status

Corrective action was implemented.

Texas Department of Housing and Community Affairs

The Texas Department of Housing and Community Affairs (TDHCA) incorrectly classified \$758,806,206 as pass-through expenditures to non-state entities related to 1 Assistance Listing Number on its fiscal year 2021 SEFA. That occurred because TDHCA incorrectly determined the expenditures to be related to a sub-recipient. Instead the expenditures were related to a contractor relationship and TDHCA should have reported them as direct expenditures.

Implementation Status

Not Implemented.

Recommendation

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

Management's Response

Views of Responsible Officials 2021

TDHCA acknowledges and agrees with the finding. Coordinating the administration of a federal grant through a contractor as opposed to a subrecipient is a new approach for the department. This atypical arrangement was due to the unprecedented funding to combat the impact of COVID-19 and the objective to disburse the funds as efficiently and effectively as possible. The Department is committed to thoroughly evaluating these relationships going forward to ensure the accuracy of their classification.

Corrective Action Plan 2021

The Department has implemented a review process utilizing a checklist to evaluate and classify its relationships between contractors and sub-recipients accurately to ensure the appropriate classification of expenditures for the SEFA.

Implementation Date: 2/1/22

Responsible Person: Director of Financial Administration

Views of Responsible Officials 2022

The Texas Department of Housing and Community Affairs acknowledges and agrees with the finding. It has reviewed the results of the audit and has further examined the SEFA compilation process and is committed to implement additional safeguards.

Corrective Action Plan 2022

The Department had implemented controls to properly evaluate and classify its relationships between contractors and sub-recipients. It has now further reviewed its process and revised procedures to enhance the compilation and review of the SEFA. Required documented steps have been added to identify the classification of payments by federal grant more transparently which will improve the accuracy of the report and the review process.

Implementation Date: February 1, 2023

Responsible Person: Director of Financial Administration

Health and Human Services Commission

On its fiscal year 2021 SEFA, the Health and Human Services Commission (HHSC) overstated Provider Relief Fund payments by \$17,945,727. That occurred because HHSC reported activity from an incorrect time period. As a result, HHSC overstated federal revenue by \$17,945,727 in Note 2 to its SEFA. In addition, not all Provider Relief Fund expenditures were reported with the COVID-19 indicator, as required.

Implementation Status

The finding was reissued as current year reference number 23-555-04.

Texas Workforce Commission

The Texas Workforce Commission (TWC) did not correctly disclose Note 5 to its SEFA. TWC incorrectly included \$901,779,840 of expenditures related to 1 Assistance Listing Number (ALN) that is not applicable to Note 5, which caused the note to be overstated by the same amount. It also did not separately disclose the state and federal portions of total expenditures for ALN 17.225, as required by the Comptroller's Office.

Implementation Status

Corrective action was implemented.

The University of Texas at Austin

The University of Texas at Austin (UT Austin) incorrectly classified expenditures related to the Research and Development cluster for 2 Assistance Listing Number (ALN) programs. Specifically:

- \$564,967 of expenditures were incorrectly excluded from the Research and Development cluster for ALN 93.433, and
- \$33,736 of expenditures were incorrectly included in the Research and Development cluster for ALN 84.334A.

As a result, the R&D cluster was understated by a net amount of \$531,231. The errors occurred because these expenditures were incorrectly classified in the internal data that UT Austin used to prepare the SEFA.

Implementation Status

Not Implemented.

Recommendation

UT Austin should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly by verifying that internal data is accurate and classifying expenditures in the appropriate clusters.

Management's Response

Views of Responsible Officials 2021

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

Corrective Action Plan 2021

SPAA management plans to implement improvements in the current SEFA validation process to ensure that the SEFA submission is accurate. We will undergo a thorough manual review quarterly of all awards on the SEFA to validate that R&D expenditures are accurately reported and classified in the appropriate clusters. SPAA will add CFDA and R&D data integrity checks on a quarterly basis. SPAA will add additional resources dedicated to performing monthly data integrity checks for all new award setups.

Implementation Date: Summer 2022

Responsible Person: SPAA Associate Director

Views of Responsible Officials 2022

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

Corrective Action Plan 2022

The University of Texas at Austin has recently updated our SEFA validation process to ensure that we are reporting all Assistance Listing (ALN) programs in the appropriate R&D and non-R&D clusters. This updated process includes a quarterly review of all new accounts on the SEFA to validate that each ALN is accurately assigned in our financial system. Our procedure guide is being revised to include the new steps in our SEFA validation process, and we also plan to provide additional training to develop more consistency with everyone involved in award setup.

Implementation Date: May 31st, 2023

Responsible Person: Associate Director, Office of Sponsored Projects

The University of Texas Health Science Center at Houston

On its fiscal year 2021 SEFA, the University of Texas Health Science Center at Houston (UTHealth - Houston):

- Incorrectly classified \$1,078,862 in expenditures related to 4 Assistance Listing Number (ALN) programs. Specifically, UTHealth - Houston classified those expenditures as part of the Research and Development cluster of federal programs; however, those expenditures were not related to research and development. As a result, they should not have been included in that cluster of federal programs.
- Incorrectly reported the ending balance of loans in SEFA Note 3a by \$5,250,301 between 2 ALN programs. Specifically, the ending balance of loans for ALN 84.268 was overstated by \$5,250,301 and the ending balance of loans for ALN 93.342 was understated by the same amount.

Implementation Status

Corrective action was implemented.

The University of Texas M.D. Anderson Cancer Center

On its fiscal year 2021 SEFA, the University of Texas M.D. Anderson Cancer Center (M.D. Anderson):

- Incorrectly classified \$970,378 in expenditures related to 3 Assistance Listing Number (ALN) programs. Specifically, M.D. Anderson classified those expenditures as part of the Research and Development cluster of federal programs; however, those expenditures were not related to research and development. As a result, they should not have been included in that cluster of federal programs.
- Overstated New Loans Processed in Note 3a to its SEFA by \$378,872 for 1 ALN. This occurred because M.D. Anderson reported Direct Loan disbursements from an incorrect time period. As a result, Reconciliation Items for New Loans Processed on Note 2 also was overstated by the same amount.

Implementation Status

Corrective action was implemented.

The University of Texas Southwestern Medical Center

On its fiscal year 2021 SEFA, the University of Texas Southwestern Medical Center (UT Southwestern) incorrectly excluded \$34,566,445 in Provider Relief Fund payments. As a result, UT Southwestern (1) understated expenditures on its SEFA by \$34,566,445 and (2) understated federal revenue by \$34,566,445 in Note 2 to its SEFA.

Implementation Status

Corrective action was implemented.

During fiscal year 2021, the following higher education institution had uncorrected recommendations from issues identified during the audit of its fiscal year 2020 Schedule of Expenditures of Federal Awards (SEFA).

Reference No. 22-555-01

Type of finding: Significant Deficiency

The higher education institution discussed below did not appropriately prepare or adequately review its fiscal year 2020 Schedule of Expenditures of Federal Awards (SEFA).

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.

Implementation Status

Corrective action was implemented.



Appendix 1

Objective, Scope, and Methodology

Objective

The audit objective was to determine whether the State’s basic financial statements present fairly, in all material respects, the consolidated balances and activities for the State of Texas for the fiscal year ended August 31, 2022.

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 Annual Comprehensive 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 Annual Comprehensive Financial Report (ACFR) for the fiscal year ended August 31, 2022, was dated February 22, 2023.

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 ACFR. 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, 2022*, by CLA.

Methodology

Audit fieldwork was conducted from August 2022 through February 2023. 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.

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.

Addressing the Audit Objective

During the audit, we performed the following:

- Identified the relevant criteria:
 - Texas statutes.
 - The Texas Administrative Code.
 - The General Appropriations Act (87th Legislature).
 - The Comptroller's Office's policies and procedures.
 - The Comptroller's Office's *Reporting Requirements for 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.
- Reviewed agency and higher education institution policies and procedures.
- Reviewed agency and higher education institution accounting data, which consisted of accounting data from agency and higher education institution accounting systems and accounting data from the Uniform Statewide Accounting System.
- Reviewed agency and higher education institution fiscal year 2022 annual financial reports.
- Reviewed agency and higher education institution year-end accounting adjustments.
- Evaluated automated systems controls, including agency internal accounting systems and the Uniform Statewide Accounting System.
- Performed analytical tests of account balances.
- Evaluated agency and higher education institution transactions.

- Compared agency and higher education institution accounting practices with the Comptroller’s Office’s reporting requirements.
- Evaluated selected agency and higher education institution fiscal year 2022 SEFA submissions to the Office of the Comptroller of Public Accounts (Comptroller’s Office).
- As part of the audit procedures performed on the SEFA, auditors selected a risk-based sample of generic Assistance Listing Numbers (formerly known as Catalog of Federal Domestic Assistance numbers) to test that the correct unique identifying number was reported.

Project Information



The following members of the State Auditor’s staff performed the audit of the Annual Comprehensive Financial Report:

- Anca Pinchas, CPA, CISA, CIDA (Project Manager)
- Elizabeth Gallegos, MAcc (Assistant Project Manager)
- Robert Pagenkopf, MBA, CFE (Assistant Project Manager)
- Robert H. (Rob) Bollinger, CPA, CGMA, CFE
- Morgan Burandt, CPA
- Robert Burg, MPA, CPA, CFE
- Evan Cresap, CPA
- Chase Dierschke, CIA
- Nick Dufour
- Taylor L. Huff, CFE
- Joyce Inman, CGFM
- Eric Ladejo, MPA, CFE, CIA
- Kevin Mack
- Emmanuel Melendez, CPA, CIA, CFE, MBA
- Alana Montoro
- Erin Peloquin, CPA, CIDA, CISA, CRFAC

- Jessica Prieto, CPA, CISA
- Fabienne Robin, MBA, CFE
- Nakeesa Shahparasti, CPA, CFE, CISA, CIDA
- Mark Snyder, CFE
- Ann E. Karnes, CPA (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:

- Jennifer Grant, CFE (Project Manager)
- Brandy Corbin, CFE (Assistant Project Manager)
- Steven Arnold, CFE
- Adam Berry, CFE
- Dana Musgrave, MBA, CFE (Quality Control Reviewer)
- Becky Beachy, CIA, CGAP (Audit Manager)

Appendix 2

Agencies and Higher Education Institutions Audited

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 Water Development Board
- Texas Workforce Commission.

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

- Commission on Environmental Quality
- Department of Agriculture
- Department of Family and Protective Services.
- Department of Housing and Community Affairs.
- Department of Public Safety.
- Department of State Health Services.
- Health and Human Services Commission.
- Higher Education Coordinating Board.
- Office of the Governor
- Texas Education Agency.
- Texas Southern University (auditors performed only prior year finding follow up work).

- Texas Workforce Commission.
- The University of Texas at Austin (auditors performed only prior year finding follow up work).
- The University of Texas Health Science Center at Houston (auditors performed only prior year finding follow up work).
- The University of Texas M.D. Anderson Cancer Center.
- The University of Texas Southwestern Medical Center.
- Water Development Board



Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Dade Phelan, Speaker of the House, Joint Chair

The Honorable Joan Huffman, 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

Commission of Environmental Quality

Department of Agriculture

Department of Family and Protective Services

Department of Housing and Community Affairs

Department of Public Safety

Department of State Health Services

Health and Human Services Commission

Higher Education Coordinating Board

Texas Education Agency

Texas Southern University

Texas Workforce Commission

The Office of the Comptroller of Public Accounts

The University of Texas at Austin

The University of Texas Health Science Center at Houston

The University of Texas M.D. Anderson Cancer Center

The University of Texas Southwestern Medical Center

Water Development Board



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