May 5, 2008

To Whom It May Concern:

As an agency of the State of Texas, Prairie View A&M University is audited annually as part of the Statewide Single Audit. The Texas State Auditor’s Office issued an unqualified opinion on the State’s basic financial statements and contracted with KPMG, LLP to perform the federal portion of the 2007 Statewide Single Audit. As indicated by the attached reports, KPMG, LLP issued an unqualified opinion of the Schedule of Expenditures of Federal Awards and did not issue a finding for their review of compliance and control over the State’s federal awards. All institutions and agencies with compliance issues or questioned federal costs are listed on the attached report. Please note that KPMG, LLP noted one (1) finding at Prairie View A&M University that was related to reporting correct disbursements dates for all Pell Grant awards to the Common Origination and Disbursement (COD) System and ensuring correct disbursement dates on disbursement notification letters it sends to the Federal Family Education Loan Programs (FFELP) loan recipients. Prairie View A&M University has corrected the disbursement dates. The complete reports may be accessed at the Texas State Auditor’s Web site which is located at http://www.sao.state.tx.us/reports/.

Sincerely,

Mary Lee Hodge
Vice President For Business Affairs

April 2008

Report Number 08-555

Overall Conclusion

The Comprehensive Annual Financial Report (CAFR) for the State of Texas accurately presents the financial position and activities of the State for the year ended August 31, 2007.

The ability to prepare materially correct financial statements represents a significant accomplishment for the State. With the third-largest budget among all 50 states, nearly $90.5 billion in annual expenses, and more than 200 state agencies and higher education institutions, the State must contend with significant complexities in preparing its basic financial statements. The financial statements provide a comprehensive picture of how the State used its resources during the year, as well as the State's remaining assets and obligations at the end of the year.

Auditing financial statements is not limited to reviewing the accuracy of the numbers in those statements. Conducting this audit also requires the State Auditor's Office to audit the underlying systems and processes that agencies and higher education institutions use to record their financial activities. Through that effort, auditors identified specific weaknesses that six agencies and one higher education institution should correct to ensure the accuracy of their financial information.

The State Auditor's Office conducts this audit so that the State can comply with legislation and federal grant requirements to obtain an opinion regarding the material accuracy of its basic financial statements and a report on internal controls related to those statements. The results of this audit are used primarily by bond rating agencies that rate newly issued bonds and by federal agencies that award grants.

The State Auditor's Office's opinion regarding the State's basic financial statements is published in the State of Texas Comprehensive Annual Financial Report for the Year Ended August 31, 2007, which is available on the Comptroller of Public Accounts' Web site.

The State Auditor's Office and KPMG, LLP performed the federal portion of the 2007 statewide

http: www.sao.state.tx.us Reports report.cfm report 08-555 5 2 2008
single audit. The federal portion included a review of compliance and controls over the State’s federal awards and an audit of the Schedule of Expenditures of Federal Awards. The reports from the federal portion and the financial portion are submitted to the federal government to fulfill Single Audit reporting requirements.

Contact the SAO about this report.

Download the Acrobat version of this report. (.pdf)

If you prefer an HTML version, follow this link to an Adobe site which converts PDF files to HTML.
State of Texas Financial Portion of the
Statewide Single Audit Report
For the Year Ended
August 31, 2007

April 2008
Report No. 08-555
Overall Conclusion

The Comprehensive Annual Financial Report (CAFR) for the State of Texas accurately presents the financial position and activities of the State for the year ended August 31, 2007.

The ability to prepare materially correct financial statements represents a significant accomplishment for the State. With the third-largest budget among all 50 states, nearly $90.5 billion in annual expenses, and more than 200 state agencies and higher education institutions, the State must contend with significant complexities in preparing its basic financial statements. The financial statements provide a comprehensive picture of how the State used its resources during the year, as well as the State’s remaining assets and obligations at the end of the year.

Auditing financial statements is not limited to reviewing the accuracy of the numbers in those statements. Conducting this audit also requires the State Auditor’s Office to audit the underlying systems and processes that agencies and higher education institutions use to record their financial activities. Through that effort, auditors identified specific weaknesses that six agencies and one higher education institution should correct to ensure the accuracy of their financial information.

The State Auditor’s Office conducts this audit so that the State can comply with legislation and federal grant requirements to obtain an opinion regarding the material accuracy of its basic financial statements and a report on internal

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Background Information

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

- Government-wide financial statements are designed to present an overall picture of the financial position of the State. These statements do not include retirement system assets, trust funds, or agency funds.
- Fund financial statements present financial information, focus on the most significant funds, and are presented in a form that is more familiar to experienced users of governmental financial statements.

The State Auditor’s Office audited material items of major funds at 13 of the State’s largest agencies and higher education institutions.

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1 The $90.5 billion in annual expenditures exceeded the $72.4 billion appropriated for fiscal year 2007 primarily because:

- Certain expenditures (such as higher education institutions’ expenditures of funds held outside the State Treasury, and expenditures for the Food Stamp program) are included in the Comprehensive Annual Financial Report but are not included in the General Appropriations Act.
- The Comprehensive Annual Financial Report presents actual expenditures of federal funds, while the General Appropriations Act presents estimated receipts of federal funds.
- The Comprehensive Annual Financial Report is presented on an accrual basis, while the General Appropriations Act is presented on a cash basis.

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This audit was conducted in accordance with Texas Government Code, Section 321.0131.

For more information regarding this report, please contact Mike Apperley, Assistant State Auditor or John Keel at: 512-436-9500
controls related to those statements. The results of this audit are used primarily by bond rating agencies that rate newly issued bonds and by federal agencies that award grants.

**Key Points**

The financial systems and controls at the agencies and higher education institutions audited were adequate to enable the State to prepare materially correct basic financial statements.

Although the financial systems and controls were adequate, audit work identified control weaknesses at 7 of the 13 state agencies and higher education institutions audited. (Appendix 2 of this report lists all agencies and higher education institutions audited.) Specifically:

- The Office of the Comptroller of Public Accounts (Comptroller’s Office) should strengthen certain aspects of its financial and information technology operations. The Treasury Division within the Comptroller’s Office should strengthen access controls and financial reconciliations. The Comptroller’s Office also should strengthen procedures regarding central profile change requests. In addition, the Comptroller’s Office should strengthen its review of the consolidation process for the CAFR.

- The Department of Transportation (Department) should strengthen certain aspects of its information technology. The Department did not regularly update access rights for the Uniform Statewide Accounting System (USAS) and SiteManager (the automated system it uses to monitor construction projects). In addition, the Department should strengthen password settings for its network and internal accounting system.

- The Health and Human Services Commission (Commission) should strengthen the design and operation of its internal controls over validating payments for public assistance programs. Auditors previously identified this same issue during the audit of fiscal year 2006. The Commission should make improvements in its payment monitoring system for the Vendor Drug program, Medicaid, Children’s Medicaid, the Food Stamp program, and the Temporary Assistance to Needy Families (TANF) program. In addition, the Commission’s Office of Inspector General did not fully implement its audit plan for fiscal year 2007. The Commission also does not reconcile its internal accounting system with USAS in a timely manner.

Further, the Commission has not fully documented policies and procedures for two key accounting functions. Auditors previously identified this same issue during the audits of fiscal years 2005 and 2006. The Commission also does not adequately track and monitor the open investigations of its Office of Inspector General and the Office of the Attorney General.
The Commission did not regularly update user access to USAS. Auditors previously identified this same issue during the audit of fiscal year 2006.

- The Department of State Health Services (Department) should strengthen certain aspects of its financial and information technology operations. The Department did not clear, adjust, or correct certain reconciling differences between its internal accounting system and USAS in a timely manner as required by the Comptroller’s Office and statute. Auditors previously identified this same issue at the Department or its predecessor agency (the Department of Health) in fiscal years 2000 through 2006. In addition, the Department should regularly update user access rights for the Texas WIC Information Network, which is the system that maintains program and expenditure information for the Women, Infants, and Children nutrition program. Auditors previously identified this same issue during the audits of fiscal years 2004 through 2006.

- The Texas Workforce Commission (Commission) should strengthen certain aspects of its information system security, fire protection, and backup power capabilities. The Commission has not adequately reviewed security reports. It also should correct issues regarding the absence of (1) a fire suppression system and a secondary method of power supply in its data center and (2) an uninterruptible power supply system for its mainframe systems. Auditors previously identified these same issues during the audits of fiscal years 2004 through 2006.

- The University of Texas at Austin (University) should strengthen its capital assets records and update those records in a timely manner. In addition, the University should properly account for incidental charges associated with capital assets.

- The Water Development Board (Board) should strengthen certain aspects of its information technology. The Board should restrict access to its network and the Financial Information System, which is a database the Board uses to track all information associated with the Board’s debt and financial assistance. In addition, the Board should ensure employees have a current authorized access form on file. That form documents all authorized access to the internal accounting system and a group of systems managed by the Comptroller’s Office.

Summary of Management’s Responses

The agencies and higher education institution to which auditors addressed recommendations agreed with the recommendations.

Summary of Information Technology Review

Auditors reviewed the internal controls over significant accounting and information systems at the agencies and higher education institutions audited. To do that, auditors identified systems that compiled and contained data used to prepare financial statements and then reviewed basic data protection controls such as user
access rights, location of data, and backup processes. As discussed previously, auditors identified certain user access control weaknesses at the Comptroller’s Office, the Department of Transportation, the Health and Human Services Commission, the Department of State Health Services, and the Water Development Board. Correcting these weaknesses will help to ensure the reliability of those agencies’ financial information. In addition, auditors noted weaknesses in the backup processes at the Texas Workforce Commission.

Auditors also reviewed the internal controls over USAS, the State’s accounting system. As previously discussed, the Comptroller’s Office does not ensure that the proper segregation of duties exists for the central profile change request process. The central profile change management process should be designed to ensure that all proposed system modifications are appropriately approved and tested before they are placed into production.

Auditors also reviewed internal controls within the State Property Accounting system and did not identify any significant control weaknesses in that system.

**Summary of Objective, Scope, and Methodology**

The audit objective was to determine whether the State’s basic financial statements accurately reflect the balances and activities for the State of Texas for the fiscal year ended August 31, 2007.

The Statewide Single Audit is an annual audit for the State of Texas. It is conducted so that the State complies with the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133. The State Auditor’s Office performed the financial portion of the Statewide Single Audit and audited the fiscal year 2007 Schedule of Expenditures of Federal Awards. The State Auditor’s Office contracted with KPMG LLP to perform part of the federal portion of the Statewide Single Audit. The federal portion included a review of compliance and controls over the State’s federal awards.

The scope of the financial portion of the Statewide Single Audit included an audit of the State’s basic financial statements and a review of significant controls over financial reporting and compliance with applicable requirements. As required by the Single Audit Act, this report also includes our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.

The audit methodology consisted of collecting information, conducting data analyses, performing selected audit tests and other procedures, and analyzing and evaluating the results against established criteria.
Contents

Schedule of Findings and Responses

Chapter 1
Financial Statement Findings ........................................ 2

Chapter 1-A
The Office of the Comptroller of Public Accounts Should
Strengthen Certain Aspects of Its Financial and
Information Technology Operations ............................... 2

Chapter 1-B
The Department of Transportation Should Strengthen
Certain Aspects of Its Information Technology ................. 7

Chapter 1-C
The Health and Human Services Commission Should
Strengthen the Design and Operation of Its Internal
Control Structure over Validating Payments for Public
Assistance Programs .................................................. 11

Chapter 1-D
The Department of State Health Services Should
Strengthen Certain Aspects of Its Financial and
Information Technology Operations ............................ 24

Chapter 1-E
The Texas Workforce Commission Should Strengthen
Certain Aspects of Its Information System Security and
Fire Protection and Backup Power Capabilities ............... 28

Chapter 1-F
The University of Texas at Austin Should Strengthen Its
Capital Asset Records ................................................ 31

Chapter 1-G
The Water Development Board Should Strengthen Certain
Aspects of Its Information Technology .......................... 34

Chapter 2
Federal Award Findings and Questioned Costs ................ 37
Summary Schedule of Prior Audit Findings

Chapter 3
Summary Schedule of Prior Audit Findings ........................................ 39

Chapter 3-A
The Health and Human Services Commission Should Strengthen the Design and Operation of Its Internal Control Structure over Validating Payments for Public Assistance Programs ........................................ 40

Chapter 3-B
The Department of State Health Services Should Strengthen Certain Aspects of Its Financial and Information Technology Operations ........................................ 45

Chapter 3-C
The Department of Transportation Should Strengthen Certain Aspects of Its Financial and Information Technology Operations ........................................ 46

Chapter 3-D

Independent Auditor's Report

Chapter 4
Summary of Auditor’s Results .............................................................. 52

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards ........................................ 53

Appendices

Appendix 1
Objective, Scope, and Methodology .................................................. 58

Appendix 2
Agencies and Higher Education Institutions Audited ...................... 61
Schedule of Findings and Responses

Independent Auditor’s Report

Chapter 4
Summary of Auditor's Results

Financial Statements

1. Type of auditor's report issued: Unqualified

2. Internal control over financial reporting:
   a. Material weakness identified? No
   b. Significant deficiencies identified not considered to be material weaknesses? Yes
   c. Noncompliance material to financial statements noted? No

Federal Awards

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

The Honorable Rick Perry, Governor
The Honorable Susan Combs, Comptroller of Public Accounts
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Tom Craddick, Speaker of the House of Representatives
and
Members of the Texas Legislature
State of Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Texas as of and for the year ended August 31, 2007, which collectively comprise the State's basic financial statements and have issued our report thereon dated February 20, 2008. Our report was modified to include a reference to other auditors. Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the entities listed below. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the University of Texas M.D. Anderson Cancer Center, the University of Texas Investment Management Company, and the Texas Local Government Investment Pool (TexPool) were not audited in accordance with Government Auditing Standards.

We have chosen not to comply with a reporting standard that specifies the wording to be used in discussing restrictions on the use of the report. We believe this wording is not in alignment with our role as a legislative audit function.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State’s internal control over financial reporting.
Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

<table>
<thead>
<tr>
<th>Agency</th>
<th>Finding Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Controller of Public Accounts</td>
<td>08-555-01</td>
</tr>
<tr>
<td></td>
<td>08-555-02</td>
</tr>
<tr>
<td></td>
<td>08-555-03</td>
</tr>
<tr>
<td>Department of Transportation</td>
<td>08-555-04</td>
</tr>
<tr>
<td>Health and Human Services Commission</td>
<td>08-555-08</td>
</tr>
<tr>
<td></td>
<td>08-555-09</td>
</tr>
<tr>
<td></td>
<td>08-555-10</td>
</tr>
<tr>
<td>Department of State Health Services</td>
<td>08-555-11</td>
</tr>
<tr>
<td></td>
<td>08-555-12</td>
</tr>
<tr>
<td>Texas Workforce Commission</td>
<td>08-555-13</td>
</tr>
<tr>
<td></td>
<td>08-555-14</td>
</tr>
<tr>
<td>University of Texas at Austin</td>
<td>08-555-15</td>
</tr>
<tr>
<td>Water Development Board</td>
<td>08-555-16</td>
</tr>
</tbody>
</table>

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material.
weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Work Performed by Other Auditors

The State Auditor's Office did not audit the entities and funds listed in the table below. These entities were audited by other auditors.

<table>
<thead>
<tr>
<th>Entities Audited by Other Auditors</th>
<th>Scope of Work Performed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas Lottery Commission</td>
<td>An audit of the financial statements of the governmental activities, business-type activities, and agency for the State of Texas as of and for the year ended August 31, 2007.</td>
</tr>
<tr>
<td>Department of Housing and Community Affairs</td>
<td>An audit of the financial statements of the governmental activities, business-type activities, major funds, remaining fund information, and supplementary schedules 1A through 1F of the Department of Housing and Community Affairs was conducted as of and for the year ended August 31, 2007.</td>
</tr>
<tr>
<td>Permanent University Fund</td>
<td>Schedules of the Permanent University Fund was conducted as of and for the year ended August 31, 2007.</td>
</tr>
<tr>
<td>The University of Texas System Long Term Fund</td>
<td>An audit of the statements of fiduciary net assets, changes in fiduciary net assets, and supplemental schedules of the University of Texas System Long Term Fund was conducted as of and for the year ended August 31, 2007.</td>
</tr>
<tr>
<td>The University of Texas System Intermediate Term Fund</td>
<td>An audit of the statements of fiduciary net assets, changes in fiduciary net assets, and supplemental schedules of the University of Texas System Intermediate Term Fund was conducted as of and for the year ended August 31, 2007.</td>
</tr>
<tr>
<td>Entities Audited by Other Auditors</td>
<td>Scope of Work Performed</td>
</tr>
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</tr>
<tr>
<td>The University of Texas System Permanent Health Fund</td>
<td>An audit of the statements of fiduciary net assets, changes in fiduciary net assets, and supplemental schedules of the Permanent Health Fund was conducted as of and for the year ended August 31, 2007.</td>
</tr>
<tr>
<td>Permanent School Fund</td>
<td>An audit of the financial statements of the Texas Permanent School Fund was conducted as of and for the year ended August 31, 2007.</td>
</tr>
</tbody>
</table>

This report, insofar as it relates to the entities listed in the table above, is based solely on the reports of the other auditors.

Other Work Performed by the State Auditor's Office

We issued opinions in the reports on the following financial statements, which are consolidated into the basic financial statements of the State of Texas:

- **A Report on the Audit of the Teacher Retirement System's Fiscal Year 2007 Financial Statements** (State Auditor's Office Report No. 08-014, December 2007)
- **A Report on the Audit of the Department of Transportation's Central Texas Turnpike System Financial Statements for the Fiscal Year Ended August 31, 2007** (State Auditor's Office Report No. 08-017, December 2007)
- **A Report on the Audit of the Department of Transportation's Texas Mobility Fund Financial Statements for the Fiscal Year Ended August 31, 2007** (State Auditor's Office Report No. 08-018, December 2007)
The State’s response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the State’s response, and accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor, the Legislature, audit committees, boards and commissions, and management. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

John Keel, CPA
State Auditor

February 20, 2008
March 2008

Report Number 08-343:

Overall Conclusion

This report contains the results of the federal portion of the Statewide Single Audit for fiscal year 2007. It includes:

- The auditor’s opinion and findings from a review of compliance and controls over the State’s federal awards.

- The auditor’s opinion on the State’s Schedule of Expenditures of Federal Awards, as well as a copy of that schedule.

This report, along with the financial portion of the Statewide Single Audit performed by the State Auditor’s Office, is submitted to the federal government to fulfill Single Audit reporting requirements.

Contact the SAO about this report.

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If you prefer an HTML version, follow this link to an Adobe site which converts PDF files to HTML.
# Table of Contents

- Independent Auditors' Report on the Schedule of Expenditures of Federal Awards .................................................. 1

- Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 ........................................................................................................... 2

- Schedule of Expenditures of Federal Awards .......................................................................................... 21

- Notes to Schedule of Expenditures of Federal Awards ............................................................................. 102

- Schedule of Findings and Questioned Costs

  - Section 1: Summary of Auditors' Results .................................................................................. 108

  - Section 2: Financial Statement Findings .................................................................................. 112

  - Section 3a: Federal Award Findings and Questioned Costs - KPMG .................................................. 114

  - Section 3b: Federal Award Findings and Questioned Costs - Other Auditors .................................. 132

  - Summary of Schedule of Prior Audit Findings - KPMG ................................................................. 282

  - Summary of Schedule of Prior Audit Findings - Other Auditors .................................................. 326
Independent Auditors' Reports

Federal Portion of
Statewide Single Audit Report

For the Year Ended August 31, 2007
INDEPENDENT AUDITOR’S REPORT ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Honorable Rick Perry, Governor
The Honorable Susan Combs, Comptroller of Public Accounts
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Tom Craddick, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of and for the year ended August 31, 2007, and have issued our report thereon dated February 20, 2008.

Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the State’s basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

As described in Note 1 to the Schedule of Expenditures of Federal Awards, the Schedule of Expenditures of Federal Awards does not include expenditures of federal awards for four component units of the State of Texas. Each of those component units has its own independent audit in compliance with OMB Circular A-133.

John Keel, CPA
State Auditor

February 20, 2008

SAO No. 08-336
Independent Auditors' Report
on Compliance With Requirements Applicable to
Each Major Program and an Internal Control Over Compliance
in Accordance With OMB Circular A-133

The Honorable Rick Perry, Governor,
and Members of the Texas State Legislature
State of Texas:

Compliance

We have audited the compliance of the State of Texas (the State) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement (Compliance Supplement) that are applicable to each of its major federal programs for the year ended August 31, 2007, except those requirements discussed in the third following paragraph. We also did not audit the State's compliance with compliance requirements applicable to Student Financial Assistance Cluster, Research and Development Cluster, CFDA 66.438-Capitalization Grants for State Revolving Funds, CFDA 66.458-Capitalization Grants for Drinking Water State Revolving Funds, CFDA 93.563-Child Support Enforcement, CFDA 97.036-Public Assistance Grants, Highway Planning and Construction Cluster, Homeland Security Grant Cluster, CFDA 97.039-Hazard Mitigation Grants, and CFDA 97.008-Urban Area Security Initiative Grants which are approximately 20% of total federal assistance received by the State. The State's major Federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. The Student Financial Assistance Cluster, Research and Development Cluster, CFDA 66.438-Capitalization Grants for State Revolving Funds, CFDA 66.458-Capitalization Grants for Drinking Water State Revolving Funds, CFDA 93.563-Child Support Enforcement, CFDA 97.036-Public Assistance Grants, Highway Planning and Construction Cluster, Homeland Security Grant Cluster, CFDA 97.039-Hazard Mitigation Grants, and CFDA 97.008-Urban Area Security Initiative Grants are identified in the accompanying Schedule of Findings and Questioned Costs as major Federal programs and were audited by another auditor whose report has been furnished to us. Our opinion, insofar as it relates to the Student Financial Assistance Cluster, Research and Development Cluster, CFDA 66.438-Capitalization Grants for State Revolving Funds, CFDA 66.458-Capitalization Grants for Drinking Water State Revolving Funds, CFDA 93.563-Child Support Enforcement, CFDA 97.036-Public Assistance Grants, Highway Planning and Construction Cluster, Homeland Security Grant Cluster, CFDA 97.039-Hazard Mitigation Grants, and CFDA 97.008-Urban Area Security Initiative Grants is based solely on the report of the other auditor. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

Our audit described below does not include expenditures of Federal awards for four component units of the State of Texas for financial statement purposes. Each of those agencies has their own independent audit in compliance with OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

The other auditors did not audit the State's compliance with requirements governing maintaining contact with borrowers and billing and collection procedures for certain portions of the State in accordance with the Requirements of the Student Financial Assistance Cluster and Federal Perkins Loan program as described in the Compliance Supplement. Those requirements govern functions that are performed by Affiliated Computer Services, Inc. (ACS), Campus Partners, William & Fudge, General Revenue Corporation, Todd Bremer & Lawson, Wyndham Professionals, American Collection Systems and ConServe. Since the other auditors did not apply auditing procedures to satisfy themselves as to compliance with those requirements, the scope of their work was not sufficient to enable them to express, and the other auditors do not express, an opinion on compliance with those requirements. The service organizations' compliance with the requirements governing the functions that they perform for the State for the year ended August 31, 2007 was examined by other accountants in accordance with the Department of Education's Audit Guide, Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers. The report does not include the results of the other accountants' examinations of the service organizations' compliance with such requirements.

2
Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. *Audits of States, Local Governments, and Non-Profit Organizations* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the State’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State’s compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the State for the program compliance requirement listed below or were we able to satisfy ourselves as to the State’s compliance with this requirement by other auditing procedures. This program’s compliance requirement was:

<table>
<thead>
<tr>
<th>Agency/University</th>
<th>Program</th>
<th>Compliance Requirement</th>
<th>Finding Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of State Health Services</td>
<td>CFDA 93.958 - Block Grants for Community Mental Health Services</td>
<td>Special Tests and Provisions</td>
<td>08-29</td>
</tr>
</tbody>
</table>

As identified below and described in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with certain compliance requirements that are applicable to certain of its major Federal programs. Based on our audit and the report of other auditors, compliance with such requirements is necessary, in our opinion, for the State to comply with requirements applicable to the identified major Federal programs. The results of the auditing procedures are described in the accompanying schedule of findings and questioned costs as items:

<table>
<thead>
<tr>
<th>Agency/University</th>
<th>Program</th>
<th>Compliance Requirement</th>
<th>Finding Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health and Human Services Commission</td>
<td>CFDA 93.558 - Temporary Assistance for Needy Families</td>
<td>Special Tests and Provisions</td>
<td>08-15</td>
</tr>
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<td></td>
<td>Food Stamp Cluster</td>
<td>Special Tests and Provisions</td>
<td>08-16</td>
</tr>
<tr>
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<td>Medicaid Cluster</td>
<td>Special Tests and Provisions</td>
<td>08-19</td>
</tr>
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<td>Agency/University</td>
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</tr>
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<tr>
<td>Department of State Health Services</td>
<td>CFDA 93.217 - Family Planning Services</td>
<td>Subrecipient Monitoring</td>
<td>08-30</td>
</tr>
<tr>
<td></td>
<td>CFDA 93.268 - Immunization Grants</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance</td>
<td></td>
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<tr>
<td></td>
<td>CFDA 93.889 - National Bioterrorism Hospital Preparedness Program</td>
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<tr>
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<td>CFDA 93.917 - HIV Care Formula Grants</td>
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<td></td>
<td>CFDA 93.940 - HIV Prevention Activities - Health Department Based</td>
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<td></td>
<td>CFDA 93.958 - Block Grants for Community Mental Health Services</td>
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<td>CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse</td>
<td></td>
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<td>CFDA 93.994 - Maternal and Child Health Services Block Grant to the States</td>
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<td></td>
</tr>
<tr>
<td>Texas Education Agency</td>
<td>CFDA 84.011 - Migrant Education - State Grant Program</td>
<td>Subrecipient Monitoring</td>
<td>08-32</td>
</tr>
<tr>
<td></td>
<td>CFDA 84.048 - Vocational Education - Basic Grants to States</td>
<td></td>
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</tr>
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<td>CFDA 84.357 - Reading First State Grants Special Education Cluster</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Public Safety</td>
<td>CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) (including CFDA 84.544)</td>
<td>Reporting</td>
<td>08-91</td>
</tr>
<tr>
<td></td>
<td>CFDA 97.039 - Hazard Mitigation Grant Program (including CFDA 84.548)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Texas Higher Education Coordinating Board</td>
<td>CFDA 84.032 - Federal Family Education Loan (FFEL), Lender</td>
<td>Special Tests and Provisions</td>
<td>08-51</td>
</tr>
</tbody>
</table>
In our opinion, based on our audit and the report of other auditors, except for the noncompliance described in the preceding two paragraphs and except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State’s compliance with the requirements of CFDA 93.958 - Block Grants for Community Mental Health Services regarding Special Tests and Provisions, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended August 31, 2007. However, the results of our auditing procedures and the report of other auditors disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items:

<table>
<thead>
<tr>
<th>Agency/University</th>
<th>Program</th>
<th>Compliance Requirement</th>
<th>Finding Number</th>
</tr>
</thead>
</table>
| Department of Aging and Disability Services | CFDA 93.667 - Social Services Block Grant  
Aging Cluster  
Medicaid Cluster | Allowable Costs/Cost Principles | 08-01 |
| Department of Assistive and Rehabilitative Services | CFDA 84.126 - Rehabilitation Services - Vocational Rehabilitation Grants to States | Cash Management | 08-03 |
| Department of Family and Protective Services | CFDA 93.556 - Promoting Safe and Stable Families  
CFDA 93.558 - Temporary Assistance for Needy Families  
CFDA 93.645 - Child Welfare Services - State Grants  
CFDA 93.658 - Foster Care - Title IV-E  
CFDA 93.659 - Adoption Assistance  
CFDA 93.667 - Social Services Block Grant | Allowable Costs/Cost Principles | 08-04 |
|                                     | CFDA 93.659 - Adoption Assistance | Allowable Costs/Cost Principles | 08-05 |
|                                     | CFDA 93.658 - Foster Care - Title IV-E | Eligibility | 08-07 |
| Health and Human Services Commission | CFDA 93.558 - Temporary Assistance for Needy Families  
CFDA 93.566 - Refugee and Entrant Assistance Program - State Administered Programs  
CFDA 93.667 - Social Services Block Grant  
CFDA 93.767 - State Children’s Insurance Program  
Emergency Food Assistance Cluster  
Food Stamp Cluster  
Medicaid Cluster | Allowable Costs/Cost Principles | 08-08 |
<table>
<thead>
<tr>
<th>Agency/University</th>
<th>Program</th>
<th>Compliance Requirement</th>
<th>Finding Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health and Human Services</td>
<td>Medicaid Cluster</td>
<td>Allowable Costs-Cost Principles</td>
<td>08-10</td>
</tr>
<tr>
<td>Commission</td>
<td>CFDA 93.767 - State Children's Insurance Program</td>
<td>Eligibility</td>
<td>08-11</td>
</tr>
<tr>
<td></td>
<td>CFDA 93.538 - Temporary Assistance for Needy Families Food Stamp Cluster Medicaid Cluster</td>
<td>Eligibility</td>
<td>08-12</td>
</tr>
<tr>
<td></td>
<td>CFDA 93.767 - State Children's Insurance Program</td>
<td>Matching</td>
<td>08-13</td>
</tr>
<tr>
<td></td>
<td>CFDA 93.767 - State Children's Insurance Program</td>
<td>Program Income</td>
<td>08-14</td>
</tr>
<tr>
<td></td>
<td>CFDA 93.538 - Temporary Assistance for Needy Families</td>
<td>Special Tests and Provisions</td>
<td>08-18</td>
</tr>
<tr>
<td></td>
<td>CFDA 93.667 - Social Services Block Grant</td>
<td>Eligibility</td>
<td>08-92</td>
</tr>
<tr>
<td>Health and Human Services</td>
<td>CFDA 10.537 - Special Supplemental Nutrition Program for Woman, Infants, and Children</td>
<td>Procurement and Suspension and Debarment</td>
<td>08-21</td>
</tr>
<tr>
<td>Commission</td>
<td>CFDA 93.268 - Immunization Grants</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance</td>
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<td>CFDA 93.538 - Temporary Assistance for Needy Families</td>
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<td>CFDA 93.767 - State Children's Insurance Program</td>
<td></td>
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<td>CFDA 93.917 - HIV Care Formula Grants</td>
<td></td>
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<td>CFDA 93.994 - Maternal and Child Health Services Block Grant to the States Food Stamp Cluster Medicaid Cluster</td>
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<tr>
<td>Agency/University</td>
<td>Program</td>
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<tr>
<td>Texas Juvenile Probation Commission</td>
<td>CFDA 93.658 - Foster Care - Title IV-E</td>
<td>Subrecipient Monitoring</td>
<td>08-23</td>
</tr>
<tr>
<td>Department of State Health Services</td>
<td>CFDA 93.268 - Immunization Grants</td>
<td>Allowable Costs/Cost Principles</td>
<td>08-24</td>
</tr>
<tr>
<td></td>
<td>CFDA 93.889 - National Bioterrorism Hospital Preparedness Program</td>
<td>Period of Availability of Federal Funds</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CFDA 93.917 - HIV Care Formula Grants</td>
<td></td>
<td></td>
</tr>
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<td></td>
<td>CFDA 93.999 - Block Grants for Prevention and Treatment of Substance Abuse</td>
<td></td>
<td></td>
</tr>
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<td>CFDA 93.994 - Maternal and Child Health Services Block Grant to the States</td>
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</tr>
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<td>CFDA 93.994 - Maternal and Child Health Services Block Grant to the States</td>
<td>Earmarking</td>
<td>08-26</td>
</tr>
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<td></td>
<td>CFDA 93.268 - Immunization Grants</td>
<td>Special Tests and Provisions</td>
<td>08-27</td>
</tr>
<tr>
<td></td>
<td>CFDA 10.557 - Special Supplement Nutrition Program for Women, Infants and Children</td>
<td>Special Tests and Provisions</td>
<td>08-28</td>
</tr>
<tr>
<td>Lamar Institute of Technology</td>
<td>Student Financial Assistance Cluster</td>
<td>Eligibility</td>
<td>08-33</td>
</tr>
<tr>
<td>Lamar State College - Port Arthur</td>
<td>Student Financial Assistance Cluster</td>
<td>Eligibility</td>
<td>08-36</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Special Tests and Provisions</td>
<td>08-37</td>
</tr>
<tr>
<td>Prairie View A&amp;M University</td>
<td>Student Financial Assistance Cluster</td>
<td>Special Tests and Provisions</td>
<td>08-38</td>
</tr>
<tr>
<td>Department of Public Safety</td>
<td>Homeland Security Cluster</td>
<td>Reporting</td>
<td>08-39</td>
</tr>
</tbody>
</table>
Schedule of Findings and Questioned Costs

Federal Portion of Statewide Single Audit Report

For the Year Ended August 31, 2007
# Federal Award Findings and Questioned Costs - Table of Contents

**Federal Award Findings - KPMG**
- Aging and Disability Services, Department of 114
- Assistive and Rehabilitative Services, Department of 116
- Family and Protective Services, Department of 118
- Health and Human Services Commission 126
- Higher Education Coordinating Board, Texas 158
- Juvenile Probation Commission, Texas 139
- State Health Services, Department of 161
- Texas Education Agency 175

**Federal Award Findings - Other Auditors**
- Lamar Institute of Technology 182
- Lamar State College - Orange 185
- Lamar State College - Port Arthur 189
- Prairie View A&M University 192
- Public Safety, Department of 194
- Texas A&M Health Science Center 204
- Texas A&M University 206
- Texas A&M University - Kingsville 210
- Texas A&M University - Texarkana 214
- Texas Higher Education Coordinating Board 215
- Texas Southern University 223
- Texas State Technical College - Harlingen 231
- Texas State Technical College - Marshall 236
- Texas State Technical College - Waco 238
- Texas State Technical College - West Texas 240
- Texas Tech University 242
- Texas Tech University Health Sciences Center 245
- Texas Woman's University 247
- Transportation, Dept of 249
- University of Houston 252
- University of Houston - Victoria 256
- University of Texas at Austin 260
- University of Texas at Brownsville 267
- University of Texas M.D. Anderson Cancer Center 268
- University of Texas at San Antonio 272
- Water Development Board 278
Prairie View A&M University

Reference No 08-38
Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2006 to June 30, 2007
Award number - CFDA 84.032 Award Number Not Applicable, CFDA 84.063 P06J062319
Type of finding - Significant Deficiency and Non-Compliance

Pell Payment Data

Institutions submit Pell origination records and disbursement records to the Common Origination and Disbursement (COD) System. The disbursement record reports the actual disbursement date and the amount of the disbursement. Institutions must report student payment data within 30 calendar days after they make a payment; or become aware of the need to make an adjustment to previously reported student payment data or expected student payment data (Office of Management and Budget (OMB) Compliance Supplement A-133, March 2007; Part 5, Student Financial Assistance Cluster, Section III.L.1.e, page 3-3-16).

The disbursement amount and date in the COD System should match the disbursement date and amount in students’ accounts or the amount and date the funds were otherwise made available to students (OMB Compliance Supplement A-133, Part 5, Student Financial Assistance Cluster, III.N.3, page 3-3-25).

In a sample of 50 students tested at Prairie View A&M University (University), 20 students received Pell Grant awards. For 15 of those 20 students (75 percent), the University did not report the correct date of disbursement of Pell Grant awards to the COD System.

Disbursement Notification

If an institution credits a student’s account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Programs (FFELP) loans, no earlier than 30 days before and no later than 30 days after crediting the student’s account, the institution must notify the student or parent of (1) the date and amount of the disbursement, (2) the student’s right or parent’s right to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan, and (3) the procedures and the time by which the student or parent must notify the institution that he or she wishes to cancel the loan or loan disbursement. The requirement for FFELP loans applies only if the funds are disbursed by electronic funds transfer payment or master check. The notification can be in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

In a sample of 50 students tested at the University, 45 students received FFELP loans. For 6 of those 45 students (13.33 percent), the University provided incorrect disbursement dates on the disbursement notification letters it sent to the recipients of those loans. The disbursement notification letters included all the required elements; however, the disbursement dates on the letters did not agree with the dates in the University’s Financial Aid System.

Recommendations:

The University should:

- Ensure that it reports correct disbursement dates for all Pell Grant awards to the COD System as required.
• Ensure that it includes correct disbursement dates on the disbursement notification letters it sends to FFELP loan recipients.


We agree with the Pell Payment Data finding and the Disbursement Notification finding. Since we are currently transitioning from our current Financial Aid Management system, SIS Plus, to Banner we have developed a Corrective Action Plan to incorporate both software solutions. Our current SIS Plus procedures have been amended to include a reconciliation to ensure that correct and consistent disbursement dates appear on all reports and letters referenced. These corrective procedures will be implemented for SIS Plus by March 31, 2008 and for Banner by August 31, 2008.

Implementation Date. August 2008

Responsible Person. Carlos Clark