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May 1997

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Key Points of Report

A Report on the 1996 Financial and Compliance Audit Results

May 1997

Key Facts and Findings

- The information contained in the financial statements of Texas' 1996 *Comprehensive Annual Financial Report* (CAFR) is presented fairly and can be relied upon to evaluate the State's financial condition.
- Texas Southern University continues to have a material weakness in the control environment.
- The Texas Department of Human Services has a material weakness in the internal control structure over the *Food Distribution* (CFDA 10.550) program.
- The management of the entities listed below have continuously taken actions to improve their operations and address the issues identified. However, while complying with the majority of the federal regulations related to federal programs, these entities continue to have material noncompliance for at least one requirement.
 - The Texas Department of Protective and Regulatory Services is in material noncompliance with two requirements of the *Child Welfare Services - State Grants* (CFDA 93.645) program.
 - The Texas Commission on Alcohol and Drug Abuse is in material noncompliance with one requirement of the *Block Grants for Prevention and Treatment of Substance Abuse* (CFDA 93.959) program.
 - The State of Texas, as related to student financial assistance, is in material noncompliance with one specific requirement of the *Federal Family Education Loans* (CFDA 84.032) program.

Contact

Catherine Smock, CPA, Audit Manager (512) 479-4700



Office of the State Auditor

Lawrence F. Alwin, CPA

This audit was conducted in accordance with Government Code, Section 321.013(c).

Executive Summary

Clean Audit Opinions

Financial Statements

The information contained in the financial statements of Texas' *1996 Comprehensive Annual Financial Report (CAFR)* is presented fairly and can be relied upon to evaluate the State's financial condition.

Federal, State, and Bond Compliance

The information contained in *A Report on the 1996 Financial and Compliance Audit Results* indicates the State has generally complied with federal, state, and bond requirements.

Texas Is Big Business

At the end of fiscal year 1996, Texas reported the following:

- Total assets of \$137 billion, an increase of 19.0 percent (9.0 percent of the increase is attributed to the change of accounting treatment [GASB 25].)
- Total liabilities of \$30.4 billion, an increase of 14.7 percent
- Fund balances and retained earnings of \$106.9 billion, an increase of 20.2 percent
- Total revenues of \$40.3 billion, an increase of 2.2 percent (Government and Expendable Trust Funds only)
- Total expenditures of \$39 billion, an increase of 1.4 percent (Government and Expendable Trust Funds only)
- Total bonds payable of \$10.8 billion in 299 outstanding issues, an increase of \$576 million
- Federal financial assistance of \$16 billion through 703 federal programs

Strong Internal Controls Enhance Operations

Highlighted below are internal control areas which need to be strengthened. Strong internal controls help ensure that:

- Assets are adequately safeguarded.
- Funds are spent as intended.
- Information is accurately reported in the financial statements.

Material Weaknesses Continue to Exist at Two Entities

Texas Southern University (University) continues to have a material weakness in the Financial Assistance Office. As a result, the University may be at risk of losing the ability to participate in federal student financial aid programs. This weakness was originally identified in fiscal year 1993. During fiscal year 1996, the Financial Assistance Office administered \$39.4 million in financial assistance for the *Federal Family Education Loans* (CFDA 84.032) program and the *Federal Pell Grant Program* (CFDA 84.063).

The **Texas Department of Human Services** (Department) has a material weakness in the internal control structure over the *Food Distribution* (CFDA 10.550) program. As a result, the Department may be at risk of losing the ability to participate in federal financial assistance programs. A material weakness in this program was first identified in fiscal year 1994. During fiscal year 1996, the Department administered \$58.4 million in financial assistance for the *Food Distribution* program.

Executive Summary

Federal Compliance Helps Reduce Risk

Highlighted below are compliance issues which need to be addressed. Compliance with federal regulations helps reduce the risk of:

- A loss of federal funding
- Funds being misspent
- A reduction in services to citizens

Material Noncompliance with Federal Requirements Continues to Exist at Three Entities

The management of the entities listed below have continuously taken actions to improve their operations and address the issues identified. However, while complying with the majority of the federal regulations related to federal programs, these entities continue to have material noncompliance for at least one requirement.

- **The Texas Department of Protective and Regulatory Services** is in material noncompliance with two requirements of

the *Child Welfare Services - State Grants* (CFDA 93.645) program. This noncompliance was originally identified in 1993. The *Child Welfare Services* payments totaled \$22.7 million for fiscal year 1996.

- **The Texas Commission on Alcohol and Drug Abuse** is in material noncompliance with one requirement of the *Block Grants for Prevention and Treatment of Substance Abuse* (CFDA 93.959) program. This noncompliance was originally identified in 1994. The *Block Grants for Prevention and Treatment of Substance Abuse* payments totaled \$43.7 million in fiscal year 1996.
- **The State of Texas**, as related to student financial assistance, continues to be in material noncompliance with one specific requirement of the *Federal Family Education Loans* (CFDA 84.032) program. This noncompliance was originally identified in 1995. The *Federal Family Education Loans* program provided \$714.7 million in aid to Texas students in the 1996 fiscal year.

The following agencies and universities did not adequately address material reportable issues¹ previously reported by the State Auditor's Office. As a result, these entities may be at risk of losing the ability to participate in federal financial assistance.

Agency or University	Number of Years	Fiscal 1996 Affected Program Amount
Texas Southern University (<i>Federal Family Education Loans</i> [CFDA 84.032] and <i>Federal Pell Grant Program</i> [CFDA 84.063])	4	\$ 34,307,908 5,059,053
Texas Department of Protective and Regulatory Services (<i>Child Welfare Services - State Grants</i> [CFDA 93.645])	4	22,672,702
Texas Department of Human Services (<i>Food Distribution</i> [CFDA 10.550])	3	58,392,736
Texas Commission on Alcohol and Drug Abuse (<i>Block Grants for Prevention and Treatment of Substance Abuse</i> [CFDA 93.959])	3	43,656,473
State of Texas Student Financial Assistance (<i>Federal Family Education Loans</i> [CFDA 84.032])	2	714,675,146

¹ **Material reportable issues** result where the design or operation of one or more of the internal control structure elements does not reduce, to a relatively low level, the risk that irregularities and/or errors and in amounts that would be material in relation to:

- (1) the general purpose financial statements being audited, or
- (2) a federal financial assistance program

may occur and not be detected by management within a timely period in the normal course of operations.

Executive Summary

Joint Effort Works to Improve Accountability to the State

In a joint effort to improve timely reporting and enhance accountability to the State, the Comptroller of Public Accounts (Comptroller) and the Texas State Auditor's Office identified agencies that had significant problems with their fiscal year *1996 Annual Financial Reports* (AFR). These agencies are:²

- Texas Education Agency
- Texas Department of Health
- Texas Rehabilitation Commission
- Commission on the Arts
- Board of Barber Examiners
- Board of Chiropractic Examiners
- Board of Nurse Examiners
- Board of Vocational Nurse Examiners
- Optometry Board
- State Pension Review Board
- Supreme Court of Texas

The Comptroller's Office develops policies and procedures for the preparation of agencies' and universities' AFRs. These reports are used to compile the State's *Comprehensive Annual Financial Report* (CAFR). The results of the State Auditor's Office audit of the general purpose financial statements are included in the *Texas 1996 Comprehensive Annual Financial Report*, *Auditor's Report on Internal Controls*, and the *Auditor's Report on Compliance*.

Summary of Audit Objectives and Scope

The objectives of the Statewide Audit were to:

- Determine whether the financial statements of the State present fairly the financial position, results of operations,

and cash flows in accordance with Generally Accepted Accounting Principles.

- Fulfill audit requirements of the Single Audit Act (Federal Compliance).
- Determine compliance with significant bond covenants.
- Issue individual management letters on reportable conditions.³

The following procedures were performed:

- We gained an understanding of the overall control environment and the financial controls over the significant statewide and bond-related accounts. We also gained an understanding of administrative controls relevant to the federal programs examined.
- We tested accounts significant to the statewide financial statements. We also performed procedures to determine whether information reported in the general purpose financial statements was consolidated properly.
- We determined compliance with federal program requirements in accordance with *Office of Management and Budget (OMB) Circular A-128*. We conducted audit work covering 51 federal programs and 92.2 percent of the total federal assistance received during the year.

Executive Summary

- We determined compliance with significant bond covenants. We also determined that the information in the supplementary bond schedules is presented fairly.
- We followed up on certain prior audit issues.

Summary of Managements' Responses

Management of the agencies and universities mentioned in the "Detailed Findings With Management's Responses" section of this

report generally concur with the findings and recommendations. Corrective action plans are included for many of the recommendations.

Copies of the *1996 Comprehensive Annual Financial Report (CAFR)* may be obtained from the Comptroller of Public Accounts.

Copies of *A Report on the 1996 Financial and Compliance Audit Results* report may be obtained from the Texas State Auditor's Office.



OFFICE OF THE STATE AUDITOR

TWO COMMODORE PLAZA
206 EAST NINTH STREET, SUITE 1900
AUSTIN, TEXAS 78701

LAWRENCE F. ALWIN, CPA
State Auditor

February 24, 1997

Auditor's Report on Internal Controls

The Honorable George W. Bush, Governor
and
Members of the Texas State Legislature
State of Texas

Ladies and Gentlemen:

We have audited the general purpose financial statements of the State of Texas as of and for the year ended August 31, 1996, and have issued our report thereon dated February 24, 1997. We have also audited the State's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated February 24, 1997.

We do not express an opinion on the effectiveness of the design and operations of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with federal financial assistance program requirements. Our procedures were less in scope than would be necessary to render such an opinion.

With respect to the items tested, we found:

- Material weaknesses in certain elements of the internal control structures at Texas Southern University and the Texas Department of Human Services
- Material noncompliance with federal laws and regulations for certain programs at the Texas Commission on Alcohol and Drug Abuse and the Texas Department of Protective and Regulatory Services
- Material noncompliance with federal laws and regulations on a statewide level for the *Federal Family Education Loans* program, which is administered by numerous colleges and universities throughout the State

Each of these conclusions is discussed in detail below. This report also discusses the scope of our audit.

Overview

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions⁴ under standards established by the American Institute of Certified Public Accountants. Our consideration of the internal control structure policies and procedures would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.⁵

We considered the conditions described below, involving the internal control structure and its operations, to be material weaknesses. The detailed findings relating to these reportable conditions are included in the “Detailed Findings with Management’s Responses” and the “Schedule of Findings and Questioned Costs” sections of *A Report on the 1996 Financial and Compliance Audit Results* dated May 28, 1997. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the State’s general purpose financial statements for the year ended August 31, 1996.

Material Weaknesses Relating to Internal Controls Over Federal Financial Assistance Programs

We noted material weaknesses in certain elements of the internal control structure used in administering the following federal assistance programs:

- All student financial assistance programs at Texas Southern University, including the *Federal Family Education Loans* (CFDA 84.032) program and the *Federal Pell Grant Program* (CFDA 84.063)
- *Food Distribution* (CFDA 10.550) program at the Texas Department of Human Services

⁴ **Reportable conditions** involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control structure that, in our judgement, could adversely affect the State’s ability to:

- (1) Record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements, or
- (2) Administer federal financial assistance programs in accordance with applicable laws and regulations

⁵ **Material weaknesses** are reportable conditions in which the design or operation of one or more of the internal control structure elements does not reduce, to a relatively low level, the risk that irregularities and/or errors in amounts that would be material in relation to:

- (1) the general purpose financial statements being audited, or
- (2) a federal financial assistance program may occur and not be detected by management within a timely period in the normal course of operations.

Although these weaknesses are material to the individual federal programs, they are not material to the State of Texas as a whole.

Material Noncompliance With Laws and Regulations

Our audit identified material noncompliance with federal laws and regulations for the following programs:

- *Child Welfare Services - State Grants* (CFDA 93.645) program at the Texas Department of Protective and Regulatory Services
- *Block Grants for Prevention and Treatment of Substance Abuse* (CFDA 93.959) program at the Texas Commission on Alcohol and Drug Abuse
- *Federal Family Education Loans* (CFDA 84.032) program administered by numerous colleges and universities throughout the State

The circumstances surrounding these instances of material noncompliance are more fully described in the "Auditor's Report on Compliance" dated February 24, 1997, and in the "Detailed Findings With Managements' Responses" section of *A Report on the 1996 Financial and Compliance Audit Results*.

Other Internal Control Issues

We identified other matters involving the internal control structure and its operation that have been included in *A Report on the 1996 Financial and Compliance Audit Results* as well as the management letters issued to the individual agencies and universities. These reports are available upon request through the State Auditor's Office.

Methodology

In planning and performing our audit for the year ended August 31, 1996, we considered the State's internal control structure in order to:

- Determine our auditing procedures for the purpose of expressing our opinions on the State's general purpose financial statements and on its compliance with requirements applicable to major federal financial assistance programs.
- Report on the internal control structure in accordance with *Office of Management and Budget (OMB) Circular A-128*. This report addresses our consideration of internal control structure policies and procedures relevant to the general purpose financial statements and compliance with requirements applicable to federal financial assistance programs. Our procedures were less

in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We did not audit the following entities, which are component units of the State for financial reporting purposes. These entities were audited by other auditors:

Entities Reviewed by Other Auditors	Scope of Work Performed
Employees Retirement System of Texas	An audit of the general purpose financial statements was conducted for the year ended August 31, 1996.
Texas Guaranteed Student Loan Corporation	An audit was conducted under the provisions of OMB <i>Circular A-133</i> and regulations issued by the U.S. Department of Education for the year ended September 30, 1996.
Texas Department of Housing and Community Affairs	An audit was conducted under the provisions of OMB <i>Circular A-128</i> for the year ended August 31, 1996.
Texas Local Government Investment Pool (TexPool)	An audit of the general purpose financial statements was conducted for the years ended August 31, 1996, and August 31, 1995.
Texas Lottery Commission	An audit of the general purpose financial statements was conducted for the years ended August 31, 1996, and August 31, 1995.
The University of Texas Investment Management Company (Permanent University Fund)	An audit of the Fund's statement of investment assets and liabilities, related statement of investment income, statement of changes in net investment assets, and schedule of changes in book value of investments was conducted for the year ended August 31, 1996.
Texas Treasury Safekeeping Trust Company	An audit of the combined balance sheets—all fund types—was conducted as of August 31, 1996.
Surplus Lines Stamping Office of Texas	An audit of the general purpose financial statements was conducted for the year ended December 31, 1995.
Texas A&M Research Foundation	An audit was conducted under the provisions of OMB <i>Circular A-133</i> for the year ended August 31, 1996.
Texas Turnpike Authority	An audit of the general purpose financial statements was conducted for the year ended December 31, 1995.
Texas Workers' Compensation Insurance Fund	An audit of the general purpose financial statements was conducted for the years ended December 31, 1995, and December 31, 1994.

This report, insofar as it relates to these entities, is based solely on the reports of the other auditors. The Teacher Retirement System's management letter (SAO Report No. 97-057) was issued in April 1997. The management letter for the Fire Fighters' Pension Commissioner is scheduled for release in June 1997.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Internal Accounting Controls**
 - Control environment
 - Financial reporting
 - Debt/Bonds payable
 - Cash receipts/Receivables
 - Payroll/Personnel
 - Inventories
 - Cash disbursements/Accounts payables
 - Other

- **General Compliance Controls**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Federal financial reports
 - Administrative requirements
 - Drug-Free Workplace Act
 - Allowable costs/Cost principles
 - Monitoring subrecipients

- **Specific Compliance Controls**
 - Types of services allowed or unallowed
 - Reporting
 - Eligibility
 - Matching, level of effort and/or earmarking
 - Special requirements

- **Claims for Advances and Reimbursements**

- **Amounts Claimed or Used for Matching**

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures at the state entities documented in the statewide audit plan and determined whether they have been placed in operation. We also assessed control risk.

Scope for Major Federal Programs

A summary of the state entities where we examined major federal programs is presented in the "Schedule of Major Federal Programs Examined" section of *A Report on the 1996 Financial and Compliance Audit Results*. The programs and entities examined by other auditors are not included on this schedule.

Major federal programs are defined for the State as federal financial assistance programs with annual expenditures exceeding \$20 million. During the year ended August 31, 1996, the State expended 92.2 percent of its federal financial assistance under major federal financial assistance programs. For the 1996 statewide financial and compliance audit, we used a risk-based approach to determine the level and extent of audit work to be performed for federal programs. This process, in conjunction with auditor judgement, was used to select major federal programs and the state entities where this audit work would be performed. Of the 51 major federal programs, 25 were examined, while the remaining 26 were subjected to other audit procedures.

This resulted in 92.2 percent audit coverage of federal financial assistance program expenditures. Because of the decentralized administration of major Student Financial Assistance (SFA) programs presented in the schedule, these programs were audited in accordance with our risk assessment. Our procedures during the current year covered 19.4 percent of the SFA major program expenditures.

We performed tests of controls, as required by OMB *Circular A-128*, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with the State's major federal financial assistance programs audited.

Scope for Nonmajor Federal Programs

We gained an understanding of the internal control structure policies and procedures and determined that the policies and procedures were in place. Because of the large number of nonmajor programs and the decentralized administration of these programs, we examined relevant internal control structure policies and procedures related to nonmajor programs in conjunction with major federal program procedures. The procedures performed on the internal control structure policies and procedures shared by major and nonmajor programs enabled us to obtain assurance over certain nonmajor programs. In addition, we tested the following three nonmajor federal programs for compliance with certain general and specific requirements:

- *Donation of Federal Surplus Personal Property* (CFDA 39.003) program at the General Services Commission
- *Basic Energy Sciences* (CFDA 81.049) program at The University of Texas at Austin

- *Special Programs for the Aging - Title III, Part C (CFDA 93.045)* at the Texas Department on Aging

Responsibilities

Management at the individual state entity level is responsible for establishing and maintaining an internal control structure. In fulfilling that responsibility, estimates and judgments made by management are required to assess the expected benefits and related costs of internal control structure policies and procedures.

The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

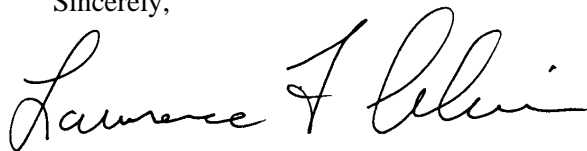
- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with Generally Accepted Accounting Principles.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

We conducted our audits in accordance with Generally Accepted Auditing Standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments*. Those standards and OMB *Circular A-128* require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether the State of Texas complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

This report is intended for the use of the Governor, the Legislature, management, and all federal and other entities from which federal financial assistance was received. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in cursive script that reads "Lawrence F. Alwin".

Lawrence F. Alwin, CPA
State Auditor



OFFICE OF THE STATE AUDITOR

TWO COMMODORE PLAZA
206 EAST NINTH STREET, SUITE 1900
AUSTIN, TEXAS 78701

LAWRENCE F. ALWIN, CPA
State Auditor

February 24, 1997

Auditor's Report on Compliance

The Honorable George W. Bush, Governor
and
Members of the Legislature
State of Texas

Ladies and Gentlemen:

We have audited the general purpose financial statements of the State of Texas as of and for the year ended August 31, 1996, and have issued our report thereon dated February 24, 1997. We also audited the State's compliance with significant requirements related to selected major federal financial assistance programs as identified in the "Schedule of Major Federal Programs Examined" section of *A Report on the 1996 Financial and Compliance Audit Results*. A list of all major programs for the State is included in the *Texas 1996 Comprehensive Annual Financial Report (CAFR)* on the Schedule of Federal Financial Assistance.

In our opinion, except for those instances of noncompliance referred to below under "Opinion on Compliance With Specific Requirements Relating to Major Federal Programs," the State of Texas complied, in all material respects, with the specific requirements applicable to each of its major federal financial assistance programs that we selected for review

With respect to the items tested, we found:

- Material noncompliance with selected general requirements applicable to federal financial assistance programs
- No material noncompliance with selected provisions of applicable laws and regulations tested relating to the general purpose financial statements

With respect to items not tested nothing came to our attention that caused us to believe that the State had not complied, in all material respects, with the above provisions.

Each of these conclusions is discussed in detail below. This report also discusses the scope of our audit.

Opinion on Compliance With Specific Requirements Relating to Major Federal Programs

We have audited the State's compliance with the following requirements that are applicable to its major federal financial assistance programs selected for review:

- Types of services allowed or unallowed
- Matching, level of effort and/or earmarking
- Amounts claimed or used for matching
- Claims for advances and reimbursements
- Eligibility
- Reporting
- Special requirements

These programs are identified in the "Schedule of Major Federal Programs Examined" section of *A Report on the 1996 Financial and Compliance Audit Results*.

We noted various instances of material noncompliance which are summarized below. The detailed findings along with management's responses are described in the "Detailed Findings With Management's Responses" section of *A Report on the 1996 Financial and Compliance Audit Results*. Material instances of noncompliance consist of failures to follow requirements which caused us to conclude that the misstatements resulting from those failures are material to the following major federal programs:

- The *Child Welfare Services - State Grants* (CFDA 93.645) program, administered by the Texas Department of Protective and Regulatory Services, had material noncompliance in the area of providing services to eligible clients.
- The *Federal Family Education Loans* (CFDA 84.032) program, administered by numerous colleges and universities throughout the State of Texas, had material noncompliance on a statewide level for reporting of enrollment changes, a special requirement.

The results of our audit procedures also disclosed instances of noncompliance that, while not material, were considered significant. These instances of noncompliance are described in the accompanying "Schedule of Findings and Questioned Costs" and the "Detailed Findings With Management's Responses" section of *A Report on the 1996 Financial and Compliance Audit Results*. In addition, instances of insignificant noncompliance were communicated to the federal grantors separately. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for those instances of noncompliance referred to above, the State of Texas complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, and/or earmarking; reporting; special requirements; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs tested for the year ended August 31, 1996.

Compliance With General Requirements Applicable to Federal Financial Assistance Programs

We performed procedures to test the State's compliance with the following general requirements applicable to its federal financial assistance programs, which are identified in the "Schedule of Federal Financial Assistance" of the *Texas 1996 Comprehensive Annual Financial Report (CAFR)*, for the year ended August 31, 1996:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Administrative requirements
- Drug-Free Workplace Act
- Allowable costs/Cost principles
- Monitoring subrecipients

Our procedures were limited to the significant procedures described in the *Office of Management and Budget's (OMB) Compliance Supplement for Single Audits of State and Local Governments*. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

Material instances of noncompliance consist of failures to follow the general requirements, which caused us to conclude that misstatements resulting from those failures are material to the following major federal programs:

- The *Child Welfare Services - State Grants (CFDA 93.645)* program, administered by the Texas Department of Protective and Regulatory Services, had material noncompliance in the area of allowable costs.
- The *Block Grants for Prevention and Treatment of Substance Abuse (CFDA 93.959)* program, administered by the Texas Commission on Alcohol and Drug Abuse, had material noncompliance in the area of monitoring subrecipients.

We considered these material instances of noncompliance in forming our opinion on whether the State of Texas' 1996 general purpose financial statements are presented fairly, in all material respects, in conformity with Generally Accepted Accounting Principles; this report does not affect our report dated February 24, 1996, on those financial statements.

The results of our procedures also disclosed instances of noncompliance that, while not material, were considered significant. These instances of noncompliance are described

in the accompanying “Schedule of Findings and Questioned Costs” and the “Detailed Findings with Management’s Responses” sections of *A Report on the 1996 Financial and Compliance Audit Results*. In addition, instances of insignificant noncompliance were communicated to the federal grantors separately.

Except as described above, the results of our procedures to determine compliance with the general compliance requirements indicate that with respect to the items tested, the State of Texas complied, in all material respects, with the requirements listed in this report. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Texas had not complied, in all material respects, with those requirements.

Compliance With Requirements Applicable to Nonmajor Federal Financial Assistance Programs

In connection with our audit of the general purpose financial statements of the State of Texas and with our consideration of the State’s control structure used to administer federal financial assistance programs, as required by OMB *Circular A-128, Audits of State and Local Governments*, we performed selected procedures applicable to certain nonmajor federal financial assistance programs for the year ended August 31, 1996.

Because of the large number of nonmajor programs and the decentralized administration of these programs, we examined relevant internal control structure policies and procedures related to nonmajor programs in conjunction with major federal program procedures. The procedures performed on the internal control structure policies and procedures shared by major and nonmajor programs enabled us to obtain assurance for certain nonmajor programs. In addition, we performed auditing procedures to determine compliance with certain general and specific requirements for the following three nonmajor federal programs:

- *Donation of Federal Surplus Personal Property* (CFDA 39.003) program at the General Services Commission was tested for types of services allowed or unallowed, eligibility, special requirements, and administrative requirements.
- *Basic Energy Sciences* (CFDA 81.049) program at The University of Texas at Austin was tested for allowable costs/cost principles, federal financial reports, and special requirements.
- *Special Programs for the Aging - Title III, Part C* (CFDA 93.045) at the Texas Department on Aging was tested for types of services allowed or unallowed, matching, level of effort and/or earmarking, special requirements, cash management, and administrative requirements.

Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State’s compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our procedures disclosed instances of noncompliance that were considered insignificant. These instances of noncompliance were communicated to the federal grantors separately.

Except as described above, the results of our procedures to determine compliance indicate that, with respect to the items tested, the State of Texas complied, in all material respects, with the requirements applicable to nonmajor federal financial assistance transactions. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Texas had not complied, in all material respects, with those requirements.

Compliance With Laws, Regulations, and Requirements Relating to the General Purpose Financial Statements

As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the State's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of the audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests of compliance with laws and regulations material to the general purpose financial statements indicate that the State has complied, in all material respects, with laws, regulations, contracts, and grants applicable to the State of Texas.

Material Weaknesses Relating to Internal Controls

As disclosed in the "Auditor's Report on Internal Controls" dated February 24, 1997, our audit identified material weaknesses in certain elements of the internal control structure at:

- Texas Southern University⁶
- Texas Department of Human Services

Responsibilities and Methodology

Management at each individual entity is responsible for compliance with the specific requirements listed in the first paragraph under "Opinion on Compliance With Specific Requirements Relating to Major Federal Programs." In addition, management at the individual state entity is responsible for compliance with laws, regulations, contracts,

⁶ Refer to Appendix 3 for additional information regarding the audit results and scope of work performed during fiscal year 1996.

and grants applicable to the general purpose financial statements of the State of Texas. Our responsibility is to provide assurances on compliance with those requirements based on our audit.

We used a risk-based approach to determine the level and extent of audit work to be performed for federal programs during the 1996 statewide financial and compliance audit. This process, in conjunction with auditor judgment, was used to select major federal programs to audit and the state entities where this audit work would be performed.

We conducted our audit in accordance with Generally Accepted Auditing Standards; *Government Auditing Standards* issued by the Comptroller General of the United States and *Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments*.

Those standards and OMB *Circular A-128* require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether material noncompliance with the specific requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Related Reports

In addition to coverage provided by the statewide financial and compliance audit, the State Auditor's Office has performed work specifically related to contract administration. Additional information is provided by this work, which goes beyond the federal compliance requirements covered by the statewide audit. The contract administration reports include various recommendations to improve the State's ability to protect public funds in areas such as fraud, waste, or inefficient use by contractors. Further review by the State Auditor's Office of contract administration is in progress. The agencies and audit report numbers, where applicable, are listed in Appendix 2. Readers of *A Report on the 1996 Financial and Compliance Audit Results* may find this information helpful in evaluating an agency's operations.

Entities Reviewed by Other Auditors

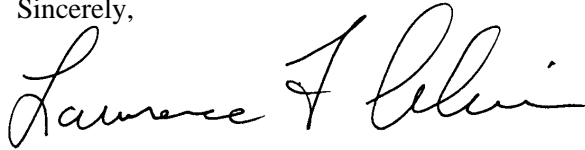
The State Auditor's Office did not audit the following entities and funds, which are component units of the State for financial reporting purposes:

Entities Reviewed by Other Auditors	Scope of Work Performed
Employees Retirement System of Texas	An audit of the general purpose financial statements was conducted for the year ended August 31, 1996.
Texas Guaranteed Student Loan Corporation	An audit was conducted under the provisions of OMB <i>Circular A-133</i> and regulations issued by the U.S. Department of Education for the year ended September 30, 1996.
Texas Department of Housing and Community Affairs	An audit was conducted under the provisions of OMB <i>Circular A-128</i> for the year ended August 31, 1996.
Texas Local Government Investment Pool (TexPool)	An audit of the general purpose financial statements was conducted for the years ended August 31, 1996, and August 31, 1995.
Texas Lottery Commission	An audit of the general purpose financial statements was conducted for the years ended August 31, 1996, and August 31, 1995.
The University of Texas Investment Management Company (Permanent University Fund)	An audit of the Fund's statement of investment assets and liabilities, related statement of investment income, statement of changes in net investment assets, and schedule of changes in book value of investments was conducted for the year ended August 31, 1996.
Texas Treasury Safekeeping Trust Company	An audit of the combined balance sheets—all fund types was conducted as of August 31, 1996.
Surplus Lines Stamping Office of Texas	An audit of the general purpose financial statements was conducted for the year ended December 31, 1995.
Texas A&M Research Foundation	An audit was conducted under the provisions of OMB <i>Circular A-133</i> for the year ended August 31, 1996.
Texas Turnpike Authority	An audit of the general purpose financial statements was conducted for the year ended December 31, 1995.
Texas Workers' Compensation Insurance Fund	An audit of the general purpose financial statements was conducted for the years ended December 31, 1995, and December 31, 1994.

The above entities were audited by other auditors. This report, insofar as it relates to those entities, is based solely on the reports of the other auditors. The Teacher Retirement System's management letter (SAO Report No. 97-057) was issued in April 1997. The management letter for the Fire Fighters' Pension Commissioner is scheduled for release in June 1997.

This report is intended for the use of the Governor, the Legislature, management, and all federal and other entities from which federal financial assistance was received. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, reading "Lawrence F. Alwin". The signature is written in a cursive style with a large initial "L" and a distinct "F".

Lawrence F. Alwin, CPA
State Auditor

Our Compliments to 31 Agencies

We are pleased to report that 31 of the 45 entities visited have no findings in the areas tested. Management at these entities have established systems to ensure compliance with the state, federal, and/or bond regulations we examined during our audit.

While we recognize these accomplishments, it is important to understand that we may have only audited a very specific portion of the entity's operations. For that reason, the scope of our work must be considered in combination with the audit results. (See Appendix 1, "Audit Scopes for Agencies With No Findings.")

Agency	Type of Work Performed
Aging, Texas Department on	Federal
Agricultural Finance Authority, Texas	Statutory
Angelo State University	Bonds
Armory Board, Texas National Guard	Bonds
Commerce, Texas Department of	Bonds
Coordinating Board, Texas Higher Education	Bonds
Criminal Justice, Texas Department of	Bonds
General Land Office and Veterans Land Board	Bonds
General Services Commission	Federal
Governor, Office of the	Federal
Health, Texas Department of	Federal and Financial
Lamar University - Beaumont	Bonds
Lamar University - Orange	Bonds
Lamar University - Port Arthur	Bonds
Midwestern State University	Bonds
Public Finance Authority, Texas	Bonds
Sam Houston State University	Bonds
Southwest Texas State University	Bonds
Stephen F. Austin State University	Bonds
Texas A&M University - Commerce	Bonds
Texas A&M University System	Bonds
Texas State University System	Bonds
Texas Tech University	Bonds
Texas Tech University Health Sciences Center	Bonds
Texas Woman's University	Bonds
University of North Texas	Bonds
University of North Texas Health Science Center at Fort Worth	Bonds
The University of Texas Southwestern Medical Center at Dallas	Federal
The University of Texas System	Bonds
Water Development Board, Texas	Bonds
Workforce Commission, Texas	Federal and Financial

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Summary of Issues

Description of Issue Categories

This information describes the nature of the categories used in Summary 1, "All Issues by Agency and University." Federal compliance issues are further broken down in Summary 2, "Federal Compliance Issues by Agency and University."

Internal Controls

Control Environment	The control environment reflects the overall attitude, awareness, and actions of the board, management, and others concerning the importance of and emphasis on controls within the organization.
FFELP Loan Proceeds	This refers to issues arising from receipt of loan proceeds granted by the <i>Federal Family Education Loans</i> (CFDA 84.032) program and subsequently disbursed by student financial assistance offices.
EDP Issues	Electronic data processing (EDP) controls are intended to minimize the risk of unauthorized access, modification, and/or damage to computer equipment, electronic data processing programs, and data. The specific issues identified in this category pertain to controls over access, data processing, and data security.
Other Internal Controls	Other issues were identified in the areas of timely and effective reconciliations, controls over inventory, controls over duplicate payments, and adequacy of administrative controls.

Compliance

Federal Compliance	There are many rules and regulations regarding the accountability and use of federal financial assistance. These rules are designed to ensure that federal funds are used without waste or abuse for the purposes intended. There are general requirements, which are applicable to all federal funds, and specific requirements which apply to individual programs.
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General Requirements:

- Cash Management - Federal regulations require that procedures be followed whenever advance payment methods are used. These procedures minimize the time that elapses between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees.

- Cost Allocation - *Office of Management and Budget (OMB) Circular A-87*, “Cost Principles for State and Local Governments,” establishes principles and standards for determining costs applicable to grants, contracts, and other agreements with state and local governments.
- Subrecipient Monitoring - *Office of Management and Budget (OMB) Circular A-128* requires Grant Recipients to ensure that subrecipients receiving certain levels of federal financial assistance are in compliance with Federal Single Audit requirements.

Specific Requirements:

- Student Financial Aid - Federal regulations over student financial assistance programs require maintenance of complete and accurate student files, eligibility determinations, and counseling. Various other regulations also apply to student financial aid.
- Allowability and Eligibility - Costs charged to federal programs must be necessary, reasonable, and directly related to primary program objectives. In addition, these costs must be related to individuals, groups, and/or activities eligible for financial assistance.
- Other - Other issues were identified in the areas of past-due arrearage balances, timely detection and correction of errors, and adequacy of accounting records. There are other rules and regulations pertaining to federal programs.

**State
Compliance**

Entities must also comply with state laws and regulations. The accrual of interest on delinquent child support is a state compliance issue.

**Bond
Compliance**

Contractual promises within bond resolutions, known as covenants, set forth repayment schedules of principal and interest and other restrictions to protect the bondholders' investments. The issue within this category is related to a lack of procedures to monitor interest payments, loan collections, investment transactions, and expenditures.

Accounting and Reporting

Accounting and reporting include issues that could impact the accuracy and completeness of the financial statements, such as promoting adherence to Generally Accepted Accounting Principles, ensuring the accuracy of financial reports, and

ensuring timely correction of reconciling items and adjustments within the accounting records.

Summary 1

Summary of All Issues by Agency and University												
Agency	Page	Agency No.	SAO Report No.	INTERNAL CONTROLS				COMPLIANCE			Accounting and Reporting	Totals
				Control Environment	FFELP Loan Proceeds	EDP Issues	Other	Federal	State	Bonds		
Alcohol and Drug Abuse, Texas Commission on	31	517	97-339				1	2				3
Attorney General, Office of the	35	302	97-306					1	1			2
Comptroller of Public Accounts	38	304	97-349								1	1
Education Agency, Texas	41	701	97-348								1	1
Hospital Equipment Financing Council, Texas	45	075	97-338							1		1
Human Services, Texas Department of	47	324	97-310	1			2	4				7
Protective and Regulatory Services, Texas Department of	57	530	97-309				2	4				6
Sul Ross State University	66	756	97-322				1	7				8
Transportation, Texas Department of	73	601	97-311	1				2				3
University of Houston - Victoria	77	765	97-340		1			4				5
The University of Texas at Austin	82	721	97-341			1		2				3
The University of Texas at Dallas	87	738	97-342		1	2		4				7
TOTAL				2	2	3	6	30	1	1	2	47

Summary 2

Summary of Federal Compliance Issues by Agency and University										
				PROGRAM REQUIREMENTS						Totals
				GENERAL			SPECIFIC			
				Cash Management	Cost Allocation	Subrecipient Monitoring	Student Financial Aid	Allowability and Eligibility	Other	
Agency	Page	Agency No.	SAO Report No.							
Alcohol and Drug Abuse, Texas Commission on	31	517	97-339	1		1				2
Attorney General, Office of the	35	302	97-306						1	1
Human Services, Texas Department of	47	324	97-310	1	2	1				4
Protective and Regulatory Services, Texas Department of	57	530	97-309		1	1		2		4
Sul Ross State University	66	756	97-322				7			7
Transportation, Texas Department of	73	601	97-311						2	2
University of Houston - Victoria	77	765	97-340				4			4
The University of Texas at Austin	82	721	97-341				2			2
The University of Texas at Dallas	87	738	97-342	1			3			4
TOTAL				3	3	3	16	2	3	30

Schedule 1:

Schedule of Major Federal Programs Examined for the Year Ended August 31, 1996

The information presented in this schedule identifies the agencies and universities at which major federal programs were examined by the State Auditor's Office. It is organized by *Catalog of Federal Domestic Assistance* (CFDA) number. Federal programs examined were identified on a risk basis.

Schedule of Major Federal Programs Examined				
CFDA	Program Title	State Agency or University	Expenditures (in millions)	Percentage of State's Total Federal Expenditures
10.550	<i>Food Distribution</i>	Human Services, Texas Department of	\$58.4	0.36
10.551	<i>Food Stamps</i>	Human Services, Texas Department of	2,136.0	13.35
10.557	<i>Special Supplemental Food Program for Women, Infants, and Children</i>	Health, Texas Department of	284.1	1.78
10.561	<i>State Administrative Matching Grants for Food Stamp Programs</i>	Human Services, Texas Department of	134.0	0.84
16.579	<i>Drug Control and System Improvement</i>	Governor, Office of the	24.3	0.15
17.207	<i>Employment Services</i>	- Employment Commission, Texas - Workforce Commission, Texas	44.2 16.3	0.28 0.10
17.225	<i>Unemployment Insurance</i>	- Employment Commission, Texas - Workforce Commission, Texas	112.2 36.7	0.70 0.23
17.246	<i>Employment and Training Assistance - Dislocated Workers</i>	- Commerce, Texas Department of - Workforce Commission, Texas	27.2 34.4	0.17 0.22
17.250	<i>Job Training Partnership Act</i>	- Commerce, Texas Department of - Workforce Commission, Texas	42.6 89.2	0.27 0.56
20.205	<i>Highway Planning and Construction</i>	Transportation, Texas Department of	1,224.2	7.65
84.032	<i>Federal Family Education Loans (FFELP)</i>	- Sul Ross State University - University of Houston - Victoria - The University of Texas at Austin - The University of Texas at Dallas - The University of Texas Southwestern Medical Center at Dallas	7.4 1.6 114.8 5.6 8.9	0.05 0.01 0.72 0.03 0.06

Schedule of Major Federal Programs Examined				
CFDA	Program Title	State Agency or University	Expenditures (in millions)	Percentage of State's Total Federal Expenditures
84.063	<i>Federal Pell Grant Program</i>	- Sul Ross State University - University of Houston - Victoria - The University of Texas at Austin - The University of Texas at Dallas - The University of Texas Southwestern Medical Center at Dallas	\$2.4 .3 10.1 1.0 .1	0.02 0.01 0.06 0.01 0.01
93.560	<i>Family Support Payments to States - Assistance Payments</i>	Human Services, Texas Department of	365.8	2.29
93.561	<i>Job Opportunities and Basic Skills Training</i>	- Human Services, Texas Department of - Workforce Commission, Texas	21.2 5.5	0.13 0.03
93.563	<i>Child Support Enforcement</i>	Attorney General, Office of the	94.9	0.59
93.574	<i>Child Care for Families at Risk of Welfare Dependency</i>	- Human Services, Texas Department of - Workforce Commission, Texas	20.0 6.1	0.12 0.04
93.575	<i>Child Care and Development Block Grant</i>	- Human Services, Texas Department of - Workforce Commission, Texas	44.7 26.0	0.28 0.16
93.645	<i>Child Welfare Services - State Grants</i>	Protective and Regulatory Services, Texas Department of	22.7	0.14
93.658	<i>Foster Care - Title IV-E</i>	Protective and Regulatory Services, Texas Department of	71.6	0.45
93.778	<i>Medical Assistance Program (Medicaid)</i>	- Health, Texas Department of - Human Services, Texas Department of	3,822.5 1,648.4	23.88 10.30
93.959	<i>Block Grants for Prevention and Treatment of Substance Abuse</i>	Alcohol and Drug Abuse, Texas Commission on	43.7	0.27
N/A ⁷	<i>Petroleum Violation Escrow</i>	Governor, Office of the	41.1	0.26
Subtotal: Major Federal Programs Examined			10,650.2	66.56 ⁸
Other Major Program Expenditures Covered by SAO Audit Procedures			3,952.7	24.70
Major Federal Programs Audited by External Entities			151.8	0.95
Total Major Federal Programs Examined			\$14,754.7	92.21

⁷ Petroleum Violation Escrow funds received by the State as restitution relative to litigation involving violations of federal price controls are not federal funds but are subject to *Office of Management and Budget (OMB) Circular A-128* requirements and were audited as a major federal program.

⁸ Figure adjusted for rounding differences.

Schedule of Findings and Questioned Costs by Federal Agency for the Year Ended August 31, 1996

Office of Management and Budget (OMB) Circular A-128 requires the reporting of all instances of noncompliance and questioned costs. This schedule includes a detailed list of all significant costs questioned as a result of the 1996 Statewide Financial and Compliance Audit. Questioned costs are amounts charged to a federal program that may be unallowable. These costs result from noncompliance with general, specific, or administrative requirements set by the federal grantor. The federal grantor will make the final determination as to the allowability of the costs. Unallowable costs may need to be returned to the federal grantor or program. Instances of insignificant noncompliance and questioned costs were communicated to the federal grantor separately.

The questioned costs are organized by federal granting agency and are listed by the affected state agency or university. The findings in this schedule, identified with a *Catalog of Federal Domestic Assistance (CFDA)* number, are also included in the "Detailed Findings with Managements' Responses" section.

Schedule of Findings and Questioned Costs by Federal Agency		
Program	Finding/Noncompliance	Questioned Costs
U.S. Department of Agriculture		
Texas Department of Human Services		
<i>State Administrative Matching Grants for Food Stamp Program</i> (CFDA 10.561)	Disbursements of federal funds were made for unallowable expenditures.	\$ 35,433
Total - U.S. Department of Agriculture		\$ 35,433
U.S. Department of Education		
A. Sul Ross State University		
<i>Federal Family Education Loans</i> (CFDA 84.032)	Students did not sign the "Statement of Educational Purpose" or "Certification Statement of Refunds and Defaults" prior to receiving aid disbursements.	\$ 9,911
<i>Federal Family Education Loans</i> (CFDA 84.032)	Loan applications were missing for six students who received financial aid.	30,904
<i>Federal Family Education Loans</i> (CFDA 84.032)	Financial aid disbursements were made to students whose financial need had been incorrectly calculated and was in excess of need.	6,340
<i>Federal Pell Grant Program</i> (CFDA 84.063)	Students did not sign the "Statement of Educational Purpose" or "Certification Statement of Refunds and Defaults" prior to receiving aid disbursements.	1,170

Schedule of Findings and Questioned Costs by Federal Agency		
Program	Finding/Noncompliance	Questioned Costs
B. University of Houston-Victoria		
<i>Federal Family Education Loans</i> (CFDA 84.032)	Loan proceeds were disbursed to students ineligible to receive financial aid.	\$ 5,348
Total - U.S. Department of Education		\$ 53,673
Federal Highway Administration		
Texas Department of Transportation		
<i>Highway Planning and Construction</i> (CFDA 20.205)	Payments were made without supporting documentation.	\$ 391,161
Total - Federal Highway Administration		\$ 391,161
U.S. Department of Health and Human Services		
A. Texas Commission on Alcohol and Drug Abuse		
<i>Block Grants for Prevention and Treatment of Substance Abuse</i> (CFDA 93.959)	Sixty-five audit reports (34 percent) were not reviewed in a timely manner, and necessary corrective action was not taken within six months after receipt of the reports.	\$ 808,331
B. Texas Department of Human Services		
<i>Family Support Payments to States - Assistance Payments</i> (CFDA 93.560)	Disbursements of federal funds were made for unallowable expenditures.	11,209
<i>State Survey and Certification of Health Care Providers and Suppliers</i> (CFDA 93.777)		10,981
<i>Medical Assistance Program</i> (CFDA 93.778)		41,231
<i>Job Opportunities and Basic Skills Training</i> (CFDA 93.561)		16
<i>Child Care and Development Block Grant</i> (CFDA 93.575)		1
<i>Social Services Block Grant</i> (CFDA 93.667)		158
C. Texas Department of Protective and Regulatory Services		
<i>Child Welfare Services - State Grants</i> (CFDA 93.645)	Adequate documentation was not maintained to support program eligibility and allowable costs.	9,488
<i>Family Preservation and Support Services</i> (CFDA 93.556)	Controls were not in place to identify and monitor subrecipients.	453,842
<i>Foster Care - Title IV-E</i> (CFDA 93.658)		1,195,237
<i>Social Services Block Grant</i> (CFDA 93.667)		1,762,048
Total - U.S. Department of Health and Human Services		\$ 4,292,542
Total Questioned Costs - All Agencies		\$ 4,772,809

Texas Commission on Alcohol and Drug Abuse
SAO Report No. 97-339
Detailed Findings With Management's Responses

Related Audit Reports

The State Auditor's Office is currently performing additional work at the Commission to determine the status of all prior audit issues and to fully assess current operations. Additional information will be provided by this work, which goes beyond compliance with federal program requirements covered by the statewide audit. This report will be released in the summer of 1997.

Internal Control Issue

Internal Control Issue 1:

Improve Administrative Controls Over Federal Requirements

(Prior Audit Issue)

The Commission lacks sufficient accounting procedures and fiscal controls to determine if it is meeting required spending thresholds in the *Block Grants for Prevention and Treatment of Substance Abuse (CFDA 93.959)*. Over \$49 million in federal *Block Grants for Prevention and Treatment of Substance Abuse* funds were expended in fiscal year 1996. The block grant requires specific amounts to be spent on certain types of services. Current procedures do not allow the Commission to determine if it is meeting these requirements.

Federal regulations set forth in the *Code of Federal Regulations (CFR), Title 45, Section 96.30* require the Commission to establish accounting procedures and fiscal controls to monitor spending activity and to ensure block grant spending thresholds are met.

Recommendation:

The Commission should develop accounting procedures and fiscal controls to monitor spending activity and to ensure block grant spending thresholds are met.

Management's Response:

We concur that the Commission's fiscal procedures need to be strengthened to monitor spending activity and ensure block grant spending thresholds are met. TCADA has prepared these analyses on a periodic basis and documentation has not been properly maintained. We will implement procedures to prepare and document a monthly analysis for the 5% administrative cap, the Primary Prevention, HIV Early Intervention, and Female set-aside requirements. Each month the analysis will be prepared and included in the monthly variance reports. Additionally, the analysis will

be cross-referenced to the reference source and maintained in the budget department's files.

The block grant requirements regarding the 35% alcohol/35% drug requirement does not indicate a methodology or frequency of monitoring this requirement. This analysis has been performed on an annual basis and has only included the treatment ratio between alcohol and drugs based on CODAP (Client Oriented Data Acquisition Process) billings. We will implement a procedure to prepare a semi-annual variance report that will compare a budgeted ratio to alcohol and drug expenditures. These expenditures will be calculated by applying the ratio from the CODAP billings to expenditures paid to date.

Federal Compliance Issues

Recommendations addressed in other sections of this report could impact controls over federal funds, especially for the Commission's most significant federal programs administered by the U.S. Department of Health and Human Services.

Federal Compliance Issue 1:

Conduct Timely Reviews for all Subrecipient Audit Reports

(Prior Audit Issue)

The Commission has not materially complied with subrecipient audit requirements for the *Block Grants for Prevention and Treatment of Substance Abuse*. Sixty-five audit reports (34 percent) were not reviewed in a timely manner, and necessary corrective action was not obtained within six months after receipt of the reports. As a result, the Commission cannot ensure that all subrecipients' audit findings are resolved within the required time. Delayed reviews could result in the Commission being unaware of noncompliance by subrecipients. Also, the Commission did not obtain four audit reports resulting in questioned costs of \$808,331.

The Commission has established policies and procedures for monitoring subrecipients. However, due to staff turnover and several reorganizations, the Commission did not have sufficient number of staff members to review audit reports. Timely reviews of subrecipient audit reports are an integral part of assessing high-risk subrecipients and the subsequent allocation of monitoring resources.

The Office of Management and Budget (OMB) Circular A-128 or A-133 requires the Commission to review audit reports for adequacy and determine whether subrecipients have taken corrective action on audit findings within six months after report receipt.

Recommendation:

We recommend that the Commission continue its efforts to conduct timely reviews for subrecipient audit reports. Specifically, the Commission should ensure that all subrecipients submit audit reports within 13 months after their fiscal year end. In addition, the Commission should review all reports and ensure corrective action is taken by subrecipients within six months after report receipt.

Management's Response:

We concur with the finding and offer the following corrective action. The Commission increased efforts by the equivalent of two additional staff in January 1997, to enhance its efforts in the monitoring of subrecipient audit reports. The additional staff will help ensure that audit reports are reviewed and corrective action taken, in a timely manner.

In regards to the four providers who did not submit audit reports, none of them are currently funded by the Commission. Two have gone out of business and the other two were previously notified that their audit reports were late.

Federal Compliance Issue 2:

Limit Subrecipient Cash Advances to Cash Needs

The Commission does not limit subrecipient cash advances to immediate cash needs for the *Block Grants for Prevention and Treatment of Substance Abuse*. Thirteen of fifteen subrecipients (86 percent) tested had excess cash balances for at least 90 days. This results in noncompliance with federal cash management requirements which state advances are to be limited to the subrecipients' immediate cash needs.

The Commission has procedures in place to compare monthly "Requests for Advances" to the quarterly federal *Financial Status Reports*. However, a comparison of monthly cash advances to quarterly *Financial Status Reports* does not provide assurance that monthly cash advances are being expended in the month the advance was requested.

Title 34 of the Code of Federal Regulations (CFR), Section 80.20(b)(7), states that procedures for minimizing the time that elapses between the transfer of funds from the U. S. Treasury and disbursements by grantees and subgrantees must be followed whenever advance payment procedures are used.

Recommendation:

We recommend that the Commission implement procedures to monitor cash advances requested and federal funds used by subrecipients on a more timely basis. The

Commission should consider coordinating with the program monitoring division to verify actual federal funds expended and reported by subrecipients. This would allow the Commission to adjust cash advances, preventing excess subrecipient cash balances. In addition, this would provide the Commission another tool to use in assessing subrecipient activities.

Management's Response:

The Commission concurs with the finding. Without on-site verification of amounts reported by subrecipients as expended each month it is not possible to determine cash on hand until after quarterly "Financial Status Reports" are submitted. The Commission uses federally required "Requests for Advances" forms to monitor monthly cash advance requests against self-reported outlays. The monthly requests for advances are reviewed and no advances are given when previous advances exceed outlays. In addition, TCADA rules require that subrecipients not receive advances for more than the predetermined amount for monthly recurring costs without written justification. The required quarterly "Financial Status Report," where subrecipients self-report expenditures, cannot be requested more frequently than quarterly without

cause in accordance with federal regulations.

Therefore, current procedures require quarterly reviews of cash on hand.

The Commission will take immediate action to enhance existing procedures by coordinating cash on hand findings from on-site audit visits so that subrecipients are placed on a reimbursement only basis for the remainder of the award period when warranted.

Audit Scope

The primary focus of our audit was the Commission's financial and administrative controls over prevention and treatment programs for alcohol and substance abuse in the State. We gained an understanding of the internal control structure, including the general control environment, as well as controls over the federal program. Specific procedures were used to test compliance with the major federal program, *Block Grants for Prevention and Treatment of Substance Abuse* for federal fiscal years 1995 and 1996. Federal expenditures and pass-throughs related to this program exceeded \$49.8 million for fiscal year 1996.

Office of the Attorney General
SAO Report No.97-306
Detailed Findings With Management's Responses

Federal Compliance Issue

The Office of the Attorney General's most significant federal program, the *Child Support Enforcement Program*, is administered by the U.S. Department of Health and Human Services through the U.S. Office of Administration for Children and Families. The Office of the Attorney General collected and distributed approximately \$551 million in child support payments during fiscal year 1996 and received \$97.6 million to administer the program.

Federal Compliance Issue 1:

Ensure Accuracy of Child Support Arrearage Balances

(Prior Audit Issue)

The Office of the Attorney General (Office) does not maintain accurate child support arrearage balances on the Child Support Enforcement automated system. Arrearage balances represent past due child support. Accuracy is essential to ensure collecting the full amount due, if possible, and to prevent overcollection. Additionally, correct arrearage balances help ensure proper distribution of child support payments.

Of the 30 child support cases tested, 9 had incorrect arrearage balances, resulting in a 30 percent error rate. This error rate is consistent with errors noted during the last six audits (since 1991). The Office's Internal Audit Department and the Child Support Division's Program Monitoring section noted similar error rates from their own reviews of arrearage balances.

There are over 790,000 child support cases handled through the *Child Support Enforcement Program* (CFDA 93.563). Approximately 400,000 cases have court-ordered support which must be monitored for arrearage balances.

Data entry errors and misinterpretation of support order information contribute to the inaccuracy of arrearage balances. Arrearage balances are being recalculated and corrected for the system being developed. However, these corrections are not consistently being made on the system currently in use.

Recommendation:

We recommend the Office ensure the accuracy of the arrearage balances on the current Child Support Enforcement System. Procedures should be developed to review case file data when it is entered, modified, or deleted in order to minimize errors. Additionally, the Office should correct balances on the current system as errors are noted during the new system conversion process.

Management's Response:

The Child Support Division has been monitoring the accuracy of child support arrearage balances. Child Support management continues to emphasize the critical importance of accurate child support balances by directing all Area field management staff to review child support balances on a quarterly basis. In addition, we have periodically disseminated policy statements on this issue. To further enhance the controls over calculation of child support balances, a corrective action plan has been developed to include the following control techniques:

- *Expected performance standards. The accuracy of child support balances and achievement of specific targets (i.e., error percentage rate) will be included as expected standards in employee performance plans/evaluations effective March 1997.*
- *Error reduction targets. Efforts will be made to enhance current procedures and reduce the error rate in arrearages at the field office by five percent (5%) from the preceding year.*
- *Quality control. Continued efforts will be made at the field office and area management levels to monitor and adjust, as deemed appropriate, the current quality control processes in the respective Area field offices.*
- *Quarterly reviews. Area management will continue to ensure that quarterly reviews are conducted in their respective field offices and shall ensure that corrective action plans are prepared accordingly. Quarterly reports are to be submitted to the Director of Field Operations beginning the first week in September, 1997, and quarterly thereafter.*
- *Validation of reviews. Division level management, with the assistance of the OAG Program Monitoring Section, will conduct quarterly reviews by Area to ensure and validate the Area level reviews. These reviews shall be conducted beginning in September, 1997.*
- *Error Correction. Field offices shall correct all errors as identified in the arrearage balances during the New System conversion process.*

State Compliance Issue

State Compliance Issue 1:

Ensure Compliance With State Requirement to Accrue Interest on Delinquent Child Support

(Prior Audit Issue)

The Office of the Attorney General (Office) did not comply with state requirements to accrue interest on delinquent child support. Noncompliance results in understated

arrearage balances presented in court and used for interception of income tax refunds. Custodial parents may not receive the full amount owed. Also, proper reimbursement may not be made to the *Aid to Families with Dependent Children Program*.

The automated Child Support Enforcement System is unable to accrue interest on child support arrearages. However, late in fiscal year 1996 the Office established procedures to manually calculate interest on arrearage balances.

Section 14.34 of the Texas Family Code requires that interest be added to past due child support from court actions on or after September 1, 1991.

Recommendation:

We recommend that the Office comply with state requirements to accrue interest on delinquent child support. The current Child Support System should be modified to include interest in arrearage balances. Additionally, the Office should develop procedures to manually calculate interest on child support arrearage balances until the current System is modified. At a minimum, arrearage balances presented in court should include interest.

Management's Response:

Effective May 7, 1996, Child Support management provided an automated tool to calculate interest on child support arrearages which mandated its usage on or about

June 6, 1996. Information Memo 96-01, which outlines the Division's interest policy, shall be redistributed to all Field Operations managers on or about March 1, 1997. Also, the new automated child support system that is being developed will have a feature to automatically calculate interest on delinquent child support accounts.

Audit Scope

Our audit primarily focused on the federal requirements of the *Child Support Enforcement Program* (CFDA 93.563) and related internal accounting and administrative controls. We gained an understanding of the internal control structure, including the general control environment, as well as controls over receipt and disbursement of child support payments, federal financial reports, administrative requirements, and allow ability of costs. Specific procedures were used to test compliance with the major federal program. In fiscal year 1996, over \$551 million in child support payments were processed through the Child Support Enforcement Trust Fund. Federal expenditures to administer the program totaled \$97.6 million during the same period.

Comptroller of Public Accounts
SAO Report No. 97-349
Detailed Findings With Management's Responses

Prior Audit Issues

The Comptroller of Public Accounts (Comptroller) has developed initiatives addressing the prior-year audit issues. The State Auditor's Office supports each of these positive initiatives directed at improving the *Comprehensive Annual Financial Report* (CAFR) preparation process. To date, corrective actions implemented and planned for the future include the following:

Properly Record and Report General Revenue Fund Activity

The Comptroller has developed a self-balancing set of accounts for the General Revenue Fund. As a result, the need for manually entering a majority of the General Revenue Fund activity into the CAFR reporting system through the adjusting entry process has now been eliminated. This now provides greater assurance that the General Revenue Fund activity—revenues of \$35.5 billion, expenditures of \$24 billion, and net operating transfers out to other funds of \$11.5 billion—will be fairly stated and materially correct.

Staffing increases of approximately 25 percent have been dedicated to the Comptroller's Financial Reporting Section (FRS) to address the tight time frames involved in preparing the CAFR. These new positions were filled with staff possessing the necessary technical knowledge in the Uniform Statewide Accounting System (USAS) and financial reporting.

Improve the State's Financial Reporting Process

USAS was used as a primary system of record for financial information by the Financial Reporting Section in verifying agency-reported annual financial report balances for cash, appropriations, and the net transactions for the General Revenue Fund to USAS balances. This improved the accuracy of information available for preparing the CAFR while also enhancing information available for making decisions.

In June, August, and October of 1996, the Financial Reporting Section conducted training seminars and work sessions addressing preparation of the *Annual Financial Report* (AFR) and correction of USAS balances. Although this helped the Comptroller assist many users, as well as improve the accuracy of financial reporting, many agencies did not attend, their reports did not agree to USAS, and their financial information was incorrectly certified as reconciled to USAS.

The Comptroller is seeking more enforcement authority to improve compliance with the Comptroller's annual *Financial Reporting Guidelines* and the accuracy of USAS

data. Proposed changes to current legislation would allow the Comptroller more authority to compel agencies to prepare their annual financial reports as required and to reflect their balances accurately in USAS.

Proposed changes in legislation have been made that would require an earlier submission date for agencies' annual financial reports, including those who receive independent audits. These changes would increase the window of time available for the Financial Reporting Section to meet the February CAFR issuance deadline.

Accounting and Reporting Issue

Accounting and Reporting Issue 1:

Improve Accuracy of Budget Statement Information

(Prior Audit Issue)

Continued improvements are needed to strengthen the policies and procedures used in preparing the Budget Statement. The process for preparing the Budget Statement, while improved from the prior audit, lacks consistent policies that clearly define the legally adopted budget. Similarly, the procedures for compiling the budget and actual data are not well defined. This has resulted in budgeted amounts being incorrectly reported or omitted from the unaudited Budget Statement. Although the magnitude of these items was relatively small when compared to the total budget, they do highlight the need for formalized procedures.

As recommended in the prior audit, the Comptroller increased the use of automation to compile the budget statement. Even though budget information was extracted from USAS, the State's automated accounting system, problems still occurred because of incomplete policies and procedures to guide both the identification of budget amounts and the recording of information in USAS.

The primary conditions contributing to errors in the compilation of the budget statement include the following:

- Problems in identifying and recording rider reductions from Article IX of the General Appropriations Act in USAS
- Reconciling balances recorded in USAS to the General Appropriations Act on only an agency-by-agency basis and not for the State as a whole

Consequently, the initial extraction from USAS did not include all the budgeted items.

Generally Accepted Accounting Principles require that a budget statement be presented as part of the financial statements for governmental entities. This allows financial statement users to compare the legally adopted budget with the actual revenues and expenditures. When errors occur in the statement, it increases the risk that financial statement users may rely upon inaccurate information.

Recommendation:

We recommend that the Comptroller continue to develop policies that clearly define the legally adopted budget and the necessary procedures to compile the data for preparing the Budget Statement. The following information should be included in this process:

- Development of policies to address the recording of contingency riders and General Appropriations Act Article IX appropriation items
- Development of procedures for reconciling USAS to the General Appropriations Act and other appropriated amounts on a statewide basis

Management's Response:

For FY 1996 the Comptroller developed new procedures to automate portions of the Budget Statement. We will continue to refine and document these new procedures to insure that all contingency riders and Article IX appropriations items are properly reflected in the Budget Statement. A reconciliation of USAS to the General Appropriation Act on a statewide basis will be incorporated into the procedures for preparation of the Budget Statement. We will work with the State Auditor and the Legislative Budget Board to clearly define the legally adopted budget for the state.

Audit Scope

The primary focus of the audit work at the Comptroller's office was the statewide consolidation process. Consolidation work was conducted to determine if the CAFR was accurate and presented in accordance with Generally Accepted Accounting Principles. We gained an understanding of the internal control structure for the consolidation process. We also tested the accuracy of the compilation of the annual financial reports for more than 200 state agencies, universities, and component units. In addition, we gained an understanding of procedures the Comptroller's office used to comply with the requirements of the Cash Management Improvement Act (CMIA) and tested the accuracy of the federal interest liability calculations.

The Comptroller would like to acknowledge the State Auditor's staff for their contribution to the Comptroller's training for state agencies on financial reporting requirements and the use of the Uniform Statewide Accounting System (USAS), and for their continued assistance in the Comptroller's initiative to utilize USAS as the primary source for preparation of the Comprehensive Annual Financial Report (CAFR).

Texas Education Agency
SAO Report No. 97-348
Detailed Findings With Management's Responses

Other Related Reports

The State Auditor's Office has issued three audit reports for the Texas Education Agency (Agency) within the past year. The effect of the issues identified in these reports was considered in our fiscal year 1996 audit plan for the Agency. In addition, a report on the effectiveness of internal audit is in progress and the estimated report release date is May 1997. A summary of issues for each of the issued reports is included below.

- ***An Assessment of the Texas Education Agency's Monitoring Systems for Public Education*** (SAO Report No. 96-072, August 1996)

The Agency does not use its financial and student performance accountability systems to effectively monitor school districts. This increases the risk that the \$10 billion in state and federal funds (fiscal year 1996) are not fully used to achieve the State's goals for public education.

We relied on this audit to provide coverage of the Agency's federal funds for the 1996 fiscal year in compliance with the Single Audit requirements of the *Office of Management and Budget (OMB) Circular A-128*. Issues addressed in this report could impact controls over federal funds. The scope of this audit included the following federal programs: Accelerated Instruction, Bilingual Education, Career and Technology, Migrant Education, National School Lunch, School Breakfast, and Special Education.

- ***A Review of Management Controls at the Texas Education Agency*** (SAO Report No. 97-024, December 1996)

The Agency has not fully attended to management controls over its operations. Some of the issues raised in this report have been identified as far back as 1990. Weaknesses in the Agency's overall management systems have created significant risks and challenges for the Agency.

- ***Controls Over Investment Practices at Six Major State Investing Entities*** (SAO Report No. 97-014, November 1996)

Overall, controls over investment practices at the Agency appear adequate to ensure accountability for the Permanent School Fund's investments, although existing controls in some areas could be strengthened.

Accounting and Reporting Issue:

Improve Accuracy of *Annual Financial Report*

The Agency's *Annual Financial Report* for the 1996 fiscal year contained significant errors. As one of the largest agencies in the State, this has a negative impact on the accuracy of the State's financial statements. In addition, the usefulness of the Agency's financial report as a tool for decision-making is impacted by inaccurate information. Errors in the financial report reflect poorly on the Agency's ability to provide accurate and useful financial information. These reporting errors do not indicate a misuse of funds.

The Agency's *Annual Financial Report* is used by the Comptroller of Public Accounts (Comptroller) for the preparation of the State's *Comprehensive Annual Financial Report*. The original report submitted to the Comptroller for the 1996 fiscal year contained errors of \$48.6 million on the Statement of Cash Flows and \$65.9 million on the Statement of Revenues, Expenses and Changes in Fund Balances. For the past two years, the Comptroller's office has expended extensive efforts to research and correct the errors in the Agency's report. This is costly to the State in time spent by the Comptroller's office to investigate the errors, the Agency to redo their work, and the State Auditor's Office to audit the report.

The following specific conditions contribute to the inaccurate financial information:

- The review process for the report that was in place did not identify significant errors. This is due to weaknesses in the review process combined with a lack of training for some personnel involved in the report process.
- The decentralized nature of compiling information for the report results in no one division taking responsibility for the overall accuracy of the Agency's financial statements.
- The current Agency accounting system does not provide all of the information needed for the report. Information for accounts receivable and accounts payable must be compiled from various program divisions. If the various divisions do not have a complete understanding of what information is needed, the risk of inaccurate information increases. The financial information for the Permanent School Fund is provided to Agency Accounting from the Permanent School Fund accounting staff.

The General Appropriations Act, 74th Legislature, Article IX, Section 77 requires all agencies to prepare an annual report in conformity with Comptroller guidelines as to form and content.

Recommendation:

Changes are needed to ensure the accuracy of the Agency's *Annual Financial Report*. A quality review process should be designed that will detect errors. Professional-level

personnel with a knowledge of governmental accounting and reporting should be assigned responsibility for the preparation and accuracy of the report.

All employees working on the report, both Agency Accounting and Permanent School Fund, should receive adequate training in the reporting requirements published by the Comptroller's office. Each year the Comptroller's office provides training to all state agencies and universities concerning the preparation of annual financial reports.

Agency Accounting should ensure that the program divisions have a clear understanding of the information needed for reporting accounts receivable and accounts payable.

Management's Response:

The Texas Education Agency (TEA) concurs with the audit finding that balance errors from prior years for the Permanent School Fund were not adjusted in the Annual

Financial Report (AFR). We also concur that errors in classification between cash and investments occurred due to end-of-year transactions. We recognize that extra efforts were required by the Comptroller's Office to assist TEA in making needed corrections in order for the Texas Comprehensive Annual Financial Report (CAFR) to be accurate.

TEA is committed to take the necessary steps to ensure overall accuracy of the AFR. Three major steps will be taken. One, all personnel involved will receive additional training this year. Two, a consolidated review process of the AFR will be implemented this year. This process will include the Internal Audit Division as well as operating and oversight divisions. Three, improved reporting and integration are major features coming with the

Audit Scope

The primary focus of our audit was the Agency's financial controls over the investment balances and activity of the Permanent School Fund. Investment balances at August 31, 1996, were over \$9.6 billion. We also reviewed the controls over transfers in of \$7.1 billion to the Foundation School Fund. We gained an understanding of the internal control structure, including the general control environment, and tested controls related to investment balances.

An Assessment of the Texas Education Agency's Monitoring Systems for Public Education was issued in August 1996 (SAO Report No. 96-072). The scope of this audit included the following federal programs:

- *Accelerated Instruction* (CFDA 84.010)
- *Bilingual Education* (CFDA 84.003)
- *Career and Technology* (CFDA 84.048)
- *Migrant Education* (CFDA 84.011)
- *National School Lunch* (CFDA 10.555)
- *School Breakfast* (CFDA 10.553)
- *Special Education* (CFDA 84.027)

We relied on this audit to provide coverage of the Agency's federal funds for the 1996 fiscal year in compliance with the Single Audit requirements of OMB Circular A-128.

implementation of the agency's new administrative system in partnership with the Comptroller's Office. The AFR will be addressed in this system. The Integrated Statewide Administrative System (ISAS) is scheduled to be in production November 1997.

It is important to note that no significant reporting difficulties or errors occurred in the agency's expenditures for the \$10 billion Foundation School Program, federal pass-through programs, or agency operating funds.

Hospital Equipment Financing Council
SAO Report No. 97-338
Detailed Findings With Management's Responses

Bond Compliance Issue

Bond Compliance Issue 1:

Institute Monitoring Procedures Over Bond-Related Transactions

The Hospital Equipment Financing Council (Council) does not have procedures to monitor transactions related to its bonds. There are no procedures in place to monitor interest payments, loan collections, investment transactions, and expenses. As a result, some of the information in the Council's Supplementary Bond Schedules was inaccurately reported in the *Fiscal Year 1996 Annual Financial Report*.

Bond payments, loan collections, and investment transactions are performed by the Council's trustee, The Bank of New York (Bank) in Jacksonville, Florida. The Bank pays the bond holders, collects loan payments from its one loan, invests the remaining loan proceeds, and maintains all books and records. The Council's interests are represented by the Legal Services Division of the Comptroller of Public Accounts, who also provides administrative support to the Council. Annually, the Council prepares an annual financial report based on information provided by the Bank. The *Fiscal Year 1996 Annual Financial Report* contained numerous errors.

- The amount reported in the Net Available For Debt Service column on Schedule 2-B, Analysis of Funds Available for Debt Service (Schedule) was not sufficient to cover the amounts the Council paid in interest and bonds refunded. The Council reported \$674,308 as net available for debt service and reported \$474,431 in interest payments. However, the Council called and refunded \$250,000 in bonds. The sum of interest payments and bonds refunded is \$724,431, which is \$50,123 more than the net available for debt service.
- As required by the bond resolution, bonds in the amount of \$250,000 were called for early redemption. However, the \$250,000 in early redemption was not reported on the Schedule as required by the Comptroller of Public Accounts' *Financial Reporting Guidelines for State Agencies*.
- The amount reported as interest paid on the Schedule was overstated by \$26,000. According to bank statements, the Bank only paid \$448,306 in interest payments as opposed to the \$474,431 reported in the Schedule.
- Although the Council reported \$100,513 in operating expenses, support could only be found for \$100,123 in expenses.

Other errors were found in Schedule 2-A, Miscellaneous Bond Information related to changes in bond indebtedness and future debt service requirements.

Recommendation:

The errors noted above could have been prevented or corrected in a more timely manner if procedures had been in place to monitor the monthly transactions reported to the Council. At a minimum, the Council should establish procedures to monitor the monthly interest payments to bond holders, the collection of loan payments, investment transactions performed by the trustee to include interest earned on investments, and all trustee and bank fees. In addition, the Council should establish procedures to perform a timely reconciliation of the bond schedules to supporting documents such as bank statements.

Management's Response:

We concur with your comments in reference to our 1996 audit. We have reviewed the situation with the Comptroller's Office and have asked the Comptroller to provide the

Council with assistance in finding solutions to the items addressed in your letter. We expect solutions to be forthcoming within the next thirty days. If the solutions are acceptable to the Council, we will implement the suggested procedures. As you know, at the present time the Council has no staff to handle your request in a more rapid fashion. I hope this solution is satisfactory.

Audit Scope

The primary focus of our audit was the Council's compliance with significant bond covenants and the presentation of bond-related disclosures in the *Fiscal Year 1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related Notes to the Financial Statements for fairness of presentation and conformity with the Comptroller of Public Accounts' reporting guidelines. At August 31, 1996, the Council reported one bond issue outstanding, totaling \$11.4 million.

Texas Department of Human Services
SAO Report No. 97-310
Detailed Findings With Management's Responses

Related Reports

In addition to the coverage provided by the statewide compliance audit, the State Auditor's Office (Office) has performed work related specifically to contract administration. Additional information is provided by this work, which goes beyond the federal compliance requirements covered by the statewide audit. The results of these contract administration reports include various recommendations to improve the State's ability to protect public funds in areas such as fraud, waste, or inefficient use by contractors. The results for the Department are included in *An Audit Report on Contract Administration at Selected Health and Human Services - Phase Three* (SAO Report No. 96-047, February 1996) and *An Audit Report on the Contract Administration at Selected Health and Human Services Agencies - Phase IV* (SAO Report No. 97-002, September 1996).

The Office has also performed work related to the Electronic Benefits Transfer (EBT) system. This work concluded that the State's EBT system is effectively providing government benefits to the recipients of the *Food Stamps - Non-Monetary* (CFDA 10.551) and the *Family Support Payments to States - Assistance Payments* (CFDA 93.560) programs. However, the report identified opportunities to improve controls over retailers, access, automated program changes, disruptions to the system, and the replacement of cards and personal identification numbers. The results for the Department are included in *Audit of the Electronic Benefits Transfer System* (SAO Report No. 97-020, November 1996).

In addition, the Department's Internal Audit Department recently performed work on certain aspects of the Department's EBT control environment. This work included a review and assessment of the Department's controls intended to ensure vendor compliance with contract terms and conditions; controls intended to safeguard sensitive EBT material; controls intended to ensure only authorized benefit issuance; and controls intended to prevent, detect and correct errors, omissions, irregularities and deficiencies. The detailed findings and recommendations are included in the Department's Internal Audit Report No. 96-019, *Audit of the EBT Control Environment*.

The effect of the exceptions and issues identified in these reports was considered in our fiscal year 1996 audit plan for the Department.

Internal Control Issues

The frequency and unrelated nature of material internal control weaknesses associated with the *Food Distribution* (CFDA 10.550) program for the past three years represent a material weakness in the control environment over the administration of this federal

program. The control environment is a reflection of the attitudes, awareness, and actions of all employees concerning the importance of and emphasis on controls. A weakness in the control environment indicates that conditions exist that could allow unintentional mistakes and intentional improprieties to go undetected.

Management's Comment:

Prior year audit findings (fiscal years 1994 and 1995) were addressed by management and adequately resolved in a timely manner. While the SAO considers a material weakness to exist in the Food Distribution Program, it should be noted that management has taken action to resolve all findings in a timely manner, repeat findings in a single area of the Food Distribution Program have not occurred, and findings reported by the SAO in the two most recent years involve new program and reporting requirements.

Internal Control Issue 1:

Develop Controls to Identify and Report Commodities Exceeding a Six-Month Supply

Controls at the Department do not exist to ensure that commodities exceeding a six-month supply are accurately identified and reported to the United States Department of Agriculture (USDA). This represents a material weakness in the internal control structure designed to detect and prevent errors and irregularities that could be material to the *Food Distribution* program.

Because the Department lacks a formal process to identify commodities exceeding a six-month supply, commodity inventory levels may be stored by the State which are greater than inventory levels considered reasonable by the USDA. The greater the Department's commodity inventory stored at each warehouse, the greater the risk of loss due to disaster, pilferage, and spoilage. Furthermore, inaccurate reporting of excess commodities on the FCS-155 Report, *Inventory Management Register*, impairs the USDA's ability to make accurate and timely management decisions regarding the distribution of commodities.

*Title 7 of the Code of Federal Regulations (CFR) Section 250.14(f)(3) requires the Department to take corrective action to ensure that excess inventories at all levels are eliminated. In cases where state warehouse inventory levels exceed a six-month supply, the Department is required by USDA to report those excesses and document actions taken to reduce those inventories on the monthly report, FCS-155, *Inventory Management Register*.*

Recommendation:

We recommend the Department develop controls which identify commodities exceeding a six-month supply and accurately report those commodities on the

FCS-155. The Department should work with the USDA to develop a mutually acceptable methodology designed to identify commodities exceeding a six-month supply. The Department should report to the USDA on the FCS-155 all excess commodities, as well as the related corrective actions to reduce the excess. Sufficient documentation should be maintained to support the methodology and all inventory level assertions on the FCS-155.

Management's Response:

The finding is related to a relatively new report required by the United States Department of Agriculture (USDA). The report is supposed to identify any USDA donated commodities that are in state warehouses and represent more than a six month supply. When USDA initially announced this report, the requirement to submit it was effective immediately. We received only a memorandum and one page of instructions. Efforts to obtain clarification and additional information from USDA were unsuccessful. This report is used only by USDA as Department staff utilize other, more detailed, reports for program management and integrity purposes.

At the time of the audit the report was not providing reliable data because of the methodology used by staff in preparing it manually.

During the audit, staff implemented suggestions from the auditors on calculating the report. Reports to USDA for prior months were corrected using results from the new methodology. Only minor overages have been detected and reported.

In addition, staff have forwarded a written proposal to USDA for their concurrence on calculation of the data in the report. When agreement is reached with USDA on how the report should be prepared the new methodology will be implemented and prepared manually on a monthly basis. At that same time a request for automating this report will be submitted.

Internal Control Issue 2:

Ensure Timely Preparation of Reconciliations and Correction of Reconciling Items

(Prior Audit Issue)

The Department has not ensured that reconciliations between the quarterly federal reports and the accounting records are prepared in a timely manner. Consequently, reconciling items between the federal reports and the accounting records are not being corrected in a timely manner. While progress has been made in completing timely reconciliations and correcting reconciling items, reconciliations for the last two quarters in fiscal year 1996 had not been prepared prior to the Department's release of the fiscal year *1996 Annual Financial Report (AFR)*.

Since the State of Texas and the Federal Government have different fiscal years, the fourth quarter federal reports are not due until approximately one month before the due

date for the Department's AFR. Therefore, the Department has a limited amount of time to identify all reconciling items, process the adjustments through the automated accounting system, and include all adjustments in the AFR.

Regular reconciliations and timely posting of adjustments are necessary to ensure that information in federal reports and the financial statements is accurate and complete. Additionally, these controls will help ensure accurate requests for federal funds.

Recommendation:

We recommend that the Department implement procedures to ensure that all reconciliations are completed and that reconciling items are corrected for the first three quarters of any given fiscal year prior to the release of the AFR.

We also recommend that fourth quarter reconciling items are identified and included in the preparation of the AFR. The fourth quarter reconciling items should then be corrected and processed through the automated accounting system in a timely manner.

Management's Response:

As stated in the finding, the Department has made progress in this area. The Department will continue to refine and implement procedures to ensure that all reconciliations for the first three quarters are completed and that all reconciling items for these quarters are corrected through the system prior to the release of the AFR.

In addition, the Department will identify fourth quarter reconciling items and include them in preparation of the AFR as recommended. Fourth quarter reconciling items will be processed through the automated accounting system in a timely manner as recommended.

Federal Compliance Issues

Recommendations addressed in other sections of this report could impact controls over federal funds, especially for the Department's most significant federal programs administered by the U.S. Department of Health and Human Services and the U.S. Department of Agriculture.

We reviewed programs totaling 91 percent of the Department's \$4.9 billion in federal pass-throughs and expenditures. The Department is in compliance with most federal regulations for the programs reviewed. The following comments address occurrences of noncompliance in the federal programs reviewed.

Federal Compliance Issue 1:

Ensure Interagency Support Services Costs Are Correctly Charged to Federal Programs

(Prior Audit Issue)

The Department incorrectly charged federal programs for funds received for certain support services provided to the Texas Department of Protective and Regulatory Services (PRS). Although significant progress has been made in this area, the Department did not ensure that \$10.9 million in billings to PRS for certain support services were based on the actual cost of services provided in fiscal year 1996. The Department also did not ensure that \$67.5 million in fiscal years 1994 and 1995 billings to PRS for all support services were based on actual costs. Combined, \$78.4 million in support services billings have not been adjusted to reflect actual costs for the fiscal years 1994 through 1996.

The amount billed to PRS and recorded by the Department for support services in fiscal years 1994 and 1995 was based on a predetermined contract estimate. For fiscal year 1996, a projected budget estimate for specific types of support services expenditures was used.

In addition, the Department's method of allocating these reimbursements for support services billings resulted in incorrect charges to some federal programs for fiscal years 1994 through 1996. However, as of fiscal year 1996, the procedures causing the misallocations were corrected except for Management Information System (MIS) support services. The existing incorrect allocations affect \$4.6 million of \$17.7 million in PRS billings during fiscal year 1996 and all of the \$67.5 million in PRS billings for fiscal years 1994 through 1995.

Office of Management and Budget (OMB) Circular A-87, Attachment C requires that agencies providing interagency services adjust billings to equal the actual allocable costs for such services at least annually.

Recommendation:

We recommend the Department ensure that \$78.4 million in unadjusted interagency support services billings for fiscal years 1994 through 1996 be adjusted to actual allocable costs.

Additionally, Department billings for all support services for fiscal years 1994 and 1995, and MIS support services for fiscal year 1996, should be correctly charged to federal programs. The Department should coordinate with PRS and the U.S. Department of Health and Human Services to determine an acceptable methodology for allocating the costs associated with these support services.

Management's Response:

TDHS and TDPRS have agreed to co-author a letter to the U.S. Department of Health and Human Services Division of Cost Allocation (DCA) in which we will request assistance in resolving this issue. We will request that DCA review the audit finding issues and offer a recommendation on what actions are needed, if any.

Federal Compliance Issue 2:

Improve the Subrecipient Audit Tracking System

The Department's subrecipient single audit tracking system is not capturing all relevant federal financial assistance data. Currently, the Special Nutrition Program's Single Audit Management System (SAMS) determines audit requirements based upon incomplete commodity distribution data for the *Food Distribution* program. In addition, the subrecipient's total federal financial assistance, which is disclosed on form 1569 (Single Audit Identification Data), is not accurately entered into the single audit tracking system. The Department cannot ensure subrecipient compliance with Federal Single Audit requirements without complete and accurate data entered into SAMS.

The *Office of Management and Budget (OMB) Circular A-128* requires the Department to ensure that subrecipients receiving certain levels of federal financial assistance are in compliance with Federal Single Audit requirements.

Recommendation:

We recommend that the Department correct the deficiencies in the subrecipient audit tracking system by capturing complete federal commodity assistance and correctly entering data documented on the form 1569.

Management's Response:

Forms 1569 (Single Audit Identification Data) will be reviewed and separated upon receipt in the audit department. The 1569s will be separated by those subrecipients that do not receive "other federal funds" and those that do list the receipt of "other federal funds", from sources other than the Department of Human Services. Forms with other federal assistance will receive a 100% review to ensure the amounts are reflected accurately. During this review secondary subrecipient amounts (vendor payments) will be deleted, since vendors are not considered subrecipients and these payments are not included in single audit thresholds.

Data entry will occur with segregation of forms 1569s to better assure that other federal assistance is captured in SAMS.

To strengthen quality control a 10% sample will be pulled and checked for accuracy with data in SAMS.

A report will be generated quarterly for any records missing 1569 data and assigned to the appropriate program staff to assure 100% of the 1569s are submitted to the audit department.

Federal Compliance Issue 3:

Do Not Charge Federal Programs for Settlements of Lawsuits

(Prior Audit Issue)

The Department used federal funds to pay for settlements of lawsuits in which the Department allegedly violated federal and state laws and regulations. As a result, unallowable costs totaling \$99,029 were charged to the following federal programs in fiscal year 1996:

CFDA No.	Description	Fiscal Year 1996 Questioned Costs ¹
10.561	State Administrative Matching Grants for Food Stamp Programs	\$35,433
93.560	Family Support Payments to States - Assistance Payments	11,209
93.777	State Survey and Certification of Health Care Providers and Suppliers	10,981
93.778	Medical Assistance Program	41,231
	Other ²	175
	TOTAL	\$99,029

¹ Amounts shown are rounded.

² The "Other" category includes CFDA's 93.561, 93.575, and 93.667.

The *Office of Management and Budget (OMB) Circular A-87* prohibits the use of federal funds for settlements resulting from violations (or alleged violations) of federal, state, or local laws and regulations. These cases were settled prior to a court ruling and do not constitute an admission of guilt by the Department. The basis of allegations brought forth against the Department, however, are sufficient to prohibit the use of federal funds for the resulting settlement.

Recommendation:

The Department should not charge federal programs for the settlement of lawsuits and should return the questioned costs totaling \$99,029 to the federal grantor agencies.

Management's Response:

TDHS will return the amount of questioned costs to the federal grantor agencies as recommended. The TDHS accounting system has been modified to prevent the continued claiming of these types of costs.

Federal Compliance Issue 4:

Revise Cash Management Policies

(Prior Audit Issue)

Current cash management policies at the Department do not reflect actual practices followed by employees and do not ensure compliance with federal requirements. These policies lack procedures to prevent subrecipients from receiving funds in excess of need. In addition, the policies do not provide realistic procedures to determine if a subrecipient did receive excessive funding and actions needed to reduce any excesses. Without adequate policies and procedures, the Department does not have controls in place to ensure compliance with the federal requirements limiting cash advances to immediate cash needs.

Advancing excess funds to subrecipients of the *Child and Adult Care Food Program* (CFDA 10.558) was also a prior audit issue. Management's response was to implement a corrective action plan that contained several initiatives to assist in minimizing excess funds advanced to subrecipients. One of the more effective initiatives to limit the advance of excess funds was to reduce the percentage of funding allowed in making advances. However, this initiative was not implemented by the Department.

Recommendation:

The Department should revise current cash management policies to incorporate the following:

- Procedures to prevent subrecipients from receiving funds in excess of need
- Procedures to monitor cash advances and corrective actions to reduce any excess funding

Management's Response:

In accordance with its corrective action Special Nutrition Programs (SNP) made the following changes to reduce the amount of excess advance payments to subrecipients:

- *implemented a zero claim for contractors who have received advances for months in which they do not file claims,*

- *implemented policy and instructions to Child and Adult Care Food Program (CACFP) contractors for suspending future advances until a subrecipient has paid outstanding advances from a prior year and*
- *notified CACFP contractors to request partial or no advances in periods when attendance drops sharply, to avoid future discontinuation of advances.*

Please reference Policy Alert 96-15 and Procedure Bulletin 96-16 for specific policies and procedures issued.

Prior to passage of Public Law 104-193, the federal law implementing welfare reform, SNP was notified by the United States Department of Agriculture that the requirement to issue advances would become optional under the new legislation. Rather than proposing a state rule to reduce the percentage of funding allowed for paying advances, SNP determined that restricting advances or eliminating them altogether would be more effective in preventing subrecipients from receiving funds in excess of need. This new option will be assessed by SNP, after implementing the mandatory provisions of Welfare Reform in July, 1997, for implementation in FY'98.

SNP did make the following additional changes subsequent to our last report to the State Auditor's Office:

- *implemented charging interest on outstanding advance overpayments in accordance with FCS Instructions 420-1,*
- *established an additional unique contract number for CACFP Family Day Care Homes (FDCH) to facilitate contract monitoring in the department's Budget Analysis and Reporting System (BARS),*

Audit Scope

The primary focus of our audit was the Department's financial and administrative controls over federal programs. We gained an understanding of the internal control structure, including the general control environment and tested controls and common systems related to the major federal programs. Specific procedures were used to test compliance with the major federal program requirements.

We performed an overview of the database integrity controls within the Department's System for Application Verification Eligibility Referral and Reporting (SAVERR) database. We also gained an understanding of the Computerized Medicaid Claims Processing Assessment System (COMPAS). We did not test these automated systems.

Financial accounts significant to the statewide financial statements were also tested. These accounts included federal revenues, human services expenditures, and transfers in.

- *arranged for BARS to allow transfer of Nutrition Assistance Payment Processing data to a database with adhoc reporting capability for tracking advances by contract,*
- *discontinued issuing advances to CACFP-FDCH contractors who fail to complete their administrative responsibilities for managing the program and*

- *included effective management of advances in our Financial Management Basic Job Skills Training curriculum for staff.*

With the implementation of options allowed under Welfare Reform, it is the position of SNP that the findings noted in this report will be sufficiently addressed.

Texas Department of Protective and Regulatory Services
SAO Report No. 97-309
Detailed Findings With Management's Responses

Other Related Reports

In addition to the coverage provided by the statewide compliance audit, the State Auditor's Office has performed work specifically related to contract administration. Additional information is provided by this work, which goes beyond the federal compliance requirements covered by the statewide audit. The results of these contract administration reports include various recommendations to improve the State's ability to protect public funds in areas such as fraud, waste, or inefficient use by contractors. The results for the Department are included in *An Audit Report on Contract Administration at Selected Health and Human Services Agencies - Phase Three* (SAO Report No. 96-047, February 1996) and *An Audit Report on Contract Administration at Selected State Agencies - Phase Four* (SAO Report No. 97-002, September 1996).

The U.S. Department of Health and Human Services' Office of Inspector General issued one report (Report # A-06-95-00035) with findings related to the improper retaining of federal funds by Child Placing Agencies and the Department's monitoring of these agencies. The Department contracts with Child Placing Agencies to provide services under the *Foster Care - Title IV-E* program.

The effect of the exceptions and issues identified in these reports was considered in our fiscal year 1996 audit plan for the Department.

Internal Control Issues

Internal Control Issue 1:

Ensure Controls Are Adequate to Prevent Duplicate Payments

The Department did not have adequate controls in place to prevent duplicate payments from being charged against certain federal programs. This control weakness relates to purchased service and foster care payments. In fiscal year 1996, approximately \$181.8 million (state and federal) of foster care expenditures and \$21.8 million (state and federal) of purchased services expenditures were processed when this control weakness existed.

The automated disbursements system that processed these payments did not maintain cumulative records of prior payments. Consequently, the automated system could not verify whether or not the provider services had been paid on a previous claim.

For foster care payments, compensating controls had previously been established to detect and correct duplicate payments. However, these controls were not in place for payments processed during fiscal years 1995 and 1996. Based on unaudited data provided by the Department, it appears that the total amount of duplicate foster care payments should not exceed an estimated \$1.7 million (state and federal) for fiscal

years 1995 and 1996. For purchased services payments, regional contract monitoring personnel performed reviews of the payments as a compensating control, but this review appears insufficient to detect individual duplicate payments made to providers.

Beginning in fiscal year 1997, the Department began processing these payments through a new automated system, the Child and Adult Protective System (CAPS). The State Auditor's Office has not yet reviewed the adequacy of controls within the CAPS system.

Recommendation:

We recommend that the Department ensure adequate controls are in place to prevent duplicate payments. If possible, the primary control should exist within the CAPS system. Additionally, the Department should enhance procedures to identify providers who were previously overpaid and report the federal portion of these funds to the Federal Government.

Management's Response:

These duplicate payments were processed prior to implementation of the Department's new Child and Adult Protective System (CAPS). Controls and edits to prevent such duplicate payments are incorporated within CAPS. In CAPS, the validation edits for foster care billing check to see if any of the days of service for the child included on the line item being submitted for validation have already been included on any other paid invoice or invoice submitted for payment. If the validation check finds that there is duplication, then the new line of billing is rejected for a "Duplicate Line" error. If another provider must be paid for one or more of the same service days, then the first billing line must be reversed and corrected before the subsequent invoice can process. Department staff have verified that this edit is working in the CAPS production environment.

The CAPS invoice validation routine for purchased services billings contains a similar edit. This edit checks to see if there is another line for the same child, same contract, same service code, and same service month on a paid invoice or invoice submitted for payment. If there is, that line must be reversed, and a new line of billing with the revised number of service units must be entered if additional units were provided during the service month.

The process to identify providers who were previously overpaid and to report the federal portion of those funds to the Federal Government has begun and should be completed by May 31, 1997.

Internal Control Issue 2:

Ensure Timely Preparation of Reconciliations and Corrections of Reconciling Items

(Prior Audit Issue)

The Department has not ensured that reconciliations between the quarterly federal reports and the accounting records are prepared in a timely manner. Consequently, reconciling items between the federal reports and the accounting records are not being corrected in a timely manner.

Although progress has been made in this area, reconciliations for the third quarter in fiscal year 1996 remained incomplete prior to the release of the Department's fiscal year *1996 Annual Financial Report (AFR)*.

Since the State of Texas and the Federal Government have different fiscal years, the fourth quarter federal reports are not due until approximately one month before the due date for the Department's AFR. Therefore, the Department has a limited amount of time to identify all reconciling items, process the adjustments through the automated accounting system, and include all adjustments in the AFR.

Although the Department contracts with the Texas Department of Human Services for these services, the Department has the responsibility to monitor the work and verify that all appropriate procedures are performed. Regular reconciliations and timely posting of adjustments are necessary to ensure that information in federal reports and the financial statements is accurate and complete. Additionally, these controls will help ensure accurate requests for federal funds.

Recommendation:

We recommend that the Department implement procedures to ensure that all reconciliations are completed and that reconciling items are corrected for the first three quarters of any given fiscal year prior to the release of the AFR. In addition, the Department should continue to ensure that significant fourth quarter reconciling items are identified and included in the preparation of the AFR. The fourth quarter reconciling items should then be corrected and processed through the automated accounting system in a timely manner.

Management's Response:

We agree that timely reconciliations and corresponding adjustments should be performed to ensure that financial data is accurate. The Department contracts with DHS for most accounting services, including reconciliations and correction of reconciling items. The FY 1997 contract with DHS includes a requirement to complete reconciliations within 30 days and to complete corrective action on reconciliations within an additional 30 days beginning not later than March 31, 1997.

DHS has been very responsive to our concerns in this area. They have established a contact person to coordinate our services and the Department now meets monthly with their staff to discuss problems and concerns. We feel confident that future reconciliations and corrective actions will be timely and that the monitoring process will provide sufficient safeguards until a more permanent solution is developed.

Staff are currently working with the State Comptroller's Office and Peoplesoft to develop the Integrated Statewide Administrative System (ISAS). ISAS is an integrated procurement, budget and accounting system which should provide us with a higher level of control over financial processes and reconciliation procedures. March 1998 is the targeted implementation date, and should provide the Department with a final resolution to these issues.

Federal Compliance Issues

Recommendations addressed in other sections of this report could impact controls over federal funds, especially for the Department's most significant federal programs administered by the U.S. Department of Health and Human Services.

Federal Compliance Issue 1:

Ensure That Payments Are Made for Appropriately Documented Clients and Costs

(Prior Audit Issue)

The Department is in material noncompliance with the federal eligibility and allowable cost requirements for the *Child Welfare Services - State Grants* (CFDA 93.645) program. The Department paid \$12,650 (\$9,488 federal) for purchased services provided to 20 clients without sufficient documentation showing that the clients were eligible for these services.

Out of 45 *Child Welfare Services - State Grants* clients tested, 20 errors were noted totaling \$3,256 (\$2,442 federal). This represented 35 percent of the \$9,376 (\$7,032 federal) tested. An error rate of 5 percent or more is considered material noncompliance. The \$9,488 in questioned costs represents all related payments made on behalf of these clients for the fiscal year ended August 31, 1996.

The Department uses *Child Welfare Services - State Grants* funds to prevent child abuse and ensure the safety of abused children. The \$22.7 million spent on this program in fiscal year 1996 included payments for psychological evaluation and testing, homemaker services, therapy, counseling, and parent skills training for clients. Before clients are considered eligible for these services, a caseworker must document the need for the services and authorize the payment for the services. Twenty of the 45 clients tested received services for which eligibility was not documented under the *Child Welfare Services - State Grants* program.

Recommendation:

The Department should ensure that services are provided to eligible clients and that payments are made only for allowable costs as mandated by federal regulations. The Department should strengthen procedures and provide training to ensure that the services are properly authorized and that the need for services is properly documented.

Management's Response:

We agree with the recommendation. The finding indicates that certain clients in the sample were ineligible for services because our records failed to include sufficient documentation of their eligibility. It is the Department's intent and policy that only eligible clients be approved for services, and that payments be made only for allowable costs. While we agree there was a lack of documentation to support client eligibility for these services, many of these clients are eligible. Therefore, the error rate doesn't necessarily reflect actual unallowable costs for services to ineligible clients.

In response to prior findings, we did provide additional training to staff in an attempt to resolve the problem, but the real solution has been in the design of the Child and Adult Protective System (CAPS).

Implemented in September 1996, the CAPS system has controls and edits to prevent this type of problem from occurring. Services must be authorized in CAPS for payments to service providers to be processed in the system. The Department has assigned responsibility to the CAPS Post Implementation Review Team, an internal staff group, to comprehensively review how policies and procedures might be modified to enhance processing time and improve worker efficiencies in the new automated environment while maintaining data quality. The service authorization process will be a part of that review. We expect the team to issue their recommendations to Department management by no later than July 1, 1997. Management decisions are expected to be made on or before August 1, 1997. Following that, a training curriculum on the new automated service authorization process will be developed and shared with staff. This additional training should ensure that proper authorization for services is executed and maintained, and that the need for services is clearly documented.

Federal Compliance Issue 2:

Develop Controls to Identify and Monitor Subrecipients

The Department has not developed controls to identify and monitor subrecipients as required by federal regulations. The lack of monitoring procedures represents a significant internal control weakness which affects the agency's ability to administer three federal programs: *Foster Care - Title IV-E* (CFDA 93.658), *Social Services Block Grant* (CFDA 93.667), and *Family Preservation and Support Services* (CFDA 93.556). The Department is responsible for ensuring that the

subrecipients are audited as required by the *Office of Management and Budget Circular A-128* or *A-133*.

Without a monitoring system, the Department has no assurance that the federal funds were spent in accordance with the federal requirements for those programs. We question subrecipient expenditures estimated at \$3.4 million.

The control weakness is compounded by several factors:

- The Department does not have an ongoing function to periodically reassess the classification of recipients. The Department last assessed the status of the subrecipients in 1994 when they were considered vendors and were not subject to the Single Audit requirements. Changes in the federal program now classify the entities as subrecipients.
- The Department does not have an accounting system that identifies subrecipients receiving federal funding in excess of the threshold for which audits are required. Likewise, there is not an established system for tracking the receipt and follow-up on required audit reports.
- Responsibility for monitoring the receipt and follow-up on audit reports has not been clearly established.

Recommendation:

We recommend the Department establish controls to ensure that subrecipients are identified and monitored in accordance with federal regulations. Specifically, the Department should:

- Establish a system to identify subrecipients and funding amounts.
- Develop a tracking system to monitor the status of audit reports and corrective action.
- Implement procedures for monitoring subrecipients, including the review and follow-up on audit reports.
- Assign responsibility for the monitoring function to designated employees.
- Document policies and procedures for the subrecipient monitoring.

Management's Response:

The differences in definition between subrecipient and vendor have been debated for some time, and this is the first audit of the Department that has identified some of our service providers as subrecipients. When we became aware that these providers were

subrecipients, and not vendors, we designated the Contract Administration Division with the responsibility for implementing the necessary systems, policies, procedures and controls to identify and monitor subrecipients in compliance with federal regulations. The Division will ensure that these recommendations are fully implemented by August 31, 1997.

In addition, the Department will participate in the Single Audit Managers' Forum established to implement uniform subrecipient monitoring throughout the state. This Forum will provide needed training opportunities for staff on changes to audit requirements of federal funds mandated by the Federal Single Audit Act Amendments of 1996 and the Federal Office of Management and Budget.

Federal Compliance Issue 3:

Ensure Interagency Support Services Costs Are Correctly Charged to Federal Programs

(Prior Audit Issue)

The Department incorrectly charged federal programs for costs incurred for certain support services provided by the Texas Department of Human Services (DHS). Although significant progress has been made in this area, the Department did not ensure that \$10.9 million in reimbursements to DHS for certain support services were based on the actual cost of services provided in fiscal year 1996. The Department also did not ensure that \$67.5 million in fiscal years 1994 and 1995 reimbursements to DHS for all support services were based on actual costs. Combined, \$78.4 million in support services reimbursements have not yet been adjusted to reflect actual costs for the fiscal years 1994 through 1996.

The amount billed to the Department and recorded by DHS for support services in fiscal years 1994 and 1995 was based on a predetermined contract estimate. For fiscal year 1996, a projected budget estimate for specific types of support services expenditures was used.

In addition, the Department charged its federal programs at different amounts than were originally charged by DHS for all support services provided in fiscal years 1994 and 1995, resulting in misallocations among certain federal programs. However, as of fiscal year 1996, the procedures causing the misallocations were corrected except for Management Information System (MIS) support services. The existing incorrect allocations affect \$4.6 million of the \$17.7 million in DHS reimbursements during fiscal year 1996 and all of the \$67.5 million in DHS reimbursements for fiscal years 1994 through 1995.

Office of Management and Budget (OMB) Circular A-87, Attachment A, states that the cost of services provided by one agency to another should only include the actual allocable costs.

Recommendation:

We recommend that the Department ensure \$78.4 million in unadjusted interagency support services reimbursements for fiscal years 1994 through 1996 be adjusted to actual allocable costs.

Additionally, DHS reimbursements for all support services for fiscal years 1994 and 1995 and MIS support services for fiscal year 1996 should be correctly charged to federal programs. The Department should coordinate with DHS and the U.S. Department of Health and Human Services to determine an acceptable methodology for allocating the costs associated with these support services.

Management's Response:

The Department and DHS have worked together in a joint effort to ensure that costs billed reflect actual expenditures. Initial service agreements were developed using historical budget data as a basis for billing support costs. The Department was billed a share of DHS' actual costs based on historical budget data. Currently, payments to DHS for support services are based on actual units of service and unit costs determined by DHS.

Allocation discrepancies occurred because DHS uses allocation methodology based on DHS programs, while the Department's methodology is based on Department programs. When the Department implements the Integrated Statewide Administrative System (ISAS), we will no longer depend on DHS systems. Actual costs of the Department will be allocated under an approved cost allocation methodology. By March 31, 1997, the Department will join with DHS in drafting a letter to the U.S. Department of Health and Human Services Division of Cost Allocation (DCA) requesting assistance in the issue of adjusting to actual costs. We will request that DCA review the audit finding issues and make a recommendation on what, if any, actions are needed.

Federal Compliance Issue 4:

Correct Erroneous Charges Identified in Title IV-A Funding

The Title IV-A Family Support Payments to States - Assistance Payments (CFDA 93.560) program was incorrectly charged for certain costs that were not allowable under the program. The Department did not comply with the eligibility time frame restrictions outlined in the Title IV-A Emergency Assistance Program (EAP) State Plan.

The unallowable costs resulted from an automated system error, which caused the EAP funding for eligible clients to end at the incorrect time. In November 1995, the Department implemented controls to continuously identify clients with errors in their eligibility time frames and make corrections to prevent future errors in the client's EAP funding. However, for the 465 clients initially identified with errors, the

Department has not made retroactive corrections for payments in which the Title IV-A *Family Support Payments to States - Assistance Payments* program was incorrectly charged. The Department is currently reviewing a sample of these clients, and based on the results of the sample, will calculate a projection of the questioned costs to the population.

Recommendation:

While we commend the Department for implementing controls to prevent future errors in the Emergency Assistance eligibility time frames and funding, the Department should ensure that corrections are made retroactively and in a timely manner for the incorrect charges to the federal program. Additionally, the Department should report the related questioned costs to the Federal Government.

Management's Response:

We agree that a programming error in the system interface between the Emergency Assistance database and the level of care system resulted in non-compliance with the eligibility time frame restrictions in the Title IV-A Emergency Assistance Program state plan. The problem was identified in October 1995, and since November 1995, a

process has been used to allow weekly reconciliation of the information. All reported problem cases are manually corrected. The Department is currently determining a dollar impact for the time period from March 1995 until November 1995 where corrections have not occurred. Staff are reviewing information to determine the number of days overclaimed or underclaimed. This process, including the associated dollar impact, is expected to be completed by May 31, 1997.

Audit Scope

The primary focus of our audit was the Department's financial and administrative controls over two of its major federal programs relating to the State's child protective services. These two programs, *Foster Care - Title IV-E* and *Child Welfare Services - State Grants*, had expenditures of approximately \$93 million for fiscal year 1996. We gained an understanding of the internal control structure, including the general control environment, and tested controls and common control systems related to the major federal programs. Specific procedures were used to test compliance with the major federal program requirements. In addition, we performed an overview of the Department's new automated system, Child and Adult Protective System (CAPS), which was implemented in September 1996. This overview included gaining an understanding of controls, however, no actual tests of controls were performed.

Sul Ross State University
SAO Report No. 97-332
Detailed Findings With Management's Responses

Internal Control Issue

Internal Control Issue 1:

Improve Administrative Controls in the Student Financial Aid Office

The administration of the Student Financial Aid Office needs to be improved. During our testing of the student financial assistance programs, problems were found in 70 of the 196 (36 percent) files tested. These problems, which primarily deal with documentation and file maintenance, reflect the lack of or inadequate administrative controls which could prevent the University from participating in any federal student financial aid programs.

The University received \$10.1 million in Title IV, Higher Education Act funds (98 percent of total federal financial assistance) for the year ended August 31, 1996. Approximately 68 percent of the students attending the University receive federal aid.

Title 34 of the Code of Federal Regulations (CFR), Section 668.16, establishes standards of administrative capability which apply to an institution that participates in any student financial assistance program authorized by Title IV of the Higher Education Act (HEA) of 1965 (Title IV, HEA program). These standards must be maintained in order to continue participation in any Title IV, HEA program.

Recommendation:

We recommend the University improve administrative controls in the Student Financial Aid Office. This can be accomplished by:

- Updating policies and procedures to ensure compliance with Title IV, HEA program requirements
- Providing training to staff responsible for administering the Title IV, HEA programs
- Developing a quality control or review program to ensure that policies and procedures are consistently followed

Management's Response:

We agree with the recommendations and are in the process of updating the Policies and Procedures Manual to provide up-to-date compliance information and training for current and new employees. In addition, the use of computerized procedures,

verification/checklist forms and 100% reviews of packaging and files will provide the quality assurance necessary to maintain the programs in compliance with Title IV requirements.

Federal Compliance Issues

Recommendations addressed in other sections of this report could impact controls over federal funds, especially for the University's most significant federal programs administered by the U.S. Department of Education.

Federal Compliance Issue 1:

Ensure all Recipients Submit a Completed Student Aid Report

The University is not ensuring that all recipients of the *Federal Pell Grant Program* and the *Federal Family Education Loans* program (FFELP) submit a completed Student Aid Report. Not obtaining complete information could result in disbursing aid to ineligible students.

In 8 of 40 (20 percent) files tested, the students had not signed the "Statement of Educational Purpose" and the "Certification Statement on Refunds and Default" prior to receiving Pell Grant or FFELP loan proceeds. This resulted in questioned costs of \$1,170 in Pell Grants and \$9,911 in FFELP loans.

Title 34 of the Code of Federal Regulations (CFR), Sections 668.7(a)(7), 668.32, and 668.33, require a student to sign a "Statement of Educational Purpose," "Certification Statement on Refunds and Default," and a "Statement of Registration Status."

Recommendation:

We recommend the University ensure that all recipients submit a completed Student Aid Report. Procedures should be developed to ensure that students sign all the required statements. Total questioned costs of \$11,081 should be returned to the federal financial assistance programs.

Management's Response:

We agree with the recommendation. The Financial Assistance Officer (FAO) has begun a comprehensive file maintenance program which is scheduled for completion by July 1998. As part of this program, pertinent signatures and documentation necessary for each Academic Year is being checked for accuracy and completion. The unsigned certifications, found during the audit, have been sent to the student along with a letter requesting their signature and date. This action is being taken to ensure that files in question will be brought into compliance and questioned costs will be adjusted or eliminated.

Federal Compliance Issue 2:

Maintain Complete and Accurate Student Files

The University is not adequately maintaining complete and accurate student files to support the disbursement of federal financial assistance. Erroneous disbursements of aid were made to both eligible students and ineligible students. The University is financially responsible for returning improperly disbursed funds.

During our review of 196 student files, the Student Financial Aid Office could not locate or had difficulty locating information that should have been maintained in the files. Eighteen of these files were missing documents that were never found, which included six loan applications for the *Federal Family Education Loans* program. The six missing loan applications result in questioned costs of \$30,904. Additionally, some student files contained records which belonged in other students' files, and discrepancies were found in many of the student files.

Title 34 of the Code of Federal Regulations (CFR), Section 668.23 (h), requires institutions administering federal financial aid programs to establish and maintain adequate student records. Student files should be complete and accurate to support student eligibility and awards.

Recommendation:

We recommend the University maintain complete and accurate student files to support the disbursement of federal financial assistance. The University should develop and implement written procedures to correct the file maintenance weaknesses.

Management's Response:

We concur with the recommendation made. Use of the checklist mentioned previously and the review of awards by a second individual will provide additional assurance that amounts awarded and disbursed are correct and properly documented. We will in the process of our reviews attempt to locate the missing documentation.

Federal Compliance Issue 3:

Ensure Financial Aid Given to Students Does Not Exceed Their Need

The University is not ensuring that financial aid given to *Federal Family Education Loans* program recipients does not exceed their need. Financial need was incorrectly calculated and overstated for 3 of the 40 (8 percent) student files tested, resulting in questioned costs of \$6,340.

Title 34 of the Code of Federal Regulations (CFR), Section 682.603(d), states that a school may not certify loan applications for a loan amount that exceeds the student's financial need.

Recommendation:

We recommend the University ensure that financial aid given to students does not exceed their need. This can be accomplished by using the federal methodology to calculate financial need. Total questioned costs of \$6,340 should be returned to the applicable lenders.

Management's Response:

A verification\checklist form has been developed and with required counselor verification during the packaging process, the awarding process, and the revision process, should ensure accuracy, preclude over-awarding and confirm that required documentation is in file. We believe that the questioned costs can be resolved without return of funds.

Federal Compliance Issue 4:

Provide Exit Counseling Information to All Students

The University is not providing exit counseling (loan repayment) information to all recipients of the *Federal Family Education Loans* program. In 14 of 20 files tested (70 percent), there was no form indicating that exit counseling had been performed. Inadequate exit counseling procedures could result in an increased loan default rate.

Title 34 of the Code of Federal Regulations (CFR), Section 682.604(g), requires that the institution conduct exit counseling with each borrower who ceases to be enrolled at least half-time. If a student does not attend a counseling session, this information must be mailed to the student within 30 days. Documentation of this counseling must be maintained in the student's file.

Recommendation:

We recommend that the University provide timely exit counseling information to all students who cease to be enrolled at least half-time and that documentation be maintained in the student files.

Management's Response:

The Financial Assistance Office has implemented procedures to insure that exit counseling requirements are met for new graduates, students following both the formal withdrawal process and those withdrawing without notification, and students falling below half-time enrollment status.

Federal Compliance Issue 5:

Report All Enrollment Changes to the Guarantor or Lender

The University is not reporting all enrollment changes for the *Federal Family Education Loans* program to the guarantor or lender. The current reporting procedures are inadequate. Enrollment changes were not appropriately reported for 19 of 20 (95 percent) student files tested. Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled. Noncompliance with this requirement may result in delayed repayment to lenders.

In addition, the University did not maintain copies of the Student Status Confirmation Reports (SSCR) after completion. SSCRs are the reports submitted by guarantors or lenders to the University for verification of enrollment, which are required to be maintained for five years

Title 34 of the Code of Federal Regulations (CFR), Section 682.610(c), requires the institution to report enrollment changes to the guaranty agency within 60 days. If an institution does not expect to report enrollment changes on the SSCRs within the next 60 days, it is required to notify either the guarantor or lender by letter within 30 days.

Recommendation:

We recommend the Student Financial Aid Office strengthen communication with the Registrar's Office and implement procedures to ensure all enrollment changes are reported to the guarantors or lenders. The notification should be by letter within 30 days, if the Student Financial Aid Office does not expect to report the changes on the Student Status Confirmation Report (SSCR) within the next 60 days. Copies of the SSCRs should also be maintained for the required period of five years.

Management's Response:

The FAO has implemented procedures to ensure reporting of enrollment changes within the 30 or 60 day periods by review and reporting of student status from weekly add/drop and withdrawal listings and by providing lists of graduating students.

Federal Compliance Issue 6:

Obtain Financial Aid Transcripts

The University is not obtaining financial aid transcripts for all transfer students who receive federal financial assistance. Five of the 50 (10 percent) *Federal Family Education Loans* program and *Federal Pell Grant Program* student files tested did not include a transcript obtained in accordance with federal regulations. The transcripts were subsequently obtained, but not before disbursement of the federal funds as required.

Title 34 of the Code of Federal Regulations (CFR), Section 668.19, requires that a financial aid transcript (FAT) be obtained before disbursing FFELP aid and the second payment of Pell Grant funds to any student who previously attended another eligible institution. The transcript must be signed by an official authorized by the institution providing the transcript.

Recommendation:

We recommend the University obtain financial aid transcripts for all transfer students before disbursing federal financial assistance.

Management's Response:

Tracking aggregate loan amounts was made more efficient by the U.S. Department of Education's implementation of the National Student Loan Database System (NSLDS). All Institutional Student Information Reports (ISIR's) or Student Aid Reports (SAR's) beginning the 96-97 academic year will include a print-out of student's loan history. SRSU will use the print-out as the primary tracking system for non-transfer students. Transfer students will be required to request FAT's if they have attended another institution in a semester that the NSLDS does not verify.

Federal Compliance Issue 7:

Properly Verify All Application Information for Students Selected by the Department of Education

The University is not properly verifying application information for all *Federal Family Education Loans* program and *Federal Pell Grant Program* applications selected by the Department of Education. In 12 of 30 (40 percent) files tested, the University did not verify information in accordance with federal regulations. Inadequate verification could cause an incorrect student family contribution, which could result in an incorrect award.

The *Code of Federal Regulations 34 (CFR), Sections 668.56, 668.57, and 668.59* require that the University verify certain information on selected applications and update the information when errors are discovered.

Recommendation:

We recommend that the University properly verify required application information for students selected by the Department of Education.

Audit Scope

The primary focus of our audit was on the University's two largest student financial assistance programs: the *Federal Family Education Loans* program (FFELP) and the *Federal Pell Grant Program*. We tested the administrative controls relating to the major federal programs. Specific procedures were used to test compliance with federal program requirements. For fiscal year 1996, the total dollar value of the programs at the University are as follows:

<i>Federal Family Education Loans</i> program	\$6,704,401
<i>Federal Pell Grant Program</i>	\$2,180,098

Management's Response:

A financial assistance counselor has been assigned to perform all verifications and will perform verification prior to releasing student files for packaging or awarding. Each financial assistance counselor will again review all files prior to packaging, awarding and revision for accuracy. Professional Judgements will be documented on the new verification/checklist form.

Texas Department of Transportation
SAO Report No. 97-311
Detailed Findings With Management's Responses

Related Projects

The State Auditor's Office is currently conducting three independent audits at the Department of Transportation related to various aspects of the construction process. This work will provide additional information in the following areas:

- The Contract Administration audit evaluates controls over construction, design, and maintenance contracts. The focus of the audit is to determine whether the controls ensure that work is performed according to contract specifications. The estimated report release date for this audit is April 1997.
- The Engineering Cost Project evaluates current methodology used to determine preliminary and construction engineering costs. This cost comparison helps ascertain the balance between the use of the Department's employees and private sector firms. The estimated report release date for this audit is April 1997.
- The Review of Controls for Right-of-Way Purchases evaluates management controls over the right-of-way acquisition process. The focus of the audit is to determine whether adequate controls exist to protect the title for the acquired property and the impact of proposed changes to controls. The estimated report release date for this audit is March 1997.

Internal Control Issue

Internal Control Issue 1:

Strengthen the Control Environment Over the Construction Payment Process

A weakness exists in the control environment over the Department's construction payment process. A weakness in the control environment means that conditions exist that would allow unintentional mistakes or intentional improprieties to occur and remain undetected. The weakness is indicated by undetected errors in payments to contractors, inaccurate information in the accounting system, and inadequate controls over inventories of materials used in the construction projects. Conditions found include the following:

- Undetected errors of more than \$2.5 million occurred out of \$103 million in contractors' payments tested.
- A data entry error of more than \$4.3 million occurred in the project set-up authorization process and was not detected in a timely manner.

- Controls over inventories do not ensure accurate contractors' payments.

The Department has established policies and procedures over the construction payment process. However, these policies and procedures do not operate as intended. As a result, the Department has a higher risk of paying contractors inaccurate amounts and project costs may be higher than necessary. More than \$2.1 billion was spent during fiscal year 1996 for construction projects.

Recommendation:

We recommend the Department strengthen controls over the construction payments process to reduce the risk of incorrect payments to contractors. We believe this can be accomplished by performing the following activities:

- Reevaluate current procedures for efficiencies and effectiveness.
- Emphasize to employees the importance of following these procedures, particularly supervision and timely reviews.

Management's Response:

We concur with the Overall Conclusion, Key Finding, and each of the three Issues and Recommendations. In the short term, the Houston district is taking specific and immediate actions to provide accurate accounting records to support contractor payments. Additionally, we will emphasize to all districts the necessity of carrying out the established record keeping procedures and providing appropriate levels of review and supervision of these procedures.

In a more long term effort to address the total needs of a contract management system, TxDOT has teamed with eighteen states, the Federal Highway Administration, and New Brunswick, Canada in a joint development project to provide a state-of-the-art automated contract management system, SiteManager. This system will address many of the manual record keeping problems noted in your audit work. The primary function included in SiteManager are: daily work reports; material management; contractor payments and progress monitoring; and construction administration. SiteManager is currently being tested in TxDOT and a phased implementation will begin in Fiscal Year 1998.

Federal Compliance Issues

The Department's most significant program, *Federal Highway Planning and Construction* (CFDA 20.205), is funded by the U.S. Department of Transportation through the Federal Highway Administration. During fiscal year 1996, this program expended \$1.4 billion for federally funded projects.

Our review covered 31 of the approximately 12,010 construction payments made during fiscal year 1996. The selected construction payments represent \$103 million of the \$1.4 billion in construction expenditures for federally funded projects. The Houston, Austin, and Corpus Christi Districts were included in our review.

The recommendation addressed in the first section of this report impacts controls over federal funds, especially for the Department's most significant federal program.

Federal Compliance Issue 1:

Ensure Timely Detection and Correction of Errors in Contractors' Payments

The Houston District is not ensuring accurate accounting records that support contractor payments. Inaccurate payments to contractors resulted from mathematical and entry errors. The Houston District's personnel did not detect these errors in a timely manner. Four construction projects had errors totaling \$2.4 million. No errors were noted in the Austin and Corpus Christi Districts.

Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local and Indian Tribal Governments states that program recipients must follow sound business practices. Record keeping procedures are designed to prevent, detect, and correct errors in a timely manner.

Recommendation:

We recommend the Department ensure that accurate accounting records are maintained to support contractors' payments. This can be achieved by considering the following:

- Provide appropriate levels of review and supervision.
- Develop automated techniques to reduce mathematical errors.

(Management's Response to this recommendation appears after the Internal Control Issue.)

Federal Compliance Issue 2:

Ensure Accounting Records Support Contractor Payments

The Department's procedures do not ensure that contractor payments are adequately supported by accounting records. Two of 23 construction payments tested at the Houston District did not have invoices or other documentation supporting payment for construction materials. Consequently there are \$391,161 of questioned costs. This may result in the Federal Government requesting reimbursement for the unsupported payments.

| *Title 49 of the Code of Federal Regulations (CFR), Subtitle A, Subpart c, §18.20* states that program recipients must maintain adequate accounting records.

Audit Scope

The primary focus of our audit was the Department's financial and administrative controls over the *Federal Highway Planning and Construction* program (\$1.2 billion) relating to the State's transportation system. We gained an understanding of the internal control structure, including general control environment, controls over federal billing, cash disbursements, payroll indirect costs, and the federal program. Specific procedures were used to test compliance with the major federal program.

Recommendation:

We recommend the Department obtain invoices or other supporting documentation prior to making contractor payments.

(Management's Response to this recommendation appears after the Internal Control Issue.)

University of Houston System
University of Houston - Victoria
SAO Report No. 97-340
Detailed Findings With Management's Responses

Internal Control Issue

Internal Control Issue 1:

Strengthen Controls Over Receipt of Loan Proceeds

The Student Financial Aid (SFA) Office should strengthen controls over the receipt of loan proceeds from the lenders of the *Federal Family Education Loans (CFDA 84.032)* program. Currently, the SFA Office is receiving loan proceeds from the lenders. Since the SFA Office both processes the loan applications and receives the loan proceeds from the lenders, the risk increases that SFA personnel could process unauthorized loans and retain the loan proceeds when they are received without being detected.

Title 34 of the Code of Federal Regulations (CFR), Section 668.16(c), requires an institution to ensure that its procedures for administering the student financial aid programs include an adequate system of internal checks and balances.

Recommendation:

We recommend that the University strengthen controls over the receipt of loan proceeds from the lenders. This can be accomplished by having all the loan proceeds delivered directly from the lenders to the Finance Office instead of the Student Financial Aid Office.

Management's Response:

Lenders have been notified to send FFELP loan checks directly to the Finance Office.

Federal Compliance Issues

Recommendations addressed in the other section of this report could impact controls over federal funds, especially for the University's most significant federal programs administered by the U.S. Department of Education.

Federal Compliance Issue 1:

Ensure Students Are Eligible Prior to the Disbursement of Loan Proceeds

The University is not ensuring that all students continue to be eligible to receive loan proceeds prior to disbursement for the *Federal Family Education Loans* program (FFELP). Inadequate reverification of eligibility could cause loan proceeds to be paid to ineligible students.

The University did not properly verify the number of enrolled hours for 2 of 30 (6 percent) students tested. One of the students was enrolled less than half-time, and the other student was not enrolled. As a result, loan proceeds of \$5,348 were paid out to ineligible students and are considered questioned costs.

Title 34 of the Code of Federal Regulations (CFR) Section 682.604 (b)(2)(I) states that a university may release the proceeds of any loan disbursement to a student that the university determines, after the university receives those proceeds from the lender, has continuously maintained eligibility.

Recommendation:

We recommend that the University ensure students continue to be eligible prior to the disbursement of loan proceeds. The questioned costs of \$5,348 should be returned to the lender along with a written statement describing the reason for the return. Additionally, the applicable students should be notified of the repayment to their lenders.

Management's Response:

The review of enrollment status prior to disbursement by the Finance Office will ensure no reoccurrence of this finding. A procedure is in place for summer loan disbursements. We will return to the lenders the loan proceeds of \$5,348 paid out to ineligible students and we will notify the applicable students of the repayments and request refunds, as appropriate.

Federal Compliance Issue 2:

Provide Exit Counseling Information to All Students

(Prior Audit Issue)

The University is not providing exit counseling (loan repayment information) to all recipients of the *Federal Family Education Loans* program. In 10 of 20 files tested (50 percent), exit counseling was not performed as required. Seven of the files contained no form indicating that the University performed exit counseling. Three of the files contained outdated (ranging from 1.5 to 6 years old) exit counseling forms. Inadequate exit counseling procedures could result in an increased loan default rate.

Title 34 of the Code of Federal Regulations (CFR), Section 682.604(g), requires that the institution conduct exit counseling with each borrower who ceases to be enrolled at least half time. If a student does not attend a counseling session, this information must be mailed to the student within 30 days. Documentation of this counseling must be maintained in the student's file.

Recommendation:

We recommend the Student Financial Aid Office provide exit counseling information to all students who cease to be enrolled at least half time and that documentation be maintained in the student files.

Management's Response:

Now that the Admission's Office is sending the Financial Aid Office copies of the Drop/Add forms and Anticipated Graduation lists, we will be notified in a timely manner that a student has dropped, withdrawn, or plans to graduate. A review of the file will be conducted to see if the student must attend an exit counseling session. Letters and exit counseling packets, which include the exit counseling survey, will be sent to all students who are required to go through the exit counseling. This issue has been addressed.

Federal Compliance Issue 3:

Report Enrollment Changes in a Timely Manner

The University is not reporting all enrollment changes for the *Federal Family Education Loans* program. Procedures are not sufficient to report enrollment changes as required. Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled. Noncompliance with this requirement may result in delayed loan repayment to lenders.

Enrollment changes were not reported within the required time frames for 17 of the 20 (85 percent) student files tested. Two of the files indicated that the enrollment changes were not reported at all. Documentation in the other 15 files indicated that enrollment changes were not reported within the required time frames.

Title 34 of the Code of Federal Regulations (CFR), Section 682.610(c), requires the institution to report enrollment changes to the guaranty agency within 60 days. If an institution does not expect to report enrollment changes on the student status confirmation report within the next 60 days, that institution must notify the guaranty agency or lender by letter within 30 days.

Recommendation:

We recommend the Student Financial Aid Office report all enrollment changes to the guaranty agency or lender. Timely reporting of students who graduate can be achieved by submitting a list of confirmed graduates to the guarantor. Procedures should also be developed to notify the lender or guaranty agency of other enrollment changes that occur during the semesters. The notification should be by letter within 30 days, if the Student Financial Aid Office does not expect to report the changes on the student status confirmation report within the next 60 days.

Management's Response:

The Financial Aid Office signed a contract with the National Student Loan Clearinghouse to send enrollment information monthly to the National Student Loan Database System (NSLDS), guaranty agencies, and lenders. The 30 day reporting requirement has been addressed.

Federal Compliance Issue 4:

Properly Verify All Application Information for Students Selected by the Department of Education

The University is not properly reviewing and correcting financial information for all *Federal Family Education Loans* (CFDA 84.032) program and *Federal Pell Grant Program* (CFDA 84.063) applications selected by the Department of Education for verification.

Inadequate verification could cause an incorrect student family contribution, which could result in an incorrect award.

The University did not properly verify and correct all information in 4 of 30 (13.3 percent) files tested. Three of the exceptions occurred because the University did not properly verify the students' earned income credit. In another case, a student's verification worksheet was incomplete, and the adjusted gross income for the student's family was underreported.

Title 34 of the Code of Federal Regulations (CFR), Sections 668.56, 668.57, and 668.59 require that the University verify financial information on selected applications and update the information when errors are discovered.

Recommendation:

We recommend that the University properly review and correct all financial information for students selected by the Department of Education for verification.

Audit Scope

University of Houston System

The primary focus of our audit was on the System's compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. At August 31, 1996, University of Houston System reported six outstanding bond issues totaling \$112 million.

We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related Notes to the Financial Statements for fairness of presentation and conformity with reporting guidelines.

University of Houston-Victoria

The primary focus of our audit was on the University's two largest student financial assistance programs: the *Federal Family Education Loans* program (FFELP) and the *Federal Pell Grant Program*. We tested the administrative controls relating to the major federal programs. Specific procedures were used to test compliance with federal program requirements. For fiscal year 1996, the total dollar value of the programs at the University was as follows:

<i>Federal Family Education Loans</i> program	\$1,619,664
<i>Federal Pell Grant Program</i>	\$306,798

Management's Response:

The Office of Financial Aid will review all financial information selected by the Department of Education for verification. If the office finds discrepancies, corrections will be made to the student's file.

The University of Texas at Austin
SAO Report No. 97-341
Detailed Findings With Management's Responses

Internal Control Issue

Internal Control Issue 1:

Strengthen Controls Over Data Processing

(Prior Year Issue)

The Office of Student Financial Services (Office) has allowed programmers to modify computer programs, place the programs into production, and run the programs against production data. These programmer functions are performed with minimal oversight and a lack of other compensating controls. This situation is similar to allowing the same person to receive incoming checks, deposit the checks, and balance the bank statement. Expenditures for student financial aid for fiscal year 1995 were \$9.7 million.

In response to a prior-year finding, the Office has recently implemented some compensating controls over the programming staff's unrestricted access to critical financial aid data. However, these compensating controls only partially address the weaknesses caused by the lack of segregation of duties. In addition, these controls were implemented at least nine months after the implementation date specified by the Office.

Without adequate segregation of duties and a lack of compensating controls, the likelihood increases that unauthorized recipients may fraudulently receive financial aid funds.

Recommendation:

We recommend that the Office of Student Financial Services identify and implement compensating controls to provide more oversight of the programming staff's responsibilities and to decrease the likelihood that fraudulent activity can occur.

Management's Response:

OSFS senior management and other staff provide significant oversight of the activities of the Data Processing Section on a regular daily basis and through various periodic reviews and evaluations of accomplishments and goals. We agree, however, that Data Processing staff in the OSFS, as they do in other areas at UT Austin, have a substantial amount of autonomy in regard to modifying programs, placing them in production, and running them against production data.

OSFS now receives weekly reports on all programs stowed in production with the name of the program, the library, the date stowed, and the programmer placing the program in production. The Director, Associate Director, or Assistant Director for

Operations will continue to monitor that report for unusual activity. In addition, OSFS will also maintain, in a UEDIT library, an on-going "activity database" which can also be produced in printed form. Programmers will be expected to make an entry into this "activity database" each time they place a program into production. The database will be organized by functionality of programs in order to provide better management review. The individual programmer will record his or her name, the date and approximate time the program was placed in production, and the name of the program. In addition, if the changes to the program being placed in production are tied to an active work order, the date and requestor for the work order will also be entered. If the program is being placed into production because of an ad hoc change required to correct or enhance the program, but not tied to an active work order, that will be noted and if the change(s) were made at the request of a specific individual the comment will also include that information. In all cases, there will also be some brief comment as to the nature of the change(s) that required the program to be placed in production.

The reports now produced weekly by the Administrative Computing Services Department from its log of programs placed in production will be reviewed at least monthly against the internal "activity database" maintained in the UEDIT library by OSFS. Any discrepancies between the two or unusual entries in the "activity database" can be noted and pursued to make sure that activities do not occur which are not authorized. OSFS believes that these additional efforts will provide compensating controls for all the various areas of concern noted by the auditors in the "Additional Information of the findings."

The Office of Student Financial Services plans to implement these additional procedures within two months.

Federal Compliance Issues

Recommendations addressed in the other section of this report could impact controls over federal funds, especially for the University's most significant federal programs administered by the U.S. Department of Education.

Federal Compliance Issue 1:

Provide Exit Counseling Information to All Students

(Prior Audit Issue)

The University is not providing exit counseling (loan repayment information) to all recipients of the *Federal Family Education Loans* (CFDA 84.032) program. Exit counseling was not provided for 3 of the 20 files tested (15 percent). Two files did not contain exit counseling documentation, while documentation in one file indicated exit counseling was not provided in a timely manner. Inadequate exit counseling procedures could result in an increased loan default rate.

Title 34 of the Code of Federal Regulations (CFR), Section 682.604, requires that the institution conduct exit counseling with each borrower who ceases to be enrolled at least half-time. If a student does not attend a counseling session, this information must be mailed to the student within 30 days. Documentation of this counseling must be maintained in the student's file.

Recommendation:

We recommend that the University provide exit counseling information to all students who cease to be enrolled at least half-time and that documentation be maintained in the student files.

Management's Response:

In general, we concur that OSFS needs to provide timely exit counseling to students who cease to be enrolled less than half-time, and will continue to improve our efforts to do so when applicable.

We would like to make one comment, however. One case cited involved a student for whom we provided exit counseling, but the counseling was not considered "timely". In this particular instance the student had two different dates in the system regarding when he withdrew. The dates were only nine days apart, and we provided exit counseling within 30 days of the latter date. We agree that the official date was the earlier one, but want to note that the error was not without some cause, and had no significant relevancy.

Regardless of the relative insignificance of the delay in providing exit counseling material in this case, we will, however, initiate tighter controls to be sure that we provide exit counseling to those who are academically dismissed, withdraw, or drop to less than half-time during a long semester.

Federal Compliance Issue 2:

Accurately Report Students' Enrollment Status

(Prior Audit Issue)

The University is not accurately reporting the enrollment status of all students for the *Federal Family Education Loans* program (FFELP) to the guarantors or lenders. Enrollment changes were not reported for 13 of 14 (93 percent) student files tested, the enrollment status portion of the FFELP loan application was not properly completed, and copies of two of the Student Status Confirmation Reports (SSCRs) were not maintained after completion. Noncompliance with this requirement may result in delayed repayment to lenders.

The University does not have specific procedures in place to report enrollment changes if it does not expect to submit its next SSCR within the next 60 days from the date the

change occurred. The lack of coordination and communication between the Office of Student Financial Services and the Office of the Registrar also contributed to the failure to properly report enrollment changes. Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled. In addition, the University improperly indicated that all students were enrolled full-time on the FFELP loan applications instead of using the actual anticipated enrollment status.

Title 34 of the Code of Federal Regulations (CFR), Section 682.610, requires the institution to report enrollment changes to the guaranty agency within 60 days. If an institution does not expect to report enrollment changes on the SSCRs within the next 60 days, it is required to notify either the guarantor or lender by letter within 30 days. Section 682.603 (a), requires the institution to certify that the information it provides in connection with a loan application is complete and accurate. Section 668.23 (h)(3)(iii), requires the institution to retain records required under applicable programs for at least five years from the time the record is established.

Recommendation:

We recommend the Office of Student Financial Services accurately report the enrollment status of all students for the *Federal Family Education Loans* program to the guarantors or lenders. The notification should be by letter within 30 days, if the Office of Student Financial Services does not expect to report the changes on a SSCR within the next 60 days. The University should strengthen communication with the Office of the Registrar and implement procedures to ensure timely reporting. The University should also report the students' actual enrollment status on the FFELP loan application. Lastly, copies of the SSCRs should be maintained for the required five-year period.

Management's Response:

The University agrees that it should accurately report the enrollment status of all students to the appropriate agencies. This finding was largely generated by two problems: the lack of paper SSCR rosters to confirm that UT Austin did provide accurate enrollment status changes for the October 1995 and February 1996 SSCR reports, and the failure to provide information about May 1996 graduates to the Texas Guaranteed Loan Corporation. In the first instance, the information was reported but that cannot be confirmed. In the second instance, the Office of Student Financial Services requested that the Office of the Registrar provide that information, but it is unclear why the report did not get to TGSLC.

It has been the responsibility of the Office of the Registrar to provide timely SSCR reports and they will continue to have the SSCR reporting responsibility in future years using the new National Student Loan Data System (NSLDS). Based on information provided by the Registrar, the Office of Student Financial Services expects that reporting of enrollment changes will be more frequent throughout the year than the 60 day minimum, thus virtually eliminating the need for individual letters to

accommodate the 30 day time frame. The Office of Student Financial Services will increase their communication efforts with the Registrar to make sure that timely and accurate SSCR reporting is being performed. If there are instances where the reporting of enrollment changes through the NSLDS is not meeting the 60 day requirement, OSFS will report those changes as required.

The Office of Student Financial Services will report the actual enrollment status of a student on the FFELP loan applications after the add/drop period for a semester has begun, even though this enrollment status may reflect the appropriate status for only part of the loan period. It is expected that the SSCR reporting through NSLDS will update that status as necessary.

The Office of Student Financial Aid will officially communicate with the Office of the Registrar that the institution is required to be able to produce copies of all SSCR reports provided through the new NSLDS system for the five year required period.

Audit Scope

The primary focus of our audit was on the University's two largest student financial assistance programs: the *Federal Family Education Loans* program (FFELP) and the *Federal Pell Grant Program*. We tested the administrative controls relating to the major federal programs. Specific procedures were used to test compliance with federal program requirements. For fiscal year 1996, the total dollar value of the programs at the University was as follows:

<i>Federal Family Education Loans</i> program	\$114,832,716
<i>Federal Pell Grant Program</i>	\$10,151,146

The Office of Student Financial Services understands that this finding, at least in part, is not based on not reporting enrollment changes in the correct way, but on the fact that the institution is unable to provide documentation for that reporting.

The University of Texas at Dallas
SAO Report No. 97-342
Detailed Findings With Management's Responses

Internal Control Issue

Internal Control Issue 1:

Strengthen Controls Over Receipt of Loan Proceeds

The Student Financial Assistance (SFA) Office at The University of Texas at Dallas should strengthen controls over the receipt of loan proceeds from the lenders of the *Federal Family Education Loans (CFDA 84.032)* program. Currently, the SFA Office is receiving loan proceeds from the lenders. Since the SFA Office both processes the loan applications and receives the loan proceeds from the lenders, the risk increases that SFA personnel could process unauthorized loans and retain the loan proceeds when they are received without being detected.

Title 34 of Code of Federal Regulations (CFR), Section 668.16(c), requires an institution to ensure that its procedures for administering the student financial aid programs include an adequate system of internal checks and balances.

Recommendation:

We recommend that The University of Texas at Dallas strengthen controls over the receipt of loan proceeds from the lenders. This can be accomplished by segregating the duties of loan processing functions and the receipt and disbursement of loan proceeds. The University should consider having all the loan proceeds delivered directly from the lenders to the Bursar's Office instead of the Student Financial Aid Office.

Management's Response:

Federal guidelines indicate a separation of duties is required for all Title IV financial aid programs, including FFELP. Such guidelines indicate that those areas that award funds are not to be the same areas that disburse funds. Currently the SFA Office does process both the loan applications and receives the loan proceeds from lenders. To minimize the risk that SFA personnel could process unauthorized loans and retain the loan proceeds when they are received, we propose a segregation of duties within the SFA Office between loan processing functions and the receipt and disbursement of loan proceeds.

The University will give the highest priority in the upcoming budget cycle to hiring a part-time person whose sole responsibility would be handling the disbursement of the loan proceeds from the lenders. We believe this to be the best and most appropriate solution to insure that the SFA Office separates functions while maintaining the needed structure within the office to assure that loan checks are released to students in a timely fashion and in compliance with federal regulations. If for some unforeseen

reason that position is not funded, the University will have all the loan proceeds delivered directly from the lenders to the Bursar's Office instead of the Student Financial Aid Office.

Internal Control Issue 2:

Strengthen Access Controls Over the Integrated Student Information System

The Student Financial Aid Office needs to strengthen access controls over the Integrated Student Information System (ISIS). Weak access controls increase the risk of system misuse.

All employees in the Student Financial Aid Office have the ability to add and change automated student financial aid information maintained by ISIS. As a result, all employees have the ability to perform all aspects of the financial aid award process for any registered student.

Recommendation:

We recommend the Student Financial Aid Office strengthen access controls over ISIS. This could be accomplished through segregation of duties and access capabilities. Quality control reviews of financial aid awards could also be performed.

Management's Response:

We will analyze the structure within the Financial Aid Office and establish access capabilities that will ensure separation of duties, but maintain continuity of workflow within the office.

Internal Control Issue 3:

Ensure All Integrated Student Information System (ISIS) Users Periodically Change Personal Passwords

(Prior Audit Issue)

The University is not ensuring that all ISIS users periodically change personal passwords. Password changes help protect sensitive data from unauthorized use or loss.

The Student Financial Aid Office does not have a policy or procedure for changing passwords at the ISIS application level. Passwords should be changed every 120 days.

Recommendation:

We recommend The University of Texas at Dallas ensure that all ISIS users periodically change personal passwords. The Assistant Director of Administrative Information Systems indicated that ISIS passwords can be changed. The Student Financial Office should develop a policy and procedure for changing passwords at the ISIS application level every 120 days.

Management's Response:

The current student accounting system, ISIS, does not allow passwords to be reset by individual users. This must be done manually by the Security Administrator. A compensating control exists in that before gaining access to the student accounting system, users must access the administrative mainframe with a password that is changed every 120 days.

To improve access controls in ISIS, procedures have been developed to require all ISIS users to change their passwords three times a year. Security Administration will send out packets to all ISIS users three times a year to require a change of password. If the password is not changed, the user's ISIS account will be disabled. When the new student accounting system is implemented, targeted for May 1998, the system will require users to change their passwords every 120 days.

Federal Compliance Issues

Federal Compliance Issue 1:

Maintain Complete and Accurate Student Files

The University is not adequately maintaining complete and accurate student files to support the disbursement of federal financial assistance. Failure to maintain complete and accurate records can result in erroneous disbursements of aid. The University is financially responsible for returning improperly disbursed funds.

The University did not adequately maintain complete and accurate student files for 7 of 40 (18 percent) of the files tested. These files did not contain either loan applications or check release forms for the *Federal Family Education Loans* program.

Title 34 of the Code of Federal Regulations (CFR), 668.23 (h), requires institutions administering federal financial aid programs to establish and maintain adequate student records. Files should support student eligibility and awards, and be systematically organized.

Recommendation:

We recommend The University of Texas at Dallas adequately maintain complete and accurate student files to support the disbursement of federal financial assistance.

Management's Response:

We agree that the maintenance of documents within the files should be better organized for ease in working with the documents during processing and awarding or in searching for individual documents, transactions, etc. For example, prior to 1996-97, all documents pertaining to an individual student were in one file folder without separation of transactions by year. The 1996-97 financial aid year began the evolution of providing an organized format for maintaining documents within a file folder. The single sheet UTD Supplemental Financial Aid application from prior years became the 1996-97 UTD Financial Aid Data Form. This form, in a booklet format, permits filing year-specific documents within the booklet, which in turn is filed inside the financial aid file folder. There will be a specific order to maintain documents within the files and, as we merge prior year folders with the event of the 1997-98 processing cycle, older folders will reflect the new format for maintaining documents.

We will also improve on filing documents into file folders by maintaining a regular schedule of filing to reduce, and work towards eliminating, a backlog of paper filing.

Federal Compliance Issue 2:

Provide Exit Counseling Information to All Students

The University is not providing exit counseling (loan repayment information) to all recipients of the *Federal Family Education Loans* program. Exit counseling was not provided for 3 of the 20 files tested (15 percent). Inadequate exit counseling procedures could result in an increased loan default rate.

Title 34 of the Code of Federal Regulations (CFR), Section 682.604, requires that the institution conduct exit counseling with each borrower who ceases to be enrolled at least half-time. If a student does not attend a counseling session, this information must be mailed to the student within 30 days. Documentation of this counseling must be maintained in the student's file.

Recommendation:

We recommend that The University of Texas at Dallas provide exit counseling information to all students who cease to be enrolled at least half-time and that documentation be maintained in the student files.

Management's Response:

Students withdrawing from a course or from all courses would go through the current stops. The final stop will be the Records Office where the form is turned in. At this last stop, a Records Office representative will tear out the last copy for the Financial Aid Office. This copy can be either 1) held at the Records Office for Financial Aid to pick up weekly, or 2) brought over to the Financial Aid Office by a representative from the Records Office. The copies will be sorted to identify the financial aid loan borrowers. As we proceed with the new SIS software, we will try to develop an automated process.

For graduation and expelled students, we will continue to use our current process, which means we monitor lists on a periodic basis and notices are sent to those students.

Federal Compliance Issue 3:

Report All Enrollment Changes to the Guarantor or Lender

The University is not reporting all enrollment changes for the *Federal Family Education Loans* program to the guarantor or lender. Enrollment changes occur when a student graduates, withdraws, drops classes, or is expelled. Noncompliance with this requirement may result in delayed loan repayment to lenders.

Enrollment changes were not reported for 17 of 20 (85 percent) student files tested. Specific procedures are not in place to immediately report changes in enrollment status directly to the lender for those recipients who received FFELP loans if the University does not expect to submit a Student Status Confirmation Report (SSCR) to the guarantor within the next 60 days. The SSCR is used to update and verify changes in enrollment.

In addition, a lack of coordination and communication exists between the Student Financial Aid Office and Admissions for reporting enrollment changes. Coordination and communication between the Student Financial Aid Office and other offices is essential to ensure compliance with state and federal regulations.

Title 34 of the Code of Federal Regulations (CFR), Section 682.610, requires the institution to report enrollment changes to the guaranty agency within 60 days. If an institution does not expect to report enrollment changes on the SSCR within the next 60 days, it is required to notify either the guarantor or the lender by letter within 30 days.

Recommendation:

We recommend the Student Financial Aid Office report all enrollment changes to the guaranty agency or lender. The notification should be by letter within 30 days, if the Student Financial Aid Office does not expect to report the changes on the Student

Status Confirmation Report within the next 60 days. We also recommend that the Student Financial Aid Office coordinate and communicate with Admissions to establish procedures for properly reporting enrollment changes.

Management's Response:

By implementing the recommendations made in Federal Compliance Issue #2, this will allow us to report all enrollment changes to the guaranty agency or lender as required by Title 34 of the Code of Federal Regulations (CFR), Section 682.610.

Federal Compliance Issue 4:

Improve Federal Cash Management Procedures

The University should improve current cash management procedures to accurately determine cash need for the *Federal Pell Grant Program (CFDA 84.063)*. Cash need is used as the basis for requesting federal funds. Inaccurate determination of need could result in cash overages or shortages, which may lead to federal fund suspension.

The current procedures do not require the use of actual expenditures to determine federal cash need for the *Federal Pell Grant Program*. As a result, the program expenditures are not accurately reported to the Department of Education. Additionally, the inaccurate reporting of expenditures caused an overstatement of the cash balance, and federal funds were temporarily suspended.

Recommendation:

We recommend The University of Texas at Dallas improve federal cash management procedures by using actual program expenditures to determine cash needs.

Audit Scope

The primary focus of our audit was on the University's two largest student financial assistance programs: the *Federal Family Education Loans* program (FFELP) and the *Federal Pell Grant Program*. We tested the administrative controls relating to the major federal programs. Specific procedures were used to test compliance with federal program requirements. For fiscal year 1996, the total dollar value of the programs at the University was as follows:

<i>Federal Family Education Loans</i> program	\$7,928,484
<i>Federal Pell Grant Program</i>	\$990,168

Management's Response:

The procedure at The University of Texas at Dallas requires the use of actual expenditures to determine the amount of cash requested from the Federal Government. Due to employee turnover, this procedure was not followed; however, the University did not draw down more than the actual expenditures. The

Director of Financial Services has reviewed the procedure with the Contract and Grant Accountant, who fills out the report, and stressed the necessity of using actual expenditures. The Director of Financial Services will review the cash requests to make sure the procedure is being followed.

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Audit Scopes for Agencies With No Findings

As noted in the “Our Compliments to 31 Agencies” section of this report, 31 of the 45 entities we visited do not have any findings in the areas that we audited. The scope of our audit work at these entities is described below. It is important for the reader to understand that we may have only audited a very specific portion of the agency’s operations. Our audit work would not necessarily disclose all matters that might be reportable conditions or material weaknesses as defined in the “Auditor’s Report on Internal Controls.”

Aging, Texas Department on

The primary focus of our audit was the Department’s administrative controls over the federal program, *Special Programs for the Aging - Title III - Part C - Nutrition Services* totaling \$19.9 million. We gained an understanding of the general control environment and tested controls related to the federal program. We also performed procedures to test compliance with significant federal program requirements.

Agricultural Finance Authority, Texas

The primary focus of our audit was to determine the Authority’s compliance with significant covenants contained in the Certificate of Resolution and the Authority’s governing statute. The Authority is required to have an audit of its activities each fiscal year. We performed a compliance audit to satisfy this requirement. We gained an understanding of the administrative and accounting controls and tested the Authority’s compliance with required balances in the interest and sinking fund, the reserve fund, the Guaranty Subaccount, and certain reporting requirements. At August 31, 1996, the Authority reported \$20 million in notes payable.

Angelo State University

The primary focus of our audit was the University’s compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related “Notes to the Financial Statements” for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the University reported three bond issues outstanding, totaling \$6 million.

Armory Board, Texas National Guard

The primary focus of our audit was the Board's compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related "Notes to the Financial Statements" for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the Board reported eight bond issues outstanding, totaling \$29 million.

Commerce, Texas Department of

The primary focus of our audit was the Department's compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related "Notes to the Financial Statements" for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the Department reported one bond issue outstanding, totaling \$99 million.

Coordinating Board, Texas Higher Education

The primary focus of our audit was the Board's compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related "Notes to the Financial Statements" for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the Board reported 18 bond issues outstanding, totaling \$582 million.

Criminal Justice, Texas Department of

The primary focus of our audit was the Department's compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related "Notes to the Financial Statements" for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the Department reported 12 bond issues outstanding, totaling \$209 million.

General Land Office and Veterans Land Board

The primary focus of our audit was the Board's compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related "Notes to the Financial Statements" for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the Board reported 30 bond issues outstanding, totaling \$1.4 billion.

General Services Commission

The primary focus of our audit was a follow-up of the Commission's controls over and compliance with the *Donation of Federal Surplus Personal Property* (CFDA 39.003) program totaling \$10.9 million. Specifically, we gained an understanding of internal controls over eligibility determinations and maintenance. Specific procedures were used to test compliance with prior year issues related to the *Donation of Federal Surplus Personal Property* program. The program received approximately \$53.0 million of federal surplus personal property valued at original acquisition cost.

Governor, Office of the

The primary focus of our audit was the Office's compliance with the federal requirements for the *Drug Control and System Improvement - Formula Grant* (CFDA 16.579) program, representing \$26.6 million in expenditures for fiscal year 1996 and the Petroleum Violation Escrow (PVE) funds representing \$41.1 million for fiscal year 1996. The General Services Commission performed the administrative function of the PVE program on behalf of the Office of the Governor through an interagency contract. We gained an understanding of these programs and tested compliance with significant federal requirements.

Health, Texas Department of

The primary focus of our audit was the Department's compliance with federal grant requirements. Specific procedures were used to test for compliance with federal requirements for two major programs which represent \$4.3 billion, or 97 percent, of the Department's fiscal year 1996 federal grant expenditures. We gained an understanding of the internal control structure including the general control environment. In addition, we tested controls over cash disbursements. We tested the human service expenditures account and determined that the \$7.2 billion balance in this account is accurate and properly reported.

Lamar University - Beaumont

The primary focus of our audit was the University's compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related "Notes to the Financial Statements" for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the University reported ten bond issues outstanding, totaling \$17 million.

Lamar University - Orange

The primary focus of our audit was the University's compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related "Notes to the Financial Statements" for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the University reported two bond issues outstanding, totaling \$1.2 million.

Lamar University - Port Arthur

The primary focus of our audit was the University's compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related "Notes to the Financial Statements" for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the University reported two bond issues outstanding, totaling \$1.7 million.

Midwestern State University

The primary focus of our audit was the University's compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related "Notes to the Financial Statements" for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the University reported five bond issues outstanding, totaling \$7 million.

Public Finance Authority, Texas

The primary focus of our audit was the Authority's compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related "Notes to the Financial Statements" for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the Authority reported 35 bond issues outstanding, totaling \$3 billion. We also gained an understanding of the general control environment in order to test operating transfers in, a financial account material to the state's financial statements.

Sam Houston State University

The primary focus of our audit was the University's compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related "Notes to the Financial Statements" for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the University reported six bond issues outstanding, totaling \$13 million.

Southwest Texas State University

The primary focus of our audit was the University's compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related "Notes to the Financial Statements" for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the University reported 12 bond issues outstanding, totaling \$76 million.

Stephen F. Austin State University

The primary focus of our audit was the University's compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related "Notes to the Financial Statements" for fairness of

presentation and conformity with reporting guidelines. At August 31, 1996, the University reported five bond issues outstanding, totaling \$30 million.

Texas A&M University - Commerce

The primary focus of our audit was the University's compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related "Notes to the Financial Statements" for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the University reported two bond issues outstanding, totaling \$360,000.

Texas A&M University System

The primary focus of our audit was the System's compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related "Notes to the Financial Statements" for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the System reported 22 bond issues outstanding, totaling \$736 million.

Texas State University System

The primary focus of our audit was the System's compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related "Notes to the Financial Statements" for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the System reported one bond issue outstanding, totaling \$25 million.

Texas Tech University

The primary focus of our audit was the University's compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the

bond schedules and bond-related “Notes to the Financial Statements” for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the University reported five bond issues outstanding, totaling \$49 million.

Texas Tech University Health Sciences Center

The primary focus of our audit was the Center’s compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related “Notes to the Financial Statements” for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the Center reported two bond issues outstanding, totaling \$23 million.

Texas Woman’s University

The primary focus of our audit was the University’s compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related “Notes to the Financial Statements” for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the University reported seven bond issues outstanding, totaling \$31 million.

University of North Texas

The primary focus of our audit was the University’s compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related “Notes to the Financial Statements” for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the University reported four bond issues outstanding, totaling \$38 million.

University of North Texas Health Science Center at Fort Worth

The primary focus of our audit was the Center’s compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to

determine compliance with significant bond covenants. In addition, we examined the bond schedules and bond-related “Notes to the Financial Statements” for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the Center reported two bond issues outstanding, totaling \$10 million.

The University of Texas Southwestern Medical Center at Dallas

The primary focus of our audit was the University’s two largest student financial assistance programs: the *Federal Family Education Loans* (FDA 84.032) program (\$8.3 million) and the *Federal Pell Grant Program* (\$135,000). We tested the administrative controls relating to the major federal programs. Specific procedures were used to test compliance with federal program requirements. We also performed procedures to test compliance with significant federal program requirements.

The University of Texas System

The primary focus of our audit was the System’s compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. We also examined the bond schedules and bond-related “Notes to the Financial Statements” for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, The University of Texas System Administration reported 14 bond issues outstanding, totaling \$1.7 billion.

Water Development Board, Texas

The primary focus of our audit was the Board’s compliance with significant bond covenants and the presentation of bond-related disclosures in the *1996 Annual Financial Report*. We gained an understanding of bond-related administrative and accounting controls and tested applicable revenue and expenditure accounts to determine compliance with significant bond covenants. We also examined the bond schedules and bond-related “Notes to the Financial Statements” for fairness of presentation and conformity with reporting guidelines. At August 31, 1996, the Board reported 42 bond issues outstanding, totaling approximately \$1.4 billion.

Workforce Commission, Texas

The primary focus of our audit was the Commission’s financial and administrative controls over federal programs. We gained an understanding of the internal control structure, including the general control environment, and tested controls related to major federal programs, cash receipts, cash disbursements, and payroll/personnel.

Specific procedures were used to test for compliance with major federal program requirements. A financial account significant to the statewide financial statements was also tested. This account was operating transfers in for the *Unemployment Insurance* (CFDA 17.225) program.

Related Reports and Audits

The State Auditor's Office has performed work related specifically to contract administration. Additional information is provided by this work, which goes beyond the federal compliance requirements covered by the statewide audit. Further review of contract administration processes is planned or in progress. The following list provides the agencies where work has been completed and the associated report numbers. Also included is a list of agencies where the State Auditor's Office is currently performing contract administration audit work.

Agencies Covered by SAO Contract Administration Projects

Texas Department of Health	SAO Report No. 97-002
Texas Department of Housing and Community Affairs	SAO Report No. 97-002
Texas Department of Human Services	SAO Report No. 97-002
Texas Department of Protective and Regulatory Services	SAO Report No. 97-002
Texas Juvenile Probation Commission	SAO Report No. 97-002
Texas Natural Resource Conservation Commission	SAO Report No. 97-004
Texas Department of Criminal Justice	SAO Report No. 97-006
Texas Rehabilitation Commission	SAO Report No. 97-025

Current SAO Contract Administration Audits

- Alamo Area Council of Government
- East Texas Council of Government
- Houston - Galveston Area Council
- Lower Rio Grande Valley Development Council
- North Central Texas Council of Government
- Permian Basin Regional Planning Commission
- Texas Department of Transportation

Texas Southern University

The State Auditor's Office performed financial and operational reviews at Texas Southern University, (SAO Report Nos. 97-018, 97-027 and 97-302). Additional information is provided by this work, which goes beyond the federal compliance requirements covered by the Statewide audit. In addition, The State Auditor's Office examined bond schedules and bond-related "Notes to the Financial Statements" for the year ended August 31, 1996 (SAO Report No. 97-344).

A material weakness in the control environment continues to exist for the Financial Assistance Office. As a result, the University is at risk of losing the ability to participate in federal student financial aid programs.

The control environment weakness for the Financial Assistance Office is a symptom of university-wide conditions. Neither proactive leadership nor fundamental oversight systems are in place to prevent a future financial crisis and to ensure accountability for the achievement of fiscal and administrative goals. The University is projected to incur operating deficits totaling more than \$8 million during fiscal year 1997 unless radical changes are instituted in financial management practices.

The Comptroller of Public Accounts is currently assisting the University's management to implement the corrective action plans related to fiscal and management weaknesses.

What Is the Statewide Audit?

The State Auditor's Office performs an annual audit for the State of Texas which complies with the Single Audit Act of 1984 and *Office of Management and Budget (OMB) Circulars A-128 and A-133*. This single audit covers the State's financial statements, "Schedule of Federal Financial Assistance", controls, and compliance. Audit reports on the financial statements and "Schedule of Federal Financial Assistance" are included in the *Texas 1996 Comprehensive Annual Financial Report (CAFR)*. Audit reports on controls and compliance are included in *A Report on the 1996 Financial and Compliance Audit Results*. Insignificant instances on non-compliance and questioned costs are communicated separately to the federal grantor agencies impacted.

Together, the single audit and these reports meet the requirements of the Single Audit Act and OMB *Circulars A-128 and A-133* for each state agency and university. No additional single audit or report is required of each state agency or university, even if the entity's federal assistance programs were not specifically reviewed in the audit this year.

Subrecipient state agencies and universities which receive federal assistance through non-state entities are responsible for providing copies of the *Texas 1996 Comprehensive Annual Financial Report* and *A Report on the 1996 Financial and Compliance Audit Results* report to those entities. Extra copies of the *Texas 1996 Comprehensive Annual Financial Report* may be obtained from the Comptroller of Public Accounts office. Extra copies of this report may be obtained from the State Auditor's Office.

The State Auditor's Office forwards copies of the *Texas 1996 Comprehensive Annual Financial Report* and *A Report on the 1996 Financial and Compliance Audit Results* report to each federal grantor agency on behalf of all state agencies and universities.

Questions concerning the audit or the reports may be directed to the Federal Coordinator at (512) 479-4700.

Summary of Annual Financial Report Issues

Description of Annual Financial Report Issue Categories

This information describes the nature of the categories used in the “Summary of Annual Financial Report Issues by Agency and University” table presented on the following pages.

In a joint effort to improve timely reporting and enhance accountability to the State, the Comptroller of Public Accounts (Comptroller) and the Texas State Auditor’s Office identified agencies that did not comply with reporting requirements issued by the Comptroller.

Significant Problems	<p>These agencies and universities had significant problems in their fiscal year <i>1996 Annual Financial Report</i> (AFR). This included problems such as:</p> <ul style="list-style-type: none"> • Assets did not equal liabilities and fund balance on the balance sheet • Fund balance reported on the balance sheet differed from the balance reported in the operating statement • Significant internal inconsistencies
Late Reports	These agencies and universities submitted AFRs after the November 29 due date.
Revised Reports	These agencies and universities submitted revised AFRs after the November 29 due date.
No Reconciliation or Certification	These agencies and universities did not certify the balances for their General Revenue Fund and/or their Uniform Statewide Accounting System (USAS) data or provide a reconciliation by the due date.
General Revenue Fund Activity Not Reconciled	These agencies and universities could not reconcile, by significant amounts, the General Revenue Fund activity as reported in the AFR to USAS.
Incorrect Cash Flow Methods	These agencies and universities did not use the Comptroller-prescribed reporting methods for the cash flow statements.
Internal Inconsistency	These agencies and universities did not reconcile interagency transactions to ensure the internal consistency of the <i>Texas 1996 Comprehensive Annual Financial Report</i> (CAFR).
Accuracy of Federal Schedule	These agencies and universities had discrepancies between their financial statements and their “Schedule of Federal Financial Assistance.”

**Late Audited
Annual Financial
Reports**

These agencies and universities submitted their AFRs, audited by entities other than the State Auditor's Office, after the November 29 due date.

Summary Of Annual Financial Report Issues by Agency and University									
Agency	Significant Problems	Late Reports	Revised Reports	No Reconciliation or Certification	General Revenue Fund Activity Not Reconciled	Incorrect Cash Flow Methods	Internal Inconsistency	Accuracy of Federal Schedule	Late Audited Annual Financial Reports
Aging, Texas Commission on			x						
Agricultural Experiment Station, Texas				x					
Agricultural Extension Service, Texas				x					
Alcohol and Drug Abuse, Texas Commission on			x						
Animal Damage Control Service				x					
Arts, Commission on the	x			x					
Banking, Texas Department of			x						
Barber Examiners, Board of	x			x					
Blind, Commission for the				x					
Chiropractic Examiners, Board of	x	x		x					
Commerce, Texas Department of							x		
Cosmetology Commission				x					
Court Reporters Certification Board				x					
Court of Criminal Appeals				x					
Deaf and Hearing Impaired, Commission for the			x	x					
Education Agency, Texas	x		x	x	x		x	x	
Emergency Communications, Advisory Commission on State				x					
Employees Retirement System									x
Employment Commission, Texas							x	x	
First Court of Appeals District, Houston			x	x					
Fourth Court of Appeals District, San Antonio			x	x					
General Services Commission			x	x				x	
Governor, Office of the			x						
Guaranteed Student Loan Corporation, Texas						x			x
Health, Texas Department of	x		x		x		x	x	
Human Services, Texas Department of			x		x		x	x	
Judicial Council Office of Court Administration, Texas			x						
Juvenile Probation Commission				x					
Lamar University - Beaumont				x					

Summary Of Annual Financial Report Issues by Agency and University										
Agency	Significant Problems	Late Reports	Revised Reports	No Reconciliation or Certification	General Revenue Fund Activity Not Reconciled	Incorrect Cash Flow Methods	Internal Inconsistency	Accuracy of Federal Schedule	Late Audited Annual Financial Reports	
Lamar University - Port Arthur				x						
Law Examiners, Board of				x						
Legislative Reference Library				x						
Lottery Commission, Texas						x				
Mental Health and Mental Retardation, Texas Department of			x							
Midwestern State University				x						
Ninth Court of Appeals District, Beaumont			x	x						
Nurse Examiners, Board of	x			x						
Optometry Board	x									
Pension Review Board, State	x			x						
Permanent University Fund									x	
Physical Therapy and Occupational Therapy, Executive Council of				x						
Prairie View A&M University				x						
Private Investigator and Private Security Agencies, Board of				x						
Protective and Regulatory Services, Texas Department of				x	x			x		
Public Finance Authority, Texas			x	x	x					
Public Safety, Texas Department of				x						
Psychologists, Board of Examiners of				x						
Railroad Commission of Texas							x			
Rehabilitation Commission, Texas	x		x							
School for the Blind and Visually Impaired				x						
Secretary of State			x							
Seventh Court of Appeals District, Amarillo			x	x						
Sixth Court of Appeals District, Texarkana			x							
Soil and Water Conservation Board				x						
State Council on Competitive Government				x						
State Library and Archives Commission, Texas			x							
State Preservation Board		x		x						
Stephen F. Austin State University			x	x						
Sunset Advisory Commission				x						
Supreme Court of Texas	x		x	x						
Surplus Lines Stamping Office of Texas									x	

Summary Of Annual Financial Report Issues by Agency and University									
Agency	Significant Problems	Late Reports	Revised Reports	No Reconciliation or Certification	General Revenue Fund Activity Not Reconciled	Incorrect Cash Flow Methods	Internal Inconsistency	Accuracy of Federal Schedule	Late Audited Annual Financial Reports
Teacher Retirement System									X
Telecommunications Infrastructure Fund Board				X					
Texas A&M University System: Administrative and General Offices			X						
Texas A&M University System Research Foundation									X
Texas Local Government Investment Pool (TexPool)									X
Texas Southern University				X					
Texas State University System Central Office, Board of Regents			X	X					
Texas Woman's University		X		X					
Third Court of Appeals District, Austin			X	X					
Thirteenth Court of Appeals District, Corpus Christi			X	X					
University of North Texas Health Science Center at Fort Worth				X					
The University of Texas Health Center at Tyler				X					
The University of Texas Health Science Center at San Antonio				X					
The University of Texas at Brownsville				X					
The University of Texas at Tyler				X					
The University of Texas of the Permian Basin				X					
Vocational Nurse Examiners, Board of	X			X					
Workers' Compensation Insurance Fund						X			
Workforce Commission, Texas							X	X	
Youth Commission, Texas				X					

Source: Comptroller of Public Accounts

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