THE

State of Texas

Comprehensive Annual Financial Report

Fiscal Year Ending August 31, 2008

Susan Combs
Texas Comptroller of Public Accounts

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Acknowledgments

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Financial Reporting section of the Texas Comptroller of Public Accounts with
assistance from other sections within the Fiscal Management and Public Outreach and Strategies Divisions.

Irene Lee, CPA, Financial Reporting Supervisor
Wiley Thedford, Assistant Supervisor
Al Kruzel, Team Lead

Magdalena Foley
Kelley Glaeser, CPA
Lynn Gunn, CPA
Kathy Hubert, CPA
Amanda Landry, CPA
Wallace Lankford, CPA
Rami Legha, CPA
Laurel Mulkey
Stacy Parker
Shirley Perry
Aurora Ramirez
Patricia King Sigg
Barbara Swearingen
Lori Williams, CPA
Linda Yarbrough
Tom Zapata, CPA

Other Sections:

Gary Bryant
Armando Cantu
Francine Fowler, CPA
Precilla Hauer
Bruce Holmstrom
David Heffington
Jim Smith
Terri Whaley

Suzy Whittenton, CPA, Fiscal Management Division Director
Tom Mathey, CPA, Fiscal Management Assistant Director
Darrell Edge, Fiscal Integrity Manager
Phillip Ashley, CPA, Fiscal Integrity Assistant Manager

Public Outreach and Strategies, Graphics Team:
Brad Wright
Duana Gill

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The State Auditor, John Keel, CPA, and his auditing staff.

State of Texas
Comprehensive Annual Financial Report

For the Year Ended August 31, 2008

Table of Contents

1: INTRODUCTORY SECTION

Letter of Transmittal 3
Elected State Officials 11
Government Structure of Texas 12
Certificate of Achievement 14

2: FINANCIAL SECTION

Independent Auditor's Report 17

Management's Discussion and Analysis

Management's Discussion and Analysis 23

Basic Financial Statements

Government-wide Financial Statements
- Statement of Net Assets. 38
- Statement of Activities 40

Fund Financial Statements
- Governmental Fund Financial Statements
  - Balance Sheet 42
  - Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 43
  - Statement of Revenues, Expenditures and Changes in Fund Balances. 44
  - Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities. 45
- Proprietary Fund Financial Statements
  - Statement of Net Assets 46
  - Statement of Revenues, Expenses and Changes in Fund Net Assets 48
  - Statement of Cash Flows 50
- Fiduciary Fund Financial Statements
  - Statement of Fiduciary Net Assets. 52
  - Statement of Changes in Fiduciary Net Assets 53

Notes to Financial Statements 55

Required Supplementary Information Other Than MD&A

Budgetary Comparison Schedule 144
Modified Approach to Reporting Infrastructure Assets 147
Schedules of Funding Progress 149

2: FINANCIAL SECTION (continued)

Other Supplementary Information – Combining Financial Statements and Schedules – Governmental Funds

Nonmajor Governmental Funds
- Combining Balance Sheet 153
- Combining Statement of Revenues, Expenditures and Changes in Fund Balances 154

Nonmajor Special Revenue Funds
- Combining Balance Sheet 156
- Combining Statement of Revenues, Expenditures and Changes in Fund Balances 157
- Budgetary Comparison Schedule 158

Nonmajor Debt Service Funds
- Combining Balance Sheet 162
- Combining Statement of Revenues, Expenditures and Changes in Fund Balances 163

Nonmajor Capital Projects Funds
- Combining Balance Sheet 166
- Combining Statement of Revenues, Expenditures and Changes in Fund Balances 168

Nonmajor Permanent Funds
- Combining Balance Sheet 172
- Combining Statement of Revenues, Expenditures and Changes in Fund Balances 173

Enterprise Funds

Nonmajor Enterprise Funds
- Combining Statement of Net Assets 178
- Combining Statement of Revenues, Expenses and Changes in Fund Net Assets 182
- Combining Statement of Cash Flows 186

Colleges and Universities – Major Enterprise Fund
- Schedule of Net Assets 192
- Schedule of Revenues, Expenses and Changes in Fund Net Assets 196
- Schedule of Cash Flows 200

Fiduciary Funds

Pension and Other Employee Benefit Trust Funds
- Combining Statement of Fiduciary Net Assets 208
- Combining Statement of Changes in Fiduciary Net Assets 210

Private-Purpose Trust Funds
- Combining Statement of Fiduciary Net Assets 214
- Combining Statement of Changes in Fiduciary Net Assets 215

Agency Funds
- Combining Statement of Fiduciary Net Assets 219
- Combining Statement of Changes in Assets and Liabilities 220

Discretely Presented Component Units
- Combining Statement of Net Assets 226
- Combining Statement of Activities 232

3: STATISTICAL SECTION

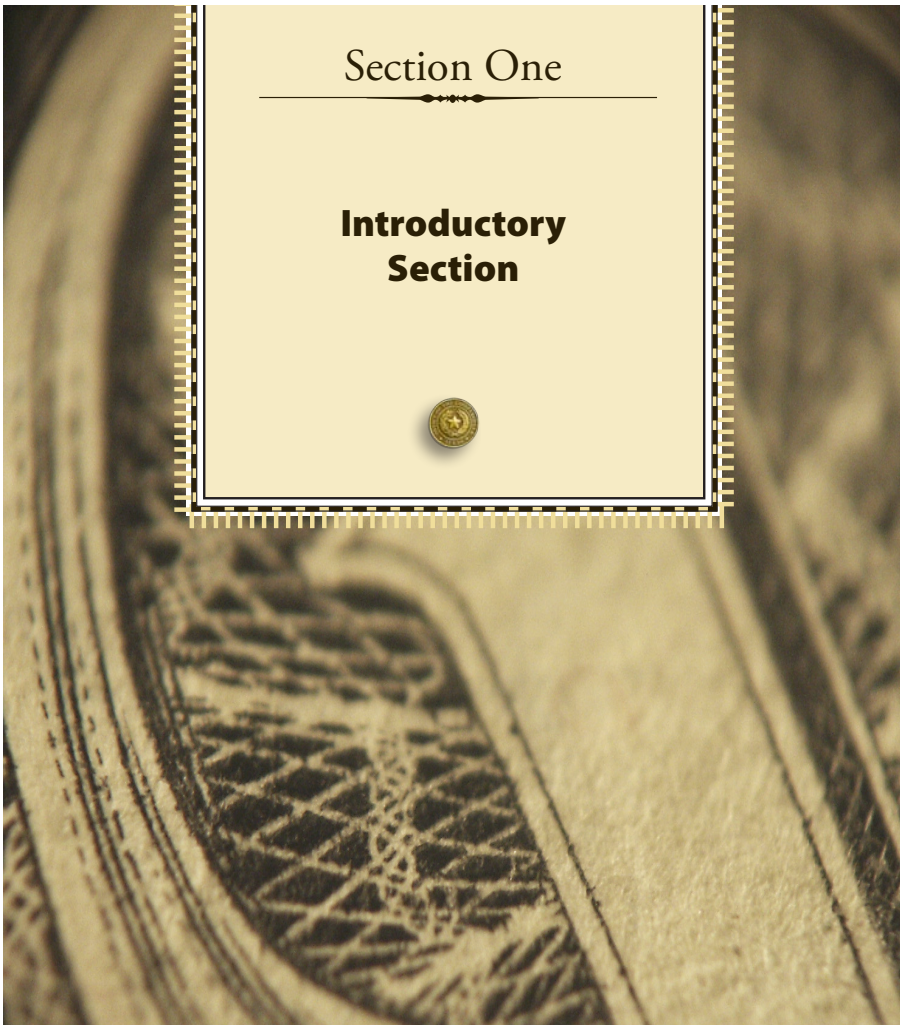
Financial Trends
- Net Assets by Component 239
- Changes in Net Assets 240
- Fund Balances – Governmental Funds. 242
- Changes in Fund Balance – Governmental Funds 243

Revenue Capacity
- Taxable Sales by Industry. 244
- State Tax Collections and Retail Sales 245
- Total Retail Sales, 1999-2008. 245
- Texas Gross State Product by Industry 246

Debt Capacity
- Legal Debt Margin Information 247
- Ratio of Outstanding Debt by Type 248
- Ratio of General Bonded Debt Outstanding 249
- Pledged Revenue Bond Coverage 250

Demographic and Economic Information
- Top 10 Private Employers in Texas 251
- Texas and U.S. Selected Statistics 252
- Texas and U.S. Employment and Unemployment Rates 252

Operating Information
- Full-Time Equivalent Employees by Function. 253
- Capital Asset Statistics by Function 254
- Operating Indicators by Function. 255



Section One

Introductory Section

February 27, 2009

To the Citizens of Texas, Governor Perry
and Members of the 81st Texas Legislature:

The Comprehensive Annual Financial Report (CAFR) of the state of Texas for the fiscal year ended Aug. 31, 2008, is submitted herewith. Responsibility for both the accuracy of the data presented, as well as the completeness and fairness of the presentation, rests with the office of the Texas Comptroller of Public Accounts. To the best of my knowledge, the information presented is accurate in all material respects, and all disclosures necessary for a reasonable understanding of the state's financial activities have been included.

The reporting approach established by the *National Council on Governmental Accounting* in *Statement No. 1* and endorsed by the Governmental Accounting Standards Board (GASB) has been utilized. The state also voluntarily follows the recommendations of the Government Finance Officers Association (GFOA) of the United States and Canada for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting. This report is divided into three sections. (1) The introductory section provides this transmittal letter, elected state officials, government structure of Texas and the GFOA Certificate of Achievement. (2) The financial section includes the auditor's opinion; management's discussion and analysis (MD&A), which provides an introductory overview and analysis of the financial statements; the financial statements, which present government-wide financial statements for the primary government along with the component units of the state of Texas and fund financial statements for governmental funds, proprietary funds and fiduciary funds, together with the notes to financial statements; required supplementary information other than MD&A, which presents budgetary comparison schedules and information about infrastructure assets; and other supplementary information, which includes the combining financial statements. (3) The statistical section provides various financial, economic and demographic data about the state.

The state auditor has performed an audit in accordance with generally accepted auditing standards of the state's general-purpose financial statements. His opinion is presented in this report preceding the financial statements.

The state auditor has contracted with KPMG to perform portions of the federal audit procedures necessary to meet the requirements of the federal Single Audit Act Amendments of 1996 and related Office of Management and Budget (OMB) Circular A-133. The federal portion of the Statewide Single Audit Report for the year ended Aug. 31, 2008, with the opinion expressed by KPMG, will be issued separately.

Profile of the Government

This report includes government-wide financial statements and fund financial statements of various departments, agencies and other organizational units, which are considered part of the state of Texas financial reporting entity. Criteria for determining the reporting entity and presentation of the related financial data are established by GASB. The criteria includes legal standing and financial accountability. Other organizations, which would cause the financial statements to be misleading or incomplete if they were excluded, are also included in the reporting entity. Note 1 of the notes to financial statements provides detail on the financial reporting entity. A brief summary of the nature of significant component units and their relationship to the state of Texas is discussed in Note 19.

All activities that would generally be considered part of the state of Texas are included in this report. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general government, employee benefits and teacher retirement benefits.

Accounting System and Budgetary Controls

The MD&A, in the financial section, provides an overview of the state's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, MD&A focuses on the state's major funds: the general fund, state highway fund, permanent school fund, colleges and universities funds, Texas Water Development Board funds and the Texas Department of Transportation Turnpike Authority. The fiduciary activities are excluded from the MD&A.

The state's financial statements for governmental funds, including general, special revenue, debt service, capital projects and permanent funds, have been prepared on the modified accrual basis of accounting in conformity with generally accepted accounting principles (GAAP). Revenues are recognized when measurable and available to finance current expenditures; expenditures are recognized when the related liability is incurred. The government-wide financial statements (statement of net assets and statement of activities), proprietary (including colleges and universities), pension and other employee benefit trust, external investment trust, private-purpose trust and agency funds are accounted for on the accrual basis. A summary of the state's significant accounting policies and other necessary disclosures are included in the notes to financial statements.

The state's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Budgetary control is exercised through expenditure budgets for each agency. These budgets are entered on the statewide accounting system after an appropriations bill becomes law. The appropriations bill becomes law after passage by the Legislature, certification by my office that the amounts appropriated are within the estimated collections and the signing of the bill by the governor. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure that expenditures do not exceed authorized limits. Further detail on budgetary accounting for the state is found in the required supplementary information other than MD&A section.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve a portion of the applicable appropriations, is employed for purposes of budgetary control and contract compliance. Encumbrances at year-end do not constitute expenditures or liabilities.

Economic Outlook and Major Initiatives

Even though the Texas economy slowed in 2008, the state economy continued to grow at a rate that stood out among the states in terms of job gains. In a recessionary national economy, Texas grew more slowly than average during 2008, but relative to other states Texas was a lone star. Only 15 states increased their nonfarm employment from November 2007 to November 2008. The states ranked

second and third in nonfarm employment growth, Oklahoma and Maryland, added fewer than 20,000 jobs each, while Texas added 221,000 jobs, nearly 13 times more than Oklahoma. The U.S. economy lost jobs during every month of calendar 2008 and shed 1.9 million jobs from November 2007 to November 2008, for a loss of 1.4 percent. In short, the national economy experienced a significant decline in 2008, while the Texas economy has merely slowed its overall rate of growth.

Likewise, the U.S. Bureau of the Census reported that Texas was one of only three states (with Utah and Arizona) with population growth over 2 percent in 2008. According to Census Bureau estimates, Texas (with 8 percent of the population) accounted for 15 percent of the nation's total population growth from 2000 to 2008, more than any other state. Migration accounted for almost two-thirds of the increase.

Although the number of Texas workers increased for the fifth consecutive year, available jobs increased less rapidly than the state's labor force, causing the Texas unemployment rate to climb from 4.2 to 5.7 percent between November 2007 and November 2008. Even so, the state's jobless rate remained below the nation's, which climbed from 4.7 to 6.7 percent in the last year.

Texas' current-dollar Gross State Product (GSP) rose 6.4 percent in 2008, for a real (inflation-adjusted) increase of 4.1 percent, a rate exceeding the average real GSP growth rate of 3.5 percent over the past decade, due largely to the strength of the state's energy industry. The natural resources and mining industry, dominated by oil and natural gas in Texas, added jobs at a faster pace (8.2 percent) than any other industry over the twelve months ending in November 2008. All Texas industries added jobs, except for information (down 2.2 percent) and manufacturing (down 1.2 percent). Unlike much of the nation, construction and real estate activity still contributed to Texas' growth in 2008, although at a slower pace than before. Texas' current-dollar GSP reached nearly $1.2 trillion dollars in 2008.

Even with the increase in mining industry jobs, a slower construction industry and job losses in manufacturing meant that Texas' service-providing industries accounted for over 90 percent of the state's job growth in 2008. Construction job increases that had averaged 4.5 percent during the previous four years increased by 2.4 percent in 2008, while manufacturing lost another 1.2 percent of its workers, mostly in response to international labor cost competition. Boosted by robust oil and natural gas drilling rig production through most of 2008, the state's manufacturing industry saw substantial hiring in the machinery and fabricated metal manufacturing sector, but hiring has slowed considerably in these sectors.

Texas has been the nation's largest exporting state since 2002. During the first 10 months of 2008, the value of Texas exports to other countries totaled $165 billion, up 18.6 percent from the first 10 months of 2007. The value of Texas exports has doubled over the last five years and now accounts for 16 percent of the state's gross product. This represents more than one-seventh of total U.S. exports, based on export data from the World Institute of Social and Economic Research. Manufacturers have benefited from a weak dollar that made Texas-made products cheaper in world markets, but the dollar strengthened markedly in 2008. Exports remain a hallmark of the state economy, but will face more price resistance in 2009, so the outlook for manufacturing employment is a leaner year ahead.

Even with the relative strength of the state and continued growth in most industries, the Texas economy experienced a clear weakening as 2008 came to a close. Underlying the weakness were the weight of a national recession, large losses in stock investments, a stronger dollar and the deflating of an oil and natural gas industry that had boomed during most of the year. Hurricane Ike left widespread destruction in the populous Houston-Galveston region, and although this stimulated jobs in repair and construction in the area, the Texas leading economic indicator index hints at net job losses during much of 2009.

Leading Indicators Foresee Contraction

The Comptroller's Index of Leading Economic Indicators suggests a deceleration in economic activity in the state over the near future. The index, a composite of 10 indicators, is designed to forecast the state's employment growth four to

six months in advance. It predicts a retrenchment in the state economy in 2009, as Texas continues to be buffeted by tight credit markets, a stronger dollar and cutbacks in the state's substantial oil and gas industry.

After being at lofty levels from 2005 through 2007, the consumer confidence index in the West South Central states collapsed to below-average levels in 2008. Since it is a major factor driving housing and other major purchases, consumer optimism is a key indicator to economic health, but consumer confidence dropped to its lowest level in more than five years at the end of 2008.

The mining industry retained most of its jobs after the price of oil and natural gas collapsed in the latter part of the year, but the outlook is risky. Energy prices were high during most of the year, and although they put pressure on the budgets of businesses and households, they also have a modestly positive effect on the state's overall economy when prices are high enough to stimulate domestic and international drilling operations. The number of operating oil and natural gas drilling rigs in the state reached a 25-year peak of 946 in September, rising from a low of 306 rigs in 2002. With an average of 898 drilling rigs in operation during the year, 2008 was the state's most active year for oil and gas exploration since 1982, but with sharply reduced oil and gas prices, the rig count waned at the end of 2008.

The single-family housing market is another leading indicator of economic growth. The housing problem is far less pronounced in Texas than nationally, but following national trends, it is a weak link in the Texas economy today. On average, Texas' subprime mortgages are of better quality than in the remainder of the nation since Texans have a higher average percentage of home-owner equity. Still, single-family housing permits fell by 33 percent in Texas during the first 11 months of 2008, compared to the same period of 2007. Multi-family housing permits dropped less, but still fell 7 percent.

On the bright side of the Texas housing market, Texas home prices—the median sale price for existing homes was about $146,000—were stable in a year in which home prices in many U.S. markets declined precipitously. Even with steep price declines in much of the nation, Texas continues to have some of the nation's most attractive real estate prices, relative to household income. Although prices were firmer than in many states, the number of existing home sales in Texas during the first 11 months of 2008 tumbled by 16 percent.

Sales tax collections in Texas, an indicator of taxable retail sales activity, climbed by 5.5 percent during 2008, following a four-year period where collections soared by an average of 9 percent each calendar year. On the other hand, 2008 was a difficult year for automobile sales in the state, as evidenced by motor vehicle sales tax receipts that plunged by 7.5 percent, reversing a three-year string of solid gains.

After 16 years of rising new business incorporations, Texas experienced a decline in 2008. During 2008, the state had a monthly average of 8,877 new incorporations, compared to last year's average of 9,347. Newly incorporated businesses are not always economically viable, but a growing number reflects a willingness of entrepreneurs to invest in new ventures.

Outlook for 2009 and 2010

At the close of calendar 2008, all but one of the state's 10 leading economic indicators point toward a weaker Texas economy in the upcoming months. The U.S. leading indicators index is at recessionary levels, and although the Texas index suggests the state economy will be pared down as well, the state outlook is marginally less negative than the national outlook. Texas' gross domestic product growth has outperformed U.S. growth in all but one year since 1991, and the Comptroller's econometric forecast model predicts that Texas' economy will outperform the nation's in both 2009 and 2010, advancing by 0.8 percent in calendar year 2009 (beating the nation by two percentage points) and 2.9 percent in 2010 (almost one percentage point higher).

Employment in Texas could decline by as much as 0.5 percent in 2009, the first losses since 2003, before rebounding to 1.7 percent growth in 2010. In comparison, U.S. nonfarm employment is expected to decline by 1.5 percent in 2009 before advancing by a slight 0.1 percent in 2010. The unemployment rate is expected to be higher than it is today, ranging between 6 and 7 percent in 2009 and

2010. The state's population will increase by 1.9 percent in 2009, with more than half the growth taking root in net migration to the state, as job seekers elsewhere respond to a relatively healthier Texas economy. During 2009, the state's population will average 24.8 million.

While growth in the global economy and a weaker dollar have boosted Texas' export growth in recent years, the outlook for world economies is generally weak, with nearly every advanced economy expected to lose steam. The value of the U.S. dollar is forecast to continue rising in 2009 before subsiding again in 2010, but Texas export markets are facing strong headwinds.

Personal income growth in Texas is forecast to see retrenchment in 2009, with only a partial recovery in 2010. Low inflation will put a damper on wage gains. Texas total personal income advanced by more than 7 percent a year for four years before slipping in 2008. Personal income is expected to grow by an average of only 3.8 percent per year in 2009 and 2010, with 2009 seeing the weakest growth.

Even with the economic engine cooling to only 0.8 percent real gross state product growth in 2009, the Texas economy should outpace the U.S. economy for the same reasons that it is outperforming the recessionary national economy today. These include continued net migration into the state, a Sunbelt location at the buckle of the nation's South and the West, an experienced workforce, a comparatively healthy housing market, a strategic geographic position for Latin American trade and a comparatively attractive cost of doing business.

Texas Revised Franchise Tax

The 79th Legislature, Third Called Session (2006) and the 80th Legislature (2007) revised the existing franchise tax to give property tax relief. House Bill 3 in the 2006 session and House Bill 3928 in the 2007 session amended the Texas Tax Code Chapter 171 and extended the coverage of the tax to include not only corporations and limited liability companies, but also certain partnerships, professional associations, joint ventures and business trusts, among others.

In addition to the broadening of the taxable entities, the bills contain changes to the tax base and tax rate. The tax base switched from taxable capital and earned surplus to taxable margin. The taxpayer may compute taxable margin in one of three ways. The calculation with the lowest result is then subject to an apportionment factor that is based on the share of total gross receipts generated in Texas. The result is the apportioned margin to which the new tax rate of 1 percent is applied. Most businesses in the retail and wholesale trade sectors, however, are subject to a lower rate of 0.5 percent.

The 2008-09 biennium will be the first in which the franchise tax is calculated on the taxable margin base. Estimated total (all funds) revenue for 2008-09 is $8.8 billion—54.4 percent more than the $5.7 billion collected in 2006-07. However, pursuant to House Bill 2 (79th Legislature, 3rd Called Session), only $5.6 billion in 2008-09 franchise tax revenue—the estimated amount that would have been collected under the previous franchise tax law—will be available for general-purpose spending. The remainder will be dedicated for school property tax relief.

In recognition of the Texas tax's unique nature and complexity—involving such non-standard concepts as "taxable margin" and "cost of goods sold"—the 80th Legislature (2007) established a Business Tax Advisory Committee to assist it in its evaluation of how the tax performs relative to the tax that it replaced. Key issues to be studied include the relative shares paid by industry type and business size, tax incidence, interstate comparisons, economic (e.g., investment and employment) effects and factors affecting compliance and revenue generation. The results will be published in biennial reports to be delivered to the governor, lieutenant governor and speaker of the house of representatives before each regular legislative session through Jan. 31, 2013.

Property Tax Value Limitations

In 2001, the 77th Legislature enacted House Bill 1200 creating Tax Code Chapter 313, the Texas Economic Development Act (Act). The Act allows school districts to attract new taxable property and assist in new job creation by offering a tax credit and an eight-year limitation on the appraised value of real and personal tangible property for the maintenance and operations portion of a school

district's tax rate. In exchange for the appraised value limitation and tax credit, a property owner is required to enter into an agreement with the school district to create a specific number of high-wage jobs and build or install specified types of real and personal property worth a certain amount.

To qualify, the property must be in a reinvestment zone and must be devoted to manufacturing, research and development, renewable energy generation, nuclear power generation, advanced clean energy projects or electric power generation using integrated gasification combined cycle technology. The amount of investment and the minimum amount of the value limitation varies according to whether the school district is considered a rural or non-rural district and according to the amount of taxable property value in the school district.

In 2007, the 80th Legislature enacted House Bill 1470 to extend the expiration date of major subchapters of the Act from Dec. 31, 2007, to Dec. 31, 2011. The bill also modified the process requiring economic evaluations of proposed projects. Starting in 2008, rather than local school districts engaging a third party to conduct such evaluations, the Comptroller of Public Accounts started conducting the evaluations. In House Bill 1470, the Legislature also gave local school districts authority to waive the minimum number of jobs required by the Act if that number (10 for rural districts and 25 for non-rural districts) exceeds the industry standard for that type of facility.

Other legislation from the 80th Legislature (House Bill 2994, House Bill 3693 and House Bill 3732) required the Comptroller to conduct a biennial study for the Legislature of the progress of all value limitation agreements. According to that analysis, as of June 2008, school districts had entered into 90 property tax limitation agreements reflecting an estimated $41 billion of investment over the lifetime of the agreements, with applicants proposing the creation of almost 5,600 jobs. The school district levy loss for the duration of the agreements was estimated to be over $2.1 billion. Thirty-five more new projects, representing an estimated investment of $12.6 billion, were scheduled to be considered by school districts during the fall of 2008.

Texas Smart Buy

The 80th Legislature reorganized procurement duties for the state and transferred the function to the Comptroller's office effective September 2007. The new Texas Procurement and Support Services Division at the Comptroller's office manages more than $1 billion of the state's contracts for goods and services on behalf of more than 180 state agencies and 1,700 local government agencies. With this level of activity, the state of Texas is one of the largest purchasing entities in the country.

The Comptroller's office launched Texas Smart Buy to maximize the state's purchasing leverage and to identify savings and cost avoidance opportunities. Examination of expenditures in five of the state's 175 spending categories yielded an initial savings of more than $28 million, which is an average of more than 8 percent of state spending in those categories. These initial efforts focused on expenditures for the state vehicle fleet, overnight/express mail, outgoing mail machines and asphalt purchases for road projects.

The next phase of the initiative resulted in the launch of a new online ordering system called TxSmartBuy. The new ordering system is an online shopping cart, similar to those found on retail Web sites, which will allow state agencies, public universities and local governments to search for goods and services, compare prices and specifications and order directly through the site, saving money by taking advantage of the state's bulk buying power.

Open Book Texas

In January 2007, the Comptroller's office began posting its expenditures online — down to the cost of pencils. Shortly thereafter, the posting grew to include expenditures for other state agencies. Building upon those efforts, the Comptroller's office created *Where the Money Goes*, an online database for viewing state agency spending. Expenditures in the database are searchable by vendor name, expenditure category or agency name.

By making spending data more transparent, efficiencies and savings can be identified more easily. The Comptroller's Office has saved $4.8 million and identified an additional $3.8 million in expected cost savings. Some

examples of the cost savings at the agency include saving $73,000 by consolidating multiple contracts for toner cartridges and establishing separate post office boxes to receive different types of tax payments, thereby avoiding having to spend $328,000 to buy and maintain a new mail sorter.

New Accounting Pronouncement

In 2004 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This standard established new requirements for the recording of other postemployment benefits (OPEB) according to GAAP. In 2007 the 80th session of the Legislature passed House Bill 2365. The bill allows public entities in Texas the option to apply a statutory modified accrual basis of accounting for OPEB benefits.

As administrators of separate OPEB plans, the University of Texas System and the Texas A&M University System chose to implement GASB 45 in fiscal 2008. The first actuarial valuations in accordance with GASB 45 for these two single-employer defined benefit plans were completed in preparation for this implementation. As a result of these valuations, a net OPEB obligation and annual OPEB cost were calculated for these plans. The net OPEB obligation and related expense of these plans have been incorporated into the fiscal 2008 CAFR proprietary and government-wide financial statements.

GASB 45 valuations are based on the concept of a substantive plan. The substantive plan concept assumes that the current funding and structure of an OPEB plan will continue unchanged indefinitely. GASB 45 does not distinguish between those plans that have legally enforceable funding requirements and those to which the employer is not legally required to make contributions. The GASB does not require contributions to be made to an OPEB plan. GASB 45, however, does require plan employers to record actuarial liabilities related to future benefits. OPEB benefits are not legally guaranteed by the state of Texas for the plans the state administers. In addition, the Texas Constitution generally prohibits the creation of a debt or obligation beyond two years. The state's contributions for OPEB are determined each biennium during the legislative session. For these reasons, the state does not believe that an estimated net actuarial OPEB obligation represents a legal liability of the state and thus its inclusion in the state's financial statements may be misleading to the users of those statements. Despite these concerns, the state implemented GASB 45 in fiscal 2008.

The Employees Retirement System of Texas (ERS) administers the State Retiree Health Plan (SRHP), a cost-sharing multiple-employer defined benefit OPEB plan. The state of Texas is one of several employers and contributors to this plan. The plan covers OPEB for retired state employees (including all employees of public colleges except those in the University of Texas and Texas A&M University Systems), certain community colleges of the state, selected municipal districts and certain other employers. GASB 45 prescribes different accounting treatments for different types of plans. An employer in a cost-sharing multiple-employer plan is required to report OPEB liabilities and expenses in accordance with contractually required contributions (CRC). The CRC is established by the plan administrator and is not required to be based on the actuarial required contribution (ARC) of the plan. Currently the CRC for the SRHP is based on the annual pay-as-you-go costs of the plan benefits. The state of Texas contributions for fiscal 2008 equaled the annual CRC. Therefore, there is no resulting net OPEB obligation related to the SRHP to report on the government-wide financial statements.

The Teacher Retirement System of Texas (TRS) administers the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit OPEB plan. The plan covers the retired school district employees from more than 1,200 school districts in the state. The state of Texas is not an employer in the TRS-Care plan. The state, however, does help to partially fund the plan annual expenses through annual on-behalf contributions.

The special funding situation described in GASB 45 does not apply for the SRHP and TRS-Care plans because the state is not the only contributing entity in either plan.

Awards and Acknowledgments

Certificate of Achievement

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Texas for its *Comprehensive Annual Financial Report* for the fiscal year ended Aug. 31, 2007. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized *Comprehensive Annual Financial Report* whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The state of Texas has received a Certificate of Achievement for the last 18 years (fiscal years ended August 1990 through 2007). We believe our current report continues to conform to the Certificate of Achievement Program requirements and we will be submitting it to the GFOA.

I will continue to maintain a highly qualified and professional staff to make this certification possible.

Acknowledgments

The preparation of this report requires the collective efforts of literally hundreds of financial personnel throughout state government, including the dedicated management and staff of my Financial Reporting section and Fiscal Management Division; the chief financial officers, chief accountants and their staff at each agency and the management and staff of the State Auditor's Office. I sincerely appreciate the dedicated efforts of all these individuals who continue to strive for improvements that will make Texas a national leader in quality financial reporting.

Sincerely,
Susan Combs

State of Texas Comprehensive Annual Financial Report

State of Texas Elected State Officials

Executive

Rick Perry
Governor

David Dewhurst
Lieutenant Governor

Susan Combs
Comptroller

Greg Abbott
Attorney General

Jerry Patterson
Land Commissioner

Todd Staples
Commissioner of Agriculture

Elizabeth Ames Jones
Victor G. Carrillo
Michael L. Williams
Railroad Commissioners

Legislative

Lieutenant Governor, David Dewhurst, President of the Senate

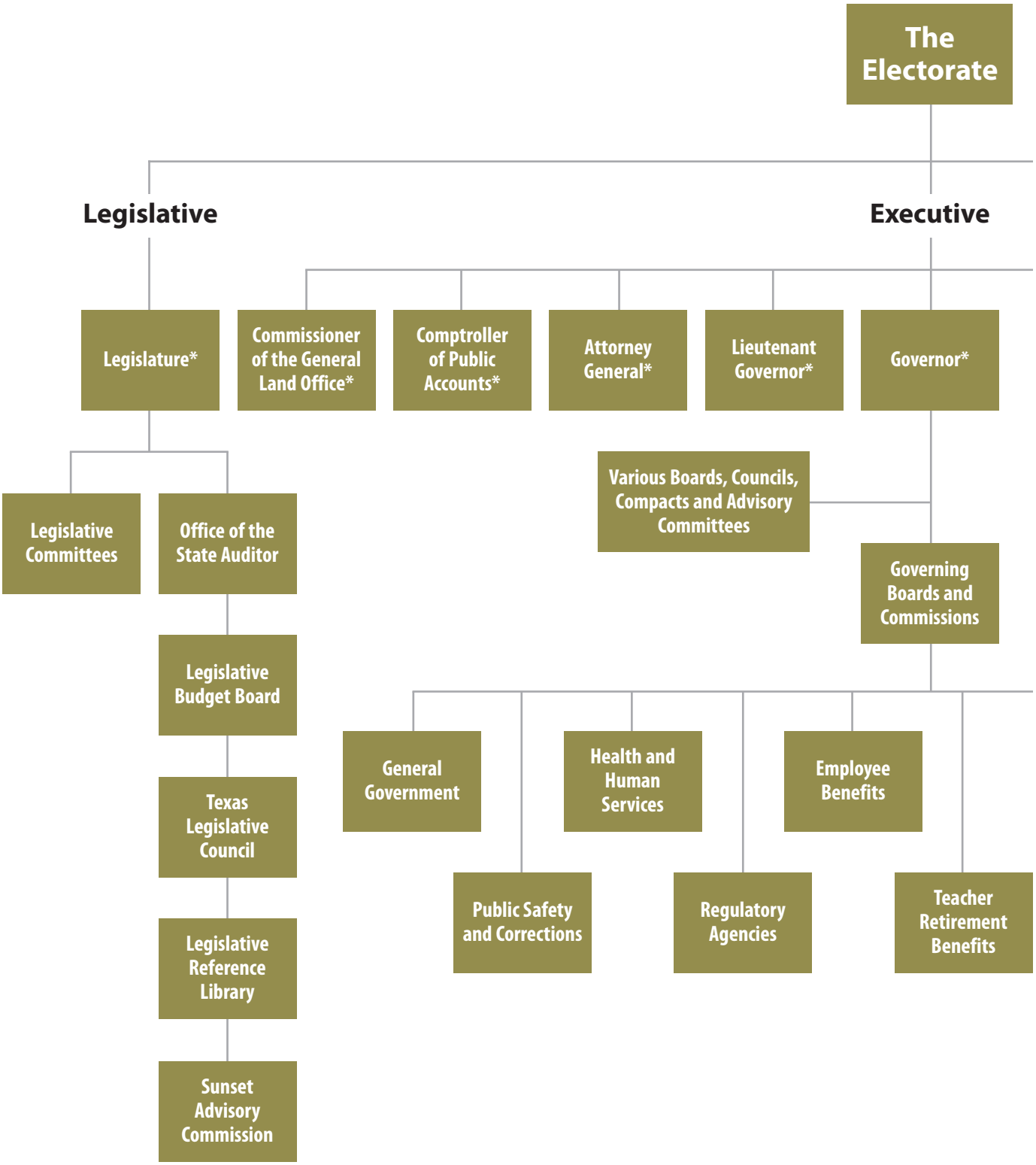
Joe Straus
Speaker of the House of Representatives

Judicial

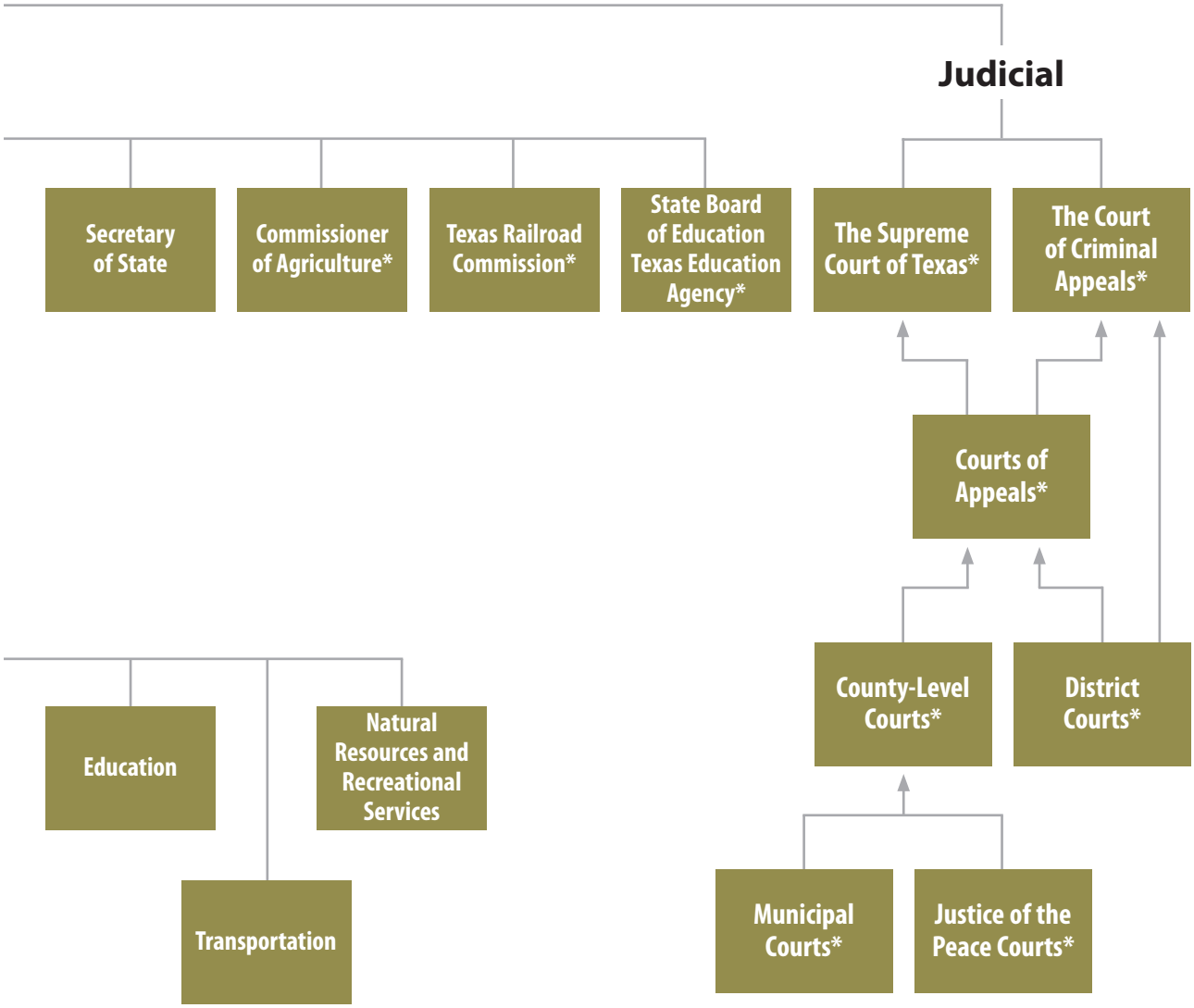
Wallace B. Jefferson
Chief Justice of the Supreme Court

Sharon Keller
Presiding Judge, Court of Criminal Appeals

Government Structure of Texas



* Elected Offices


Judicial
Secretary of State
Commissioner of Agriculture*
Texas Railroad Commission*
State Board of Education Texas Education Agency*
The Supreme Court of Texas*
The Court of Criminal Appeals*
Courts of Appeals*
County-Level Courts*
District Courts*
Municipal Courts*
Justice of the Peace Courts*
Education
Natural Resources and Recreational Services
Transportation

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2007

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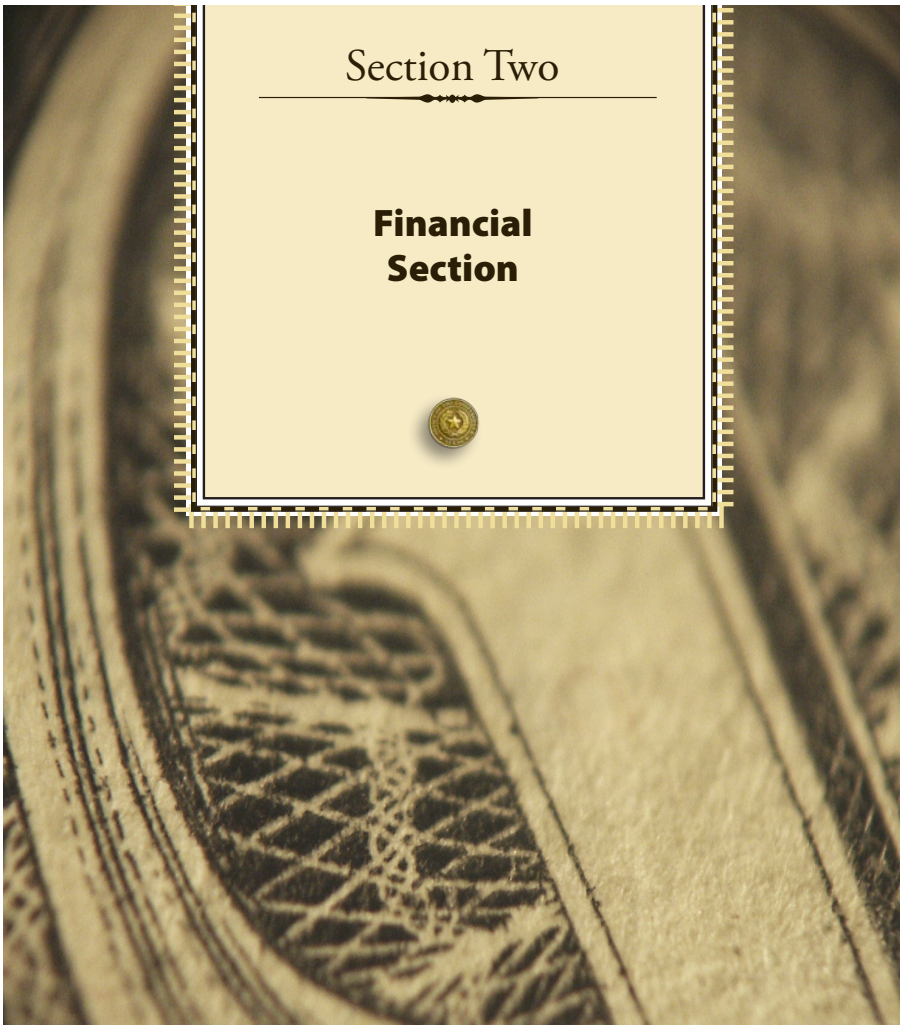
President

Executive Director



Section Two

Financial Section

State Auditor's Office
John Keel, CPA
State Auditor

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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, 2008, which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State Comptroller of Public Accounts. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the following entities and fund:

- The University of Texas Investment Management Company (UTIMCO) and the University of Texas M.D. Anderson Cancer Center (UTMDACC), which constitute 55 and 9 percent, respectively, of the assets of Colleges and Universities, a major enterprise fund. UTIMCO and UTMDACC also constitute 41 and 6 percent, respectively, of the assets of the business-type activities.
- The Permanent School Fund, a major governmental fund, which constitutes 42 percent of the assets of the governmental activities.
- The Texas Local Governmental Investment Pool (TexPool), a blended component unit, which constitutes 9 percent of the assets of the aggregate discretely presented component unit and remaining fund information, which primarily consists of fiduciary funds.

The financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities and TexPool, is based on the reports of the other auditors.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of UTIMCO, UTMDACC, and TexPool were not audited in accordance with

Robert E. Johnson Building
1501 N. Congress Avenue
Austin, Texas 78701

P.O. Box 12067
Austin, Texas 78711-2067

Phone:
(512) 936-9500

Fax:
(512) 936-9400

Internet:
www.sao.state.tx.us

SAO No. 09-327

Government Auditing Standards. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 August 31, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the budgetary comparison schedule, the modified approach to reporting infrastructure assets, and the schedules of funding progress are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This required supplementary information is the responsibility of the State Comptroller of Public Accounts. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining financial statements, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These financial statements are also the responsibility of the State Comptroller of Public Accounts. This supplemental information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

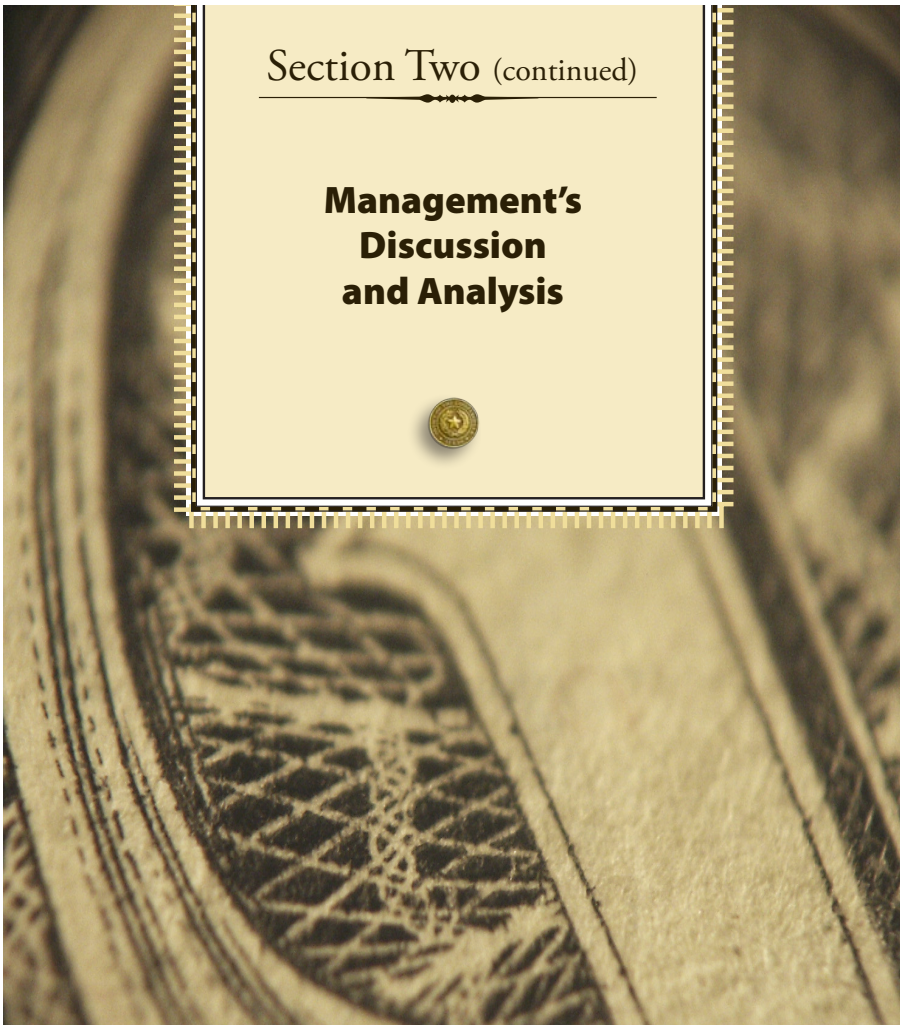
We did not audit the introductory section or the statistical section and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of the State's compliance with certain provisions of laws, regulations, contracts, and grants and on other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an

integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

John Keel, CPA
State Auditor

February 20, 2009



Section Two (continued)

Management's Discussion and Analysis

Management's Discussion and Analysis

The following is a discussion and analysis of the state of Texas' financial performance for the fiscal year ended Aug. 31, 2008. Use this section in conjunction with the state's basic financial statements. Comparative data is available and presented for this 2008 report.

Highlights

Government-wide

Net Assets

The assets of the state of Texas exceeded its liabilities by $142.8 billion as of Aug. 31, 2008, an increase of $1.6 billion or 1.1 percent from fiscal 2007.

Fund Level

Governmental Funds

As of Aug. 31, 2008, the state's governmental funds reported a combined ending fund balance of $44 billion, an increase of $1.6 billion or 3.9 percent from fiscal 2007. The state reported a positive unreserved fund balance of $13.6 billion in fiscal 2008.

Proprietary Funds

The proprietary funds reported net assets of $42.2 billion as of Aug. 31, 2008, a decrease of $746 million or 1.7 percent from fiscal 2007.

Long-Term Debt

The state's total bonds outstanding increased by $3.8 billion or 15.5 percent during fiscal 2008 for governmental and business-type activities. This amount represents the net difference between net issuances, payments and refunding of outstanding bond debt. During the fiscal year, the state issued bonds totaling $6.3 billion. More detailed information regarding the government-wide, fund level and long-term debt activities can be found in the debt administration section of this management's discussion and analysis (MD&A).

Overview of the Financial Statements

The focus of this report is on reporting for the state as a whole and on the major individual funds. The report presents a more comprehensive view of the state's financial activities and makes it easier to compare the performance of Texas state government to that of other governments.

The Financial Section of this annual report presents the state's financial activities and position in four parts-(1) MD&A (this part), (2) the basic financial statements, (3) required supplementary information other than MD&A and (4) other supplementary information presenting combining statements. The report also includes statistical and economic data.

The basic financial statements include government-wide financial statements, fund financial statements and notes to financial statements that provide more detailed information to supplement the basic financial statements.

Reporting on the State as a Whole

The government-wide financial statements are designed to present an overall picture of the financial position of the state. These statements consist of the statement of net assets and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included, regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private-sector companies.

The statement of net assets combines and consolidates the government's current financial resources with capital assets and long-term obligations. This statement includes all of the government's assets and liabilities.

Net assets, which are the difference between the state's assets and liabilities, represent one measure of the state's financial health.

Other indicators of the state's financial health include the condition of its roads and highways (infrastructure) and economic trends affecting the state's future tax revenues.

The statement of activities focuses on both the gross and net cost of various activities (governmental, business-

type and component units); these costs are paid by the state's general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services and includes all current year revenues and expenses.

The government-wide statement of net assets and the statement of activities divide the state's activities into three types.

Governmental Activities

The state's basic services are reported here, including general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreation and regulatory services. Taxes, fees and federal grants finance most of these activities.

Business-Type Activities

Activities for which the state charges a fee to customers to pay most or all of the costs of certain services it provides are reported as business-type activities. The state's colleges and universities are included as business-type activities.

Component Units

Component units are legally separate organizations for which the state is either financially accountable or the nature and significance of their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. These entities are reported in a separate column in the government-wide financial statements. The state includes 17 separate legal entities in the notes to this report.

Reporting on the State's Most Significant Funds

Fund financial statements provide additional detail about the state's financial position and activities. Some information presented in the fund financial statements differs from the government-wide statements due to the perspective and basis of accounting used. Funds are presented on the fund level statements as major or nonmajor based on criteria set by the Governmental Accounting Standards Board (GASB).

A fund is a separate accounting entity with a self-balancing set of accounts. The state uses funds to keep track of sources of funding and spending related to specific activities.

Governmental Funds

A majority of the state's activity is reported in governmental funds. Reporting of these funds focuses on how money flows into and out of the funds and amounts remaining at year end for future spending.

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the state's general governmental operations and the basic services it provides. This information should help determine the level of resources available for the state's programs. The reconciliation following the fund financial statements explains the differences between the government's activities, reported in the government-wide statement of net assets and the government-wide statement of activities, and the governmental funds. The general fund, state highway fund and permanent school fund are reported as major governmental funds.

Proprietary Funds

When the state charges customers for services it provides, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, a component of proprietary funds, and are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements, but are reported here to provide information at the fund level.

Services provided by one program of the state to another are reported in internal service funds, the other component of proprietary funds. The state's employees' life, accident and health insurance benefits fund is reported as the only internal service fund.

Colleges and universities, Texas Water Development Board funds and the Texas Department of Transportation Turnpike Authority are shown as major proprietary funds.

Reporting on the State's Fiduciary Responsibilities

The state is the trustee or fiduciary for six defined benefit plans and one defined contribution plan. It is also responsible for other assets that can be used only for trust beneficiaries. All state fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. The activities are reported separately from other financial activities because the state cannot use the assets to finance state operations. The state's fiduciary responsibilities include ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the State as a Whole

Net Assets

Total assets of the state on Aug. 31, 2008, were $210.8 billion, an increase of $13.6 billion or 6.9 percent. Total liabilities as of Aug. 31, 2008, were $68 billion, an increase of $12 billion or 21.5 percent. Net assets were affected by a number of factors. Cash and cash equivalents grew $12.9 billion from fiscal 2007 while investments decreased $2.6 billion. The cash and cash equivalent growth was increased by $10.3 billion from two sources, the issuance of tax and the revenue anticipation notes and the receipt of concessions for highway rights by the Texas Department of Transportation. An increase in total liabilities of $12 billion is also primarily due to these two factors. Net capital

Statement of Net Assets

August 31, 2008 and 2007 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
ASSETS						
Assets Other Than Capital Assets	$ 70,107,763	$ 59,609,496	$ 55,324,352	$ 57,302,088	$ 125,432,115	$ 116,911,584
Capital Assets	67,326,888	63,802,726	18,041,575	16,482,661	85,368,463	80,285,387
Total Assets	137,434,651	123,412,222	73,365,927	73,784,749	210,800,578	197,196,971
LIABILITIES						
Current Liabilities	24,613,778	15,627,216	10,783,876	11,521,853	35,397,654	27,149,069
Noncurrent Liabilities	12,149,685	9,434,902	20,429,743	19,364,288	32,579,428	28,799,190
Total Liabilities	36,763,463	25,062,118	31,213,619	30,886,141	67,977,082	55,948,259
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	58,207,920	56,438,132	7,384,503	7,342,429	65,592,423	63,780,561
Restricted	31,358,171	29,346,612	24,882,981	25,815,068	56,241,152	55,161,680
Unrestricted	11,105,097	12,565,360	9,884,824	9,741,111	20,989,921	22,306,471
Total Net Assets	$ 100,671,188	$ 98,350,104	$ 42,152,308	$ 42,898,608	$ 142,823,496	$ 141,248,712

assets increased $5.1 billion from additions to the state's highway system and college and university construction projects. There was an increase in total bond debt of $3.7 billion as well. The net asset balance was $142.8 billion in fiscal 2008, an increase of $1.6 billion or 1.1 percent. Of the state's net assets, $65.6 billion were invested in capital assets, net of related debt, while $56.2 billion were restricted by statute or other legal requirements and were not available to finance day-to-day operations of the state. Unrestricted net assets were $21 billion. The state's bonded indebtedness was $27.6 billion, which included new issuances of $6.3 billion in state bonds to finance new construction, housing, water conservation and other projects. Approximately $2.6 billion in bonded debt was retired or refunded.

Changes in Net Assets

The state earned program revenues of $54.4 billion and general revenues of $44.9 billion, for total revenues of $99.3 billion, a decrease of $4.7 billion or 4.6 percent. The major components of this decrease were operating grants and contributions where education functions saw declines totaling $9.4 billion, primarily from interest and investment income losses. Tax revenues, however, offset some of the loss as there was an increase of $4.3 billion in collections over the prior year. There also was a reclassification from proprietary funds to component unit presentation related to the Teacher Retirement System, as explained further in Note 14, Adjustments to Fund Balances/Net Assets.

The expenses of the state were $97.2 billion, an increase of $6.7 billion or 7.4 percent. The expense fluctuations in governmental activities are largely attributable to the health and human services function and education function, due to increased state funding for local school districts to offset local property tax reductions and increases to the Children's Health Insurance Program. In the business-type activities, colleges and universities expenses were the largest increase. Other proprietary entities showed relatively stable activity levels between the prior and current years.

As a result of revenues exceeding expenses, the state's total net assets increased by $2.1 billion, a decrease of $11.3 billion from the previous year's increase of $13.4 billion. Revenues and expenses of the state's governmental and business-type activities are detailed on the following page.

Further discussion of results for improvement in the state's financial condition follows in the analysis of the state's funds. Economic strength through most of the year, plus legislative changes, brought higher tax revenues and fees. The largest benefactors were education, where teachers received pay raises, and health and human services, where urban and rural hospitals received additional state funding.

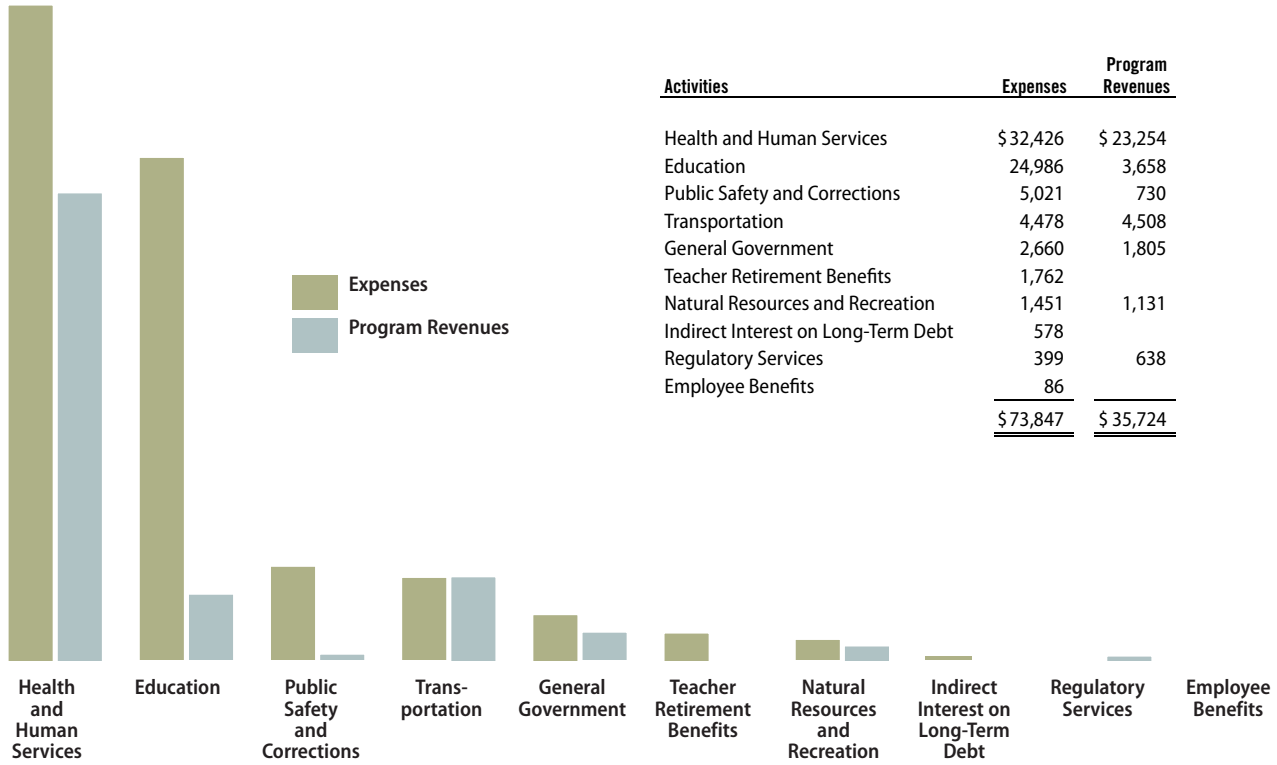
Changes in Net Assets

For the Fiscal Years Ended August 31, 2008 and 2007 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
REVENUES						
Program Revenues:						
Charges for Services	$ 7,239,392	$ 7,485,972	$13,658,706	$14,831,991	$ 20,898,098	$ 22,317,963
Operating Grants and Contributions	25,900,072	29,995,409	4,808,580	9,001,427	30,708,652	38,996,836
Capital Grants and Contributions	2,585,507	1,823,686	245,962	197,731	2,831,469	2,021,417
Total Program Revenues	35,724,971	39,305,067	18,713,248	24,031,149	54,438,219	63,336,216
General Revenues:						
Taxes	41,419,231	37,071,589			41,419,231	37,071,589
Unrestricted Investment Earnings	1,041,840	941,938	190,974	245,977	1,232,814	1,187,915
Settlement of Claims	555,476	538,836	6	283	555,482	539,119
Gain on Sale of Capital Assets		3,942	270	13,363	270	17,305
Other General Revenues	1,392,565	1,627,330	270,786	266,722	1,663,351	1,894,052
Total General Revenues	44,409,112	40,183,635	462,036	526,345	44,871,148	40,709,980
Total Revenues	80,134,083	79,488,702	19,175,284	24,557,494	99,309,367	104,046,196
EXPENSES						
General Government	2,659,822	2,555,309	177,012	186,628	2,836,834	2,741,937
Education	24,986,076	21,313,526	18,619,716	17,165,602	43,605,792	38,479,128
Employee Benefits	86,195	61,171			86,195	61,171
Teacher Retirement Benefits	1,761,759	2,017,000		909,845	1,761,759	2,926,845
Health and Human Services	32,426,046	30,886,484	1,467,185	1,204,609	33,893,231	32,091,093
Public Safety and Corrections	5,020,897	5,035,761	80,607	75,305	5,101,504	5,111,066
Transportation	4,478,109	4,252,129	164,280	125,910	4,642,389	4,378,039
Natural Resources and Recreation	1,451,450	1,217,201	247,018	283,653	1,698,468	1,500,854
Regulatory Services	398,885	314,266			398,885	314,266
Indirect Interest on Long-Term Debt	578,059	229,354			578,059	229,354
Lottery			2,634,446	2,691,210	2,634,446	2,691,210
Total Expenses	73,847,298	67,882,201	23,390,264	22,642,762	97,237,562	90,524,963
Excess (Deficiency) Before Contributions, Special Items and Transfers	6,286,785	11,606,501	(4,214,980)	1,914,732	2,071,805	13,521,233
Capital Contributions	8,653	309		1,364	8,653	1,673
Contributions to Permanent and Term Endowments			167,692	184,193	167,692	184,193
Special Items			(150,026)	(318,813)	(150,026)	(318,813)
Transfers	(3,909,529)	(3,383,910)	3,909,529	3,383,910		
Change in Net Assets	2,385,909	8,222,900	(287,785)	5,165,386	2,098,124	13,388,286
Net Assets, Beginning Balance	98,350,104	90,162,159	42,898,608	37,739,272	141,248,712	127,901,431
Restatements	(64,825)	(34,955)	(458,515)	(6,050)	(523,340)	(41,005)
Net Assets, Beginning Balance, as Restated	98,285,279	90,127,204	42,440,093	37,733,222	140,725,372	127,860,426
Net Assets, Ending Balance	$100,671,188	$98,350,104	$42,152,308	$42,898,608	$142,823,496	$141,248,712

Expenses and Program Revenues: Governmental Activities

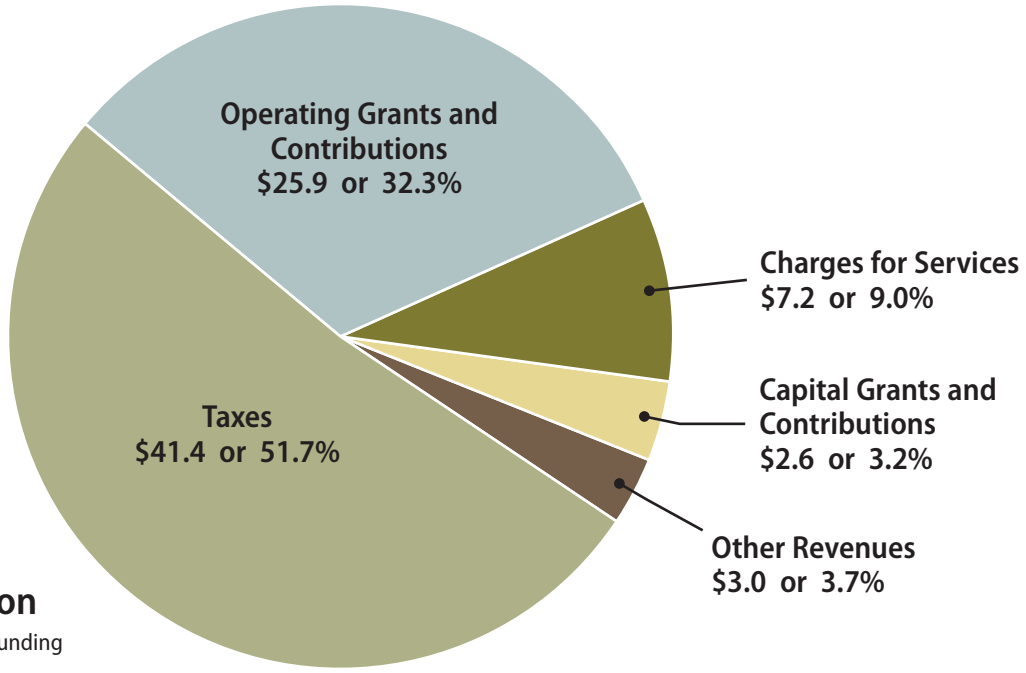
For the Fiscal Year Ended August 31, 2008 (In Millions)



Activities	Expenses	Program Revenues
Health and Human Services	$ 32,426	$ 23,254
Education	24,986	3,658
Public Safety and Corrections	5,021	730
Transportation	4,478	4,508
General Government	2,660	1,805
Teacher Retirement Benefits	1,762	
Natural Resources and Recreation	1,451	1,131
Indirect Interest on Long-Term Debt	578	
Regulatory Services	399	638
Employee Benefits	86	
	$ 73,847	$ 35,724

Revenue by Source: Governmental Activities

For the Fiscal Year Ended August 31, 2008 (In Billions)*

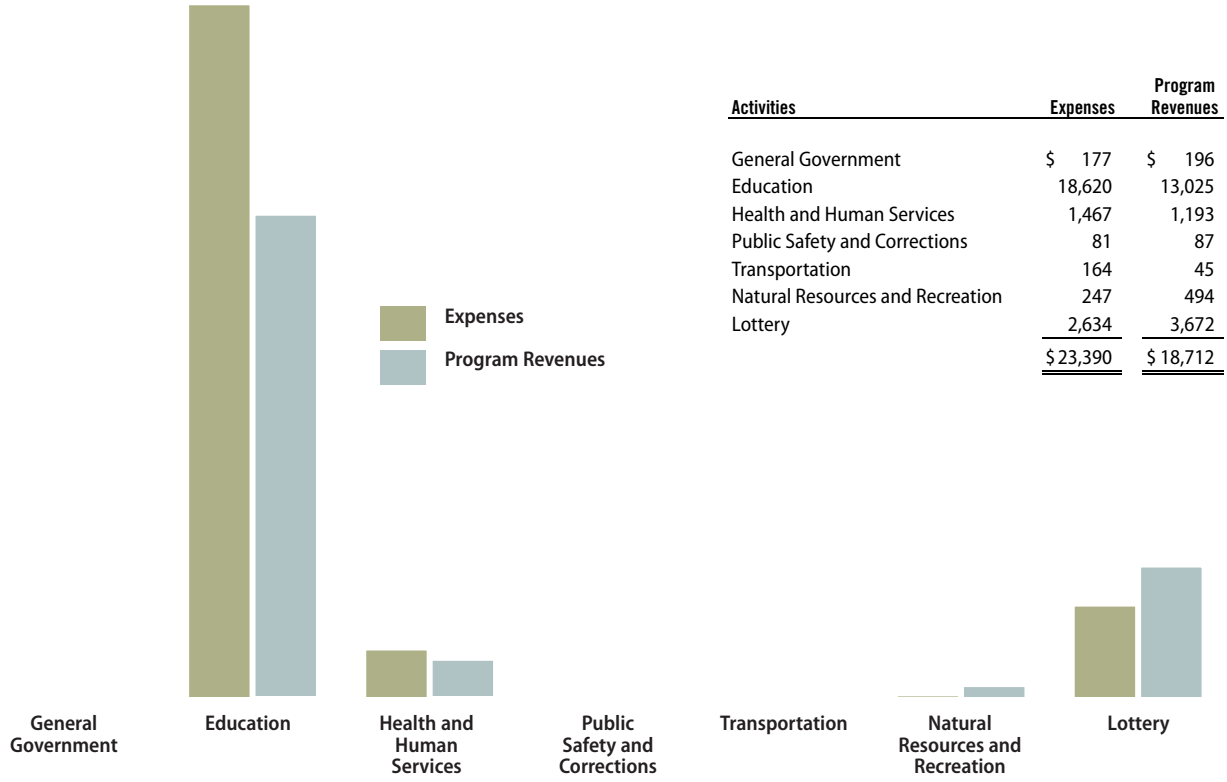


Total = $80.1 Billion

* Totals may not add due to rounding

Expenses and Program Revenues: Business-Type Activities

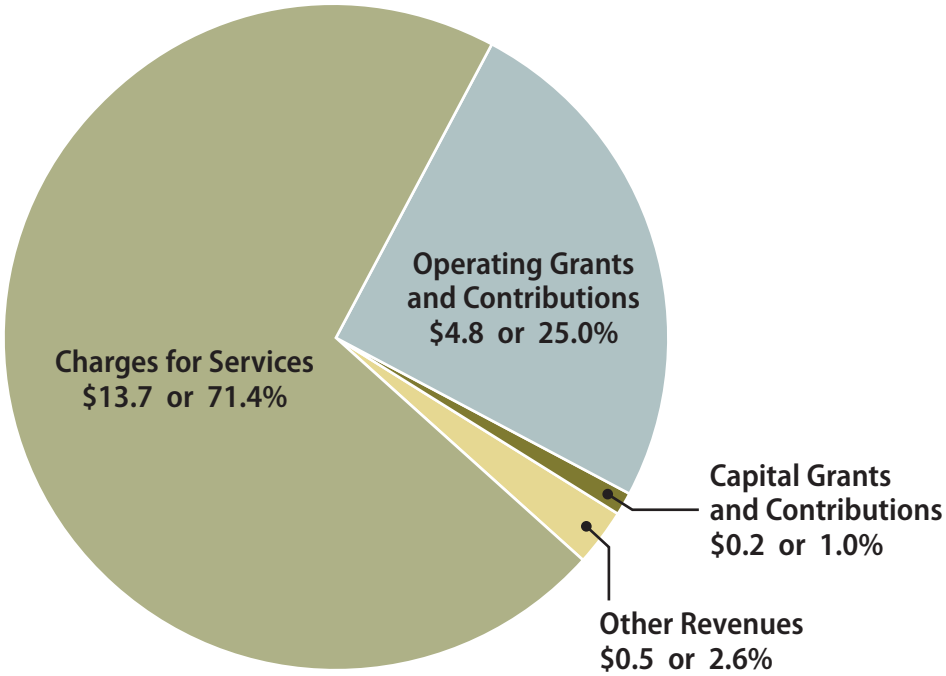
For the Fiscal Year Ended August 31, 2008 (In Millions)



Activities	Expenses	Program Revenues
General Government	$ 177	$ 196
Education	18,620	13,025
Health and Human Services	1,467	1,193
Public Safety and Corrections	81	87
Transportation	164	45
Natural Resources and Recreation	247	494
Lottery	2,634	3,672
	$ 23,390	$ 18,712

Revenue by Source: Business-Type Activities

For the Fiscal Year Ended August 31, 2008 (In Billions)*



Total = $19.2 Billion

* Totals may not add due to rounding

Governmental Activities

The governmental activities program revenue is $35.7 billion, including charges for services of $7.2 billion, operating grants and contributions of $25.9 billion and $2.6 billion reported in capital grants and contributions. The largest decrease, $4.1 billion, was for charges for operating grants and services, which includes losses in interest and investment income. The largest changes in general revenue sources were attributable to taxes where there were increases in revenues from sales taxes, franchise taxes and oil and natural gas production taxes.

Governmental activities expenses were $73.8 billion. All functions of governmental activities in the government-wide statement of activities have a net cost, except transportation and regulatory services functions that report slight surpluses. Education and health and human services functions together account for 77.7 percent of governmental activities expenses and $30.5 billion of the net cost. The tax collections of the state provide the primary source of funding, which added to program revenues, support payment for the governmental services.

Net Cost (Income) of the State's Governmental Activities

For the Fiscal Year Ended August 31, 2008
(Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	$ 2,659,822	$ 854,512
Education	24,986,076	21,328,046
Employee Benefits	86,195	86,088
Teacher Retirement Benefits	1,761,759	1,761,759
Health and Human Services	32,426,046	9,171,731
Public Safety and Corrections	5,020,897	4,290,869
Transportation	4,478,109	(29,472)
Natural Resources and Recreation	1,451,450	320,166
Regulatory Services	398,885	(239,431)
Indirect Interest on Long-Term Debt	578,059	578,059
Total	$73,847,298	$38,122,327

Net Cost (Income) of the State's Business-Type Activities

For the Fiscal Year Ended August 31, 2008
(Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	$ 177,012	$ (19,271)
Education	18,619,716	5,595,092
Health and Human Services	1,467,185	273,886
Public Safety and Corrections	80,607	(6,758)
Transportation	164,280	119,389
Natural Resources and Recreation	247,018	(247,336)
Lottery	2,634,446	(1,037,986)
Total	$23,390,264	$ 4,677,016

Business-Type Activities

Business-type activities generated program revenue of $18.7 billion, including charges for services of $13.7 billion, operating grants and contributions of $4.8 billion and $246 million reported in capital grants and contributions. The total expenses for business-type activities were $23.4 billion. There was a total net loss from the government's business-type activities of $287.8 million in comparison to the prior year's net gain of $5.2 billion. The largest change occurred in the college and university sector, which encountered interest and investment losses. The net cost for the education function accordingly increased $5.1 billion over the prior year.

Financial Analysis of the State's Funds

Governmental Funds

As of Aug. 31, 2008, governmental funds reported fund balances of $44 billion. Of this total amount, $13.6 billion constitutes unreserved fund balances and $30.4 billion reserved fund balance. The general fund reported a positive $8.2 billion unreserved balance.

General Fund

The fund balance for the general fund as of Aug. 31, 2008, was $10.7 billion, a decrease of $181.2 million from the $10.8 billion balance in fiscal 2007. As discussed in Budgetary Highlights, an increase in tax collections of $3.4 billion was largely attributable to sales, oil and natural gas and franchise taxes. Expenditures related to education and

health care showed increases of $4 billion and $1.5 billion, respectively.

The increase in education expenditures was principally due to property tax relief and corresponding increases in state funding allowing for increased payments to local school districts.

State Highway Fund

The fund balance for the state highway fund as of Aug. 31, 2008, was $778.5 million, an increase of $766.3 million from $12.2 million as of Aug. 31, 2007. An increase of $777.2 million in federal revenues from $2 billion in federal revenues over the prior year was the largest factor for this increase. Cash equivalents and deferred revenues increased significantly as $3.2 billion was received from both public and private sources for the 'right' to build and operate toll roads for a specified period of time. These concession revenues will be amortized over the lives of the separate agreements.

Permanent School Fund

The fund balance for the permanent school fund (PSF) as of Aug. 31, 2008, totaled $25.2 billion, a decrease of $1.5 billion, or 5.8 percent, since Aug. 31, 2007. This decrease was primarily attributable to the decrease in the fair value of investments, consistent with the decrease in value of the markets in which investments were made. Value in the fund provided $716.5 million in transfers to provide funding for public education. A second way the PSF supports the state's public school system is through a Bond Guarantee Program, where the PSF is pledged to guarantee bonds issued by Texas school districts, enhancing their credit rating. As of Aug. 31, 2008, $49.9 billion in school district bond issues were guaranteed. The capacity to guarantee bonds is limited by both Internal Revenue Service ruling and state law to two and a half times the cost or market value of the fund, whichever is lower.

Proprietary Funds

Proprietary funds reported net assets of $42.2 billion as of Aug. 31, 2008, a decrease of $746.3 million from fiscal 2007. Colleges and universities, Texas Water Development Board funds and the Texas Department of Transportation Turnpike Authority are discussed separately. In addition, the Texas Workforce Commission unemployment trust fund accounts realized a net asset decrease of $235.1 million as unemployment taxes dropped $607.1 million and benefit payments increased $283.4 million over the prior year.

As explained in Note 14 there has been a change in the reporting of the Teacher Retirement System of Texas, which has been moved and is now being reported as a discrete component unit.

Colleges and Universities

Colleges and universities' net assets as of Aug. 31, 2008, totaled $36.5 billion, a decrease of $313.5 million from Aug. 31, 2007. There was a decline in investment holdings of $1.4 billion as financial and credit conditions weakened. In addition, there were increases in operating expenses of $1.8 billion, as well as interest and investment losses of $4.2 billion.

Texas Water Development Board Funds

The Texas Water Development Board funds net assets totaled $2.3 billion as of Aug. 31, 2008, an increase of $216.7 million from $2.1 billion as of Aug. 31, 2007. During fiscal 2008, federal revenues of $154.6 million and investment income of $176.5 million accounted for virtually all of the additions to the funds. The increase in net assets is the result of an increased number of underlying loans in clean water and drinking water state revolving fund programs, which are provided through federal capitalization grants and for the clean water program only, revenue bond proceeds. Funds are primarily used to provide financial assistance to political subdivisions for water development, water quality enhancement and flood control projects.

Texas Department of Transportation Turnpike Authority

Net assets for the Texas Department of Transportation Turnpike Authority totaled $757.4 million as of Aug. 31, 2008, a decrease of $48 million from Aug. 31, 2007,

largely due to increases in operating expenses. The largest portion of the Turnpike Authority's total assets, $2.6 billion or 82.1 percent, consists of completed highway projects or those under construction.

Fiduciary Funds

Fiduciary funds reported $148.1 billion in net assets as of Aug. 31, 2008, a decrease of $8.9 billion from $157 billion in fiscal 2007.

Pension and Other Employee Benefit Trust Funds

Total net assets for pension and other employee benefit trust funds were $127.7 billion, a decrease of $9.6 billion from the $137.3 billion reported in fiscal 2007. The majority of plan assets are held as investments for the pension funds. The overall financial condition of the pension fund retirement plans declined during fiscal 2008. Although interest and investment losses in the volatile market were offset by increased member, state and employer contributions, there were increases in benefit payments by $793.8 million. The return for investments for the state's two largest pension systems, the Teacher Retirement System of Texas and the Employees Retirement System of Texas, was a negative 4.5 percent and a negative 4.6 percent, respectively, compared to the previous year's return percents of 14.4 and 13.9 percent.

External Investment Trust Fund

The external investment trust fund reported total net assets of $17.4 billion in fiscal 2008, an increase of $922.1 million from the $16.5 billion reported in fiscal 2007. The increase is due to increased client participation. This offset declines in interest and investment income from lower market yields. The Texas Government Investment Pool Trust Fund is the only external investment trust fund.

Private-Purpose Trust Funds

Total net assets for private-purpose trust funds were $3 billion in fiscal 2008, a decrease of $235.9 million or 7.2 percent from fiscal 2007. Decreases to net assets were due to a combination of factors including lower rates of return on investments, as well as decreases to average monthly asset balances on which interest earnings were made.

Budgetary Highlights

Variances for the General Fund

The differences from original and final revenue budgets are due to both economic and legislative reasons. Actual results for revenues produced an additional $453.8 million above the final budget number. The most positive revenue variance occurred with tax revenues, showing a $1.7 billion difference, actual over budget. Due to economic strength for most of the year the state was able to show overall growth in tax collections. There were increases in all tax categories except for a slight decrease in motor fuels taxes. However, sales tax, franchise tax and oil and natural gas production taxes all reported increases over $1.3 billion above the prior year.

Expenditure variances by function were also positive after year-end. Revisions were made to original budget amounts increasing expenditures in major functions for education, health and human services and public safety and corrections. Legislative action increased the state's share of funding for local school districts, primarily due to property tax reductions for the districts. Increases for health and human services are due to increases in caseloads (number of clients) and costs, as well as rate restorations and increases in Medicaid and the Children's Health Insurance Program.

Capital Assets – Net of Depreciation

August 31, 2008 and 2007 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Land and Land Improvements	$ 7,821,911	$ 7,278,244	$ 1,433,552	$ 1,274,455	$ 9,255,463	$ 8,552,699
Infrastructure	51,421,225	48,397,641	2,319,281	1,900,120	53,740,506	50,297,761
Construction in Progress	4,654,259	4,623,788	1,950,376	2,041,057	6,604,635	6,664,845
Buildings and Building Improvements	2,457,155	2,542,910	9,467,729	8,545,156	11,924,884	11,088,066
Facilities and Other Improvements	84,138	84,117	650,362	613,234	734,500	697,351
Furniture and Equipment	239,353	255,122	1,347,891	1,251,007	1,587,244	1,506,129
Vehicles, Boats and Aircraft	415,266	389,098	65,306	50,029	480,572	439,127
Other Capital Assets	233,581	231,806	807,078	807,603	1,040,659	1,039,409
Total Capital Assets	$67,326,888	$63,802,726	$18,041,575	$16,482,661	$85,368,463	$80,285,387

Capital Assets and Debt Administration

Capital Assets

As of Aug. 31, 2008, the state had $85.4 billion in net capital assets, of which $53.7 billion was infrastructure, primarily highway construction projects. This total represents an increase of $5.1 billion in net capital assets or 6.3 percent from fiscal 2007. The state's capital assets include land and land improvements, infrastructure, construction in progress, buildings and building improvements, facilities and other improvements, furniture and equipment, vehicles, boats and aircraft and other capital assets. Details of capital assets are shown in Note 2.

Infrastructure Assets

The value of the state's infrastructure assets is included in the governmental activities column of the government-wide statements.

The state accounts for its system of roads and highways using the modified approach allowed by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Texas Department of Transportation (TxDOT) has developed a system of management, the Texas Maintenance Assessment Program (TxMAP), which is designed to maintain the service delivery potential of the state's roads and highways to near perpetuity.

The state's policy is to maintain its interstate highways at a condition level of 80 percent, its non-interstate highways (farm-to-market and other road systems) at a condition level of 75 percent and 80 percent for the Central Texas Turnpike System. The condition assessment results for fiscal 2008 reflect condition levels of 83.7 percent (84.1 percent in fiscal 2007) for the interstate system, 79 percent (79.5 percent for fiscal 2007) for the non-interstate system and 91.7 percent for the Central Texas Turnpike System (fiscal 2008 is first year of assessment).

In fiscal 2008, the estimated maintenance expenditures that will be required to maintain the highway system at or above the adopted condition levels for interstate highways were $502.1 million, $2.5 billion for the Non-Interstate system and $6.9 million for the Central Texas Turnpike System. Actual expenditures were $438.2 million for the Interstate system, $1.6 billion for the Non-Interstate system and $5.4 million for the Central Texas Turnpike System. Additional information on the state's road and highway infrastructure is presented in the financial section's required supplementary information other than MD&A.

Debt Administration

The state of Texas issues both general obligation bonds and revenue bonds. Each series of revenue bonds is backed by the pledged revenue source and restricted funds specified in the bond resolution. Most revenue bonds are designed to be self-supporting from a primary revenue source related to the program financed.

Outstanding Bonded Debt

August 31, 2008 and 2007 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds Payable	$ 8,060,709	$ 6,756,893	$ 2,707,763	$ 2,775,467	$10,768,472	$ 9,532,360
Revenue Bonds Payable	3,444,984	2,030,739	13,369,971	12,304,358	16,814,955	14,335,097
Total Bonds Payable	$11,505,693	$ 8,787,632	$16,077,734	$15,079,825	$27,583,427	$23,867,457

The state's general obligation bond issues are rated Aa1 by Moody's Investors Service, AA by Standard & Poor's Corporation and AA+ by Fitch as of August 2008. During fiscal 2008, Texas' state agencies and universities issued $6.3 billion in state bonds to finance new construction, housing, water conservation and treatment and other projects. General obligation debt accounted for $2.3 billion of state bonds issued in fiscal 2008. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining $4 billion is due to new issuances of revenue bonds, which are serviced by the revenue flows of individual entity projects. Bonds retired during the year were composed of $413.3 million in general obligation bonds and $690.5 million in revenue bonds. Also, $665.4 million in general obligation bonds and $791.8 million in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements and refundings as of Aug. 31, 2008, was $10.8 billion. This represents an increase of $1.2 billion or 13 percent from fiscal 2007. An additional $8.1 billion of general obligation bonds have been authorized but have not been issued. Total revenue bonds outstanding were $16.8 billion, which is an increase of $2.5 billion or 17.3 percent from fiscal 2007.

There was a $1.2 billion net increase in general obligation bonds and $1.9 billion net increase in revenue bonds for financing of highway projects. Other large revenue bond issuances were for water quality projects and for university campus improvements. Note 5 shows the details on the state's long-term liabilities and Note 6 provides detail information on the state's bond indebtedness.

Cash Management

Funds deposited in the state Treasury are pooled for investment purposes. The Treasury is authorized to invest in fully collateralized time deposits, obligations of the United States, obligations of various federal credit organizations, direct security repurchase agreements, reverse repurchase agreements, bankers' acceptances, commercial paper and contracts written by the Comptroller which are commonly known as covered call options.

During fiscal 2008, the average investment portfolio consisted of the following.

Average Investment Portfolio*

For the Fiscal Year Ended August 31, 2008

Investment Type	Percent of Total	Average Amount Invested (Amounts in Millions)	Average Interest Rate
NOW Accounts	0.1 %	$ 28.8	1.00 %
Time Deposits	0.1	14.9	2.92
BidTX	2.3	579.9	4.07
Repurchase Agreements	7.8	1,924.9	3.50
U.S. Treasury and Agency Securities	46.6	11,553.1	3.89
U.S. Mortgages	13.8	3,430.8	5.56
U.S. Treasury (Lottery)	2.6	637.9	**
Commercial Paper	10.6	2,638.0	3.68
Corporate Obligations	2.7	669.9	4.16
Asset Backed Securities	4.0	1,005.1	4.40
Mutual Funds	9.9	2,455.6	3.66
Subtotal	100.5	24,938.9	
Reverse Repurchase Agreements	(0.5)	(120.3)	2.94
Total	100.0 %	$24,818.6	4.08 %

* The above numbers include all funds included in the state Treasury.

** The yield for the lottery is not included in the average yield for the state since the investments are long-term and are held for lottery prize winners.

Economic Condition and Outlook

Texas added more jobs than any other state in 2008, adding nearly 13 times more jobs than the second ranked state, Oklahoma. Completing its fifth consecutive year of employment growth, Texas nonfarm employment added 221,000 jobs from November 2007 to November 2008. The state's economy was largely insulated from the nation's housing-induced slowdown, as average housing prices in Texas continued to increase. Although the number of Texas workers increased, available jobs increased less rapidly than the state's labor force, causing the state's unemployment rate to climb from 4.2 to 5.7 percent in November 2008. Texas' unemployment rate was a full 1 percent below the nation's unemployment rate of 6.7 percent.

Texas' real gross domestic product in 2008 rose by 4.1 percent, when adjusted for inflation, exceeding its average over the past decade. Credit is largely due to the strength of the state's energy industry. Another positive for Texas is its position as the nation's largest exporting state, accounting for one-seventh of total U.S. exports.

Even with the relative strength and continued growth in most industries, the Texas economy experienced a weakening as 2008 came to a close. Underlying the weakness were the weight of a national recession, large losses in stock investments, a stronger dollar and the deflating of the energy industry that had boomed during most of the year. There also was Hurricane Ike, which left widespread destruction in the populous Houston-Galveston region.

The state revenue outlook is guarded and there are many factors that prevent forecasting the same robust revenue growth seen in recent years. Fiscal 2008 finished strong with an ending balance of $6.8 billion in general revenue-related funds after the required constitutional transfers to the Economic Stabilization Fund. On Jan. 12, 2009, the Comptroller released the 2010-11 Biennial Revenue Estimate and the state is expected to have sufficient revenue to support $77.1 billion in general purpose spending for the upcoming biennium. The Comptroller is forecasting a decline in revenues over the next three years as a consequence of the U.S. economic recession and substantial slowdown in the Texas economy. Sales tax, the state's largest source of the tax revenue, is only expected to grow slightly at 0.4 percent in fiscal 2009 and only 2.9 percent for the 2010-2011 biennium. Supporting the lower rate of growth in the revenue estimate, Texas real economic growth for the current biennium is projected to decelerate to a biennial rate of 6 percent—down from the previous period's 8.6 percent growth. Additionally, for the 2010-2011 biennium, this economic growth ticks further downward to a 5.8 percent biennial rate. Fiscal 2009 is expected to be the low point in economic growth at 1.8 percent from the prior year. Fiscal 2010 fares only slightly better with a 1.9 percent annual growth rate. This period of uncertainty in the state's economy is ongoing due to the liquidity crisis in credit markets, weak housing demand and recessionary domestic and export markets. Although economic stimuli and other corrective measures have been implemented at the national level, the current situation is volatile and requires cautious vigilance and prudence.

Reporting Other Postemployment Benefits

This financial report contains information related to the reporting of other postemployment benefits (OPEB), such as health and basic life insurance, offered to retired state employees. These benefits are not contractual and are subject to change each biennium when the Legislature is in session. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. The Legislature meets every two years to appropriate funds necessary for payments for new or renewed obligations.

In response to these concerns, House Bill 2365 was passed during the 80th session of the Texas Legislature. The bill allows state and local governments the option to report OPEB related expenses on a statutory modified accrual basis. The state of Texas contributes to four distinct OPEB plans.

The University of Texas System and Texas A&M University System administer two single-employer defined benefit OPEB plans. Each chose to implement GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, beginning in fiscal 2008. As a result of their implementation of

GASB 45 a $563 million net OPEB obligation is recognized in the statement of net assets. Additionally, a $699 million actuarially calculated annual OPEB cost for these plans is included in the expenses of the statement of activities.

There is not a net OPEB obligation recorded for the State Retiree Health Plan (SRHP) administered by the Employees Retirement System of Texas (ERS). The SRHP is a cost-sharing multiple-employer defined benefit OPEB plan. In a cost-sharing plan, the contribution rate or amount charged to an individual employer may be higher or lower than the amount that would result from a calculation based on the projected benefits of only that employer's employees.

Also, the obligation or commitment for benefits is not directly attributable to any individual participating employer. Because of these factors, the OPEB expense/liability recognition requirements for cost-sharing plans are different than those of single employer plans. Specifically, Paragraph 23 of GASB 45 requires employers that participate in cost-sharing plans to "recognize annual OPEB expense/expenditures for their contractually required contributions to the plan in fund financial statements on the accrual basis or on the modified accrual basis, whichever applies for the fund(s) used to report the employer's contributions..."

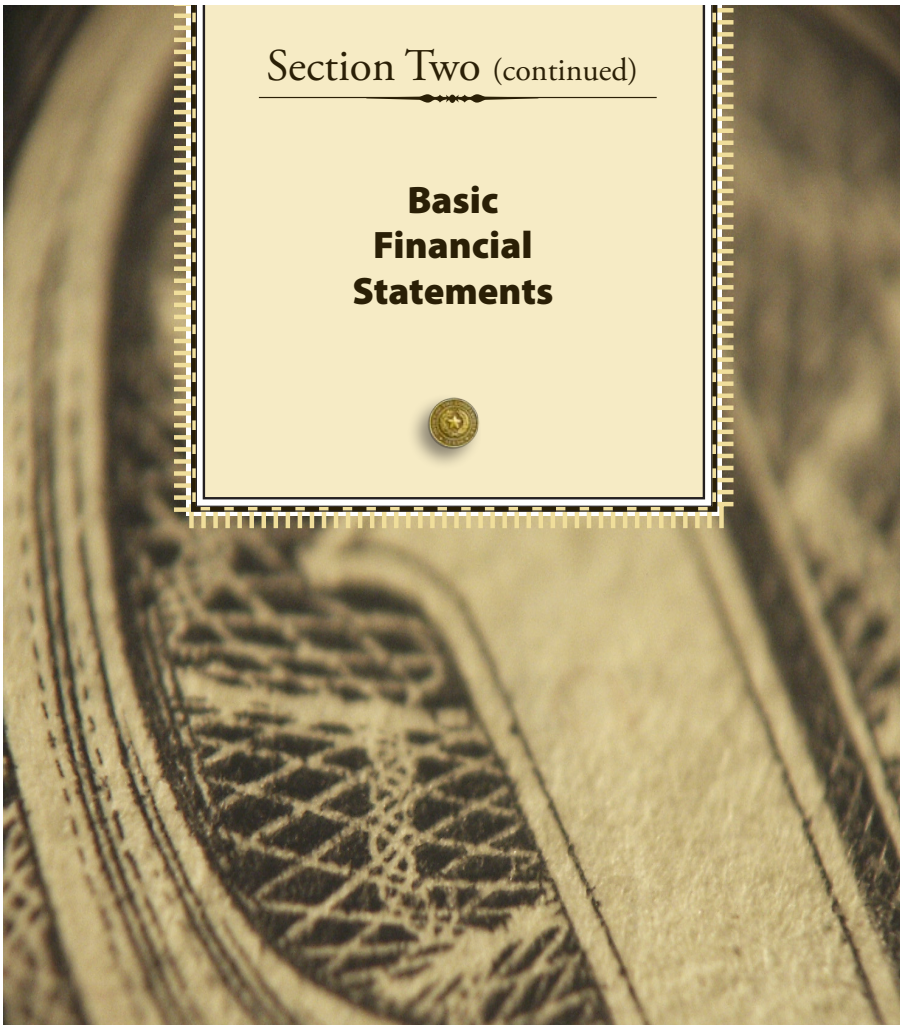
Administrators of the SRHP established contractually required contributions equal to the modified accrual based pay-as-you-go costs. The state of Texas fiscal 2008 contributions to the SRHP equaled this contractually required amount.

There is not a net OPEB obligation recorded for the Texas Public School Retired Employees Group Insurance Program (TRS-Care). TRS-Care is a cost-sharing multiple-employer defined benefit plan but the state of Texas is not an employer in the plan. Therefore, the state is not charged with funding a contractually required contribution. Instead, the state makes on-behalf payments to the TRS-Care plan administrators to partially fund the annual costs of the plan.

The financial statements, notes and required supplementary information contained in this report were prepared in full conformity to the requirements contained in GASB 45.

Contacting the State's Financial Management

This financial report is designed to provide the state's citizens, taxpayers, customers, investors and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Reporting section of the Texas Comptroller of Public Accounts at 111 E. 17th Street, Austin, Texas 78774.



Section Two (continued)

Basic Financial Statements

STATE OF TEXAS

Statement of Net Assets

August 31, 2008 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities*	Total	Component Units
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 30,143,109	$ 3,901,063	$ 34,044,172	$ 673,752
Short-Term Investments	716,121	1,112,234	1,828,355	856,179
Securities Lending Collateral	3,520,567	1,566,650	5,087,217	
Receivables:				
Taxes (Note 24)	3,292,262		3,292,262	
Federal	1,868,182	439,895	2,308,077	57,972
Other Intergovernmental	1,023,583	63,732	1,087,315	3,290
Accounts	839,028	625,517	1,464,545	57,865
Interest and Dividends	157,503	150,404	307,907	8,757
Gifts		118,373	118,373	
Investment Trades	5,073	344,991	350,064	
Other	52,959	1,163,010	1,215,969	161
From Fiduciary Funds	1,122		1,122	
Due From Primary Government (Note 12)				426
Due From Component Units (Note 12)	395	18	413	
Inventories	278,106	128,403	406,509	851
Prepaid Items	7,872	111,467	119,339	1,162
Loans and Contracts	110,451	282,626	393,077	9,776
Other Current Assets	32	259,974	260,006	1,519
Restricted:				
Cash and Cash Equivalents	327,145	3,088,771	3,415,916	2,742
Short-Term Investments		711,731	711,731	19,210
Loans and Contracts	60,293	83,197	143,490	111
Total Current Assets	42,403,803	14,152,056	56,555,859	1,693,773
Noncurrent Assets:				
Internal Balances (Note 12)	10,406	(10,406)		
Loans and Contracts	565,411	3,499,514	4,064,925	74,295
Investments	25,748,004	6,338,806	32,086,810	12,768
Receivables:				
Taxes (Note 24)	424,525		424,525	
Federal	14,756		14,756	
Gifts		260,555	260,555	
Other	95,155		95,155	4,214
Restricted:				
Cash and Cash Equivalents		110,463	110,463	191
Short-Term Investments		45,548	45,548	
Investments		27,282,706	27,282,706	271,063
Receivables	293	136,702	136,995	
Loans and Contracts	713,125	3,399,864	4,112,989	4,200
Other	86,996	10,773	97,769	
Assets Held in Trust		1,368	1,368	
Net Pension Asset (Note 9)	6,928		6,928	
Deferred Charges	19,770		19,770	
Other Noncurrent Assets	18,591	96,403	114,994	6,005
Capital Assets: (Note 2)				
Nondepreciable	56,835,558	5,318,648	62,154,206	6,025
Depreciable	24,402,979	24,212,174	48,615,153	97,847
Accumulated Depreciation	(13,911,649)	(11,489,247)	(25,400,896)	(49,680)
Total Noncurrent Assets	95,030,848	59,213,871	154,244,719	426,928
Total Assets	137,434,651	73,365,927	210,800,578	2,120,701

Concluded on the following page

STATE OF TEXAS

Statement of Net Assets (concluded)

August 31, 2008 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities*	Total	Component Units
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	$ 4,442,151	$ 1,162,385	$ 5,604,536	$ 136,919
Payroll	595,757	582,940	1,178,697	226
Other Intergovernmental	1,946,082	10,194	1,956,276	
Federal	4,690	30,762	35,452	24,449
Investment Trades	50,473	1,186,726	1,237,199	
Interest	355,235	62,378	417,613	1,861
Annuities		12,174	12,174	
To Fiduciary Funds	209,627	31	209,658	
Internal Balances (Note 12)	631,164	(631,164)		
Due To Primary Government (Note 12)				413
Due To Component Units (Note 12)	426		426	
Unearned Revenue	3,959,095	2,314,190	6,273,285	59,294
Obligations/Reverse Repurchase Agreement	146,784		146,784	
Obligations/Securities Lending	3,545,602	1,567,697	5,113,299	
Short-Term Debt (Note 4)	6,590,750		6,590,750	
Claims and Judgments (Note 5)	61,242	95,634	156,876	
Capital Lease Obligations (Note 5, 7)	1,562	2,667	4,229	93
Employees' Compensable Leave (Note 5)	435,943	316,050	751,993	3,429
Notes and Loans Payable (Note 5)	27,261	1,393,081	1,420,342	38,344
General Obligation Bonds Payable (Note 5, 6)	388,575	114,340	502,915	
Revenue Bonds Payable (Note 5, 6)	162,853	1,487,144	1,649,997	16,858
Liabilities Payable From Restricted Assets (Note 5)		498,002	498,002	
Funds Held for Others		107,024	107,024	25
Other Current Liabilities	1,058,506	471,621	1,530,127	16,957
Total Current Liabilities	24,613,778	10,783,876	35,397,654	298,868
Noncurrent Liabilities:				
Claims and Judgments (Note 5)	124,939	59,157	184,096	
Capital Lease Obligations (Note 5, 7)	8,060	11,626	19,686	72
Employees' Compensable Leave (Note 5)	313,056	302,645	615,701	1,570
Notes and Loans Payable (Note 5)	312,329	1,044,186	1,356,515	103,314
General Obligation Bonds Payable (Note 5, 6)	7,672,134	2,593,423	10,265,557	
Revenue Bonds Payable (Note 5, 6)	3,282,131	11,882,827	15,164,958	396,176
Liabilities Payable From Restricted Assets (Note 5)		2,974,854	2,974,854	87,301
Assets Held for Others		722,040	722,040	
Net Pension Obligation (Note 9)	437,036		437,036	
Net OPEB Obligation (Note 11)		562,987	562,987	
Other Noncurrent Liabilities		275,998	275,998	274,383
Total Noncurrent Liabilities	12,149,685	20,429,743	32,579,428	862,816
Total Liabilities	36,763,463	31,213,619	67,977,082	1,161,684
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	58,207,920	7,384,503	65,592,423	34,325
Restricted for:				
Education	711,346	2,181,416	2,892,762	4,651
Debt Service	189,203	212,795	401,998	
Capital Projects	174,143	230,725	404,868	
Veterans Land Board Housing Programs		669,684	669,684	
Unemployment Trust Funds		1,788,436	1,788,436	
Economic Stabilization	4,367,915		4,367,915	
Funds Held as Permanent Investments:				
Nonexpendable	10,303,017	10,981,925	21,284,942	
Expendable	14,924,168	8,803,650	23,727,818	
Other	688,379	14,350	702,729	
Unrestricted	11,105,097	9,884,824	20,989,921	920,041
Total Net Assets	$100,671,188	$42,152,308	$142,823,496	$ 959,017

The accompanying notes to the financial statements are an integral part of this statement.

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

STATE OF TEXAS

Statement of Activities

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	$ 2,659,822	$ 1,171,997	$ 633,091	$ 222
Education	24,986,076	821,291	2,836,739	
Employee Benefits	86,195	107		
Teacher Retirement Benefits	1,761,759			
Health and Human Services	32,426,046	1,832,315	21,421,963	37
Public Safety and Corrections	5,020,897	331,101	398,927	
Transportation	4,478,109	1,785,835	136,498	2,585,248
Natural Resources and Recreation	1,451,450	661,657	469,627	
Regulatory Services	398,885	635,089	3,227	
Indirect Interest on Long-Term Debt	578,059			
Total Governmental Activities	73,847,298	7,239,392	25,900,072	2,585,507
Business-Type Activities:				
General Government	177,012	43,106	153,177	
Education*	18,619,716	8,705,756	4,068,805	250,063
Health and Human Services	1,467,185	1,058,134	135,165	
Public Safety and Corrections	80,607	87,365		
Transportation	164,280	48,958	34	(4,101)
Natural Resources and Recreation	247,018	42,964	451,390	
Lottery	2,634,446	3,672,423	9	
Total Business-Type Activities	23,390,264	13,658,706	4,808,580	245,962
Total Primary Government	$97,237,562	$20,898,098	$30,708,652	$2,831,469
COMPONENT UNITS				
Component Units	$ 1,772,502	$ 1,431,137	$ 290,954	$
Total Component Units	$ 1,772,502	$ 1,431,137	$ 290,954	$ 0

General Revenues
Taxes:
Sales and Use
Motor Vehicle and Manufactured Housing
Motor Fuels
Franchise
Oil and Natural Gas Production
Insurance Occupation
Cigarette and Tobacco
Other
Unrestricted Investment Earnings
Settlement of Claims
Gain on Sale of Capital Assets
Other General Revenues
Capital Contributions
Contributions to Permanent and Term Endowments
Special Items (Note 23)
Transfers - Internal Activities (Note 12)
Total General Revenues, Contributions and Transfers
Change in Net Assets
Net Assets, September 1, 2007
Restatements (Note 14)
Net Assets, September 1, 2007, as Restated
Net Assets, August 31, 2008

The accompanying notes to the financial statements are an integral part of this statement.

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (854,512)	$	$ (854,512)	$
(21,328,046)		(21,328,046)	
(86,088)		(86,088)	
(1,761,759)		(1,761,759)	
(9,171,731)		(9,171,731)	
(4,290,869)		(4,290,869)	
29,472		29,472	
(320,166)		(320,166)	
239,431		239,431	
(578,059)		(578,059)	
(38,122,327)	0	(38,122,327)	0
	19,271	19,271	
	(5,595,092)	(5,595,092)	
	(273,886)	(273,886)	
	6,758	6,758	
	(119,389)	(119,389)	
	247,336	247,336	
	1,037,986	1,037,986	
0	(4,677,016)	(4,677,016)	0
(38,122,327)	(4,677,016)	(42,799,343)	0
			(50,411)
0	0	0	(50,411)
21,640,855		21,640,855	
3,384,597		3,384,597	
3,000,148		3,000,148	
4,712,183		4,712,183	
4,036,033		4,036,033	
1,446,828		1,446,828	
1,454,187		1,454,187	
1,744,400		1,744,400	
1,041,840	190,974	1,232,814	36,034
555,476	6	555,482	
	270	270	812
1,392,565	270,786	1,663,351	20,282
8,653		8,653	
	167,692	167,692	
	(150,026)	(150,026)	
(3,909,529)	3,909,529		
40,508,236	4,389,231	44,897,467	57,128
2,385,909	(287,785)	2,098,124	6,717
98,350,104	42,898,608	141,248,712	516,547
(64,825)	(458,515)	(523,340)	435,753
98,285,279	42,440,093	140,725,372	952,300
$100,671,188	$42,152,308	$142,823,496	$959,017

STATE OF TEXAS

Balance Sheet – Governmental Funds

August 31, 2008 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Cash and Cash Equivalents	$19,614,319	$ 4,623,950	$ 834,243	$ 5,047,422	$30,119,934
Short-Term Investments	148,461		86,376	88,046	322,883
Securities Lending Collateral	201		3,433,544	16,808	3,450,553
Receivables:					
Accounts	566,114	26,624	144,974	5,116	742,828
Taxes (Note 24)	3,716,787				3,716,787
Federal	1,600,163	281,251		1,524	1,882,938
Investment Trades	3		4,354	596	4,953
Other Intergovernmental	860,128	163,455			1,023,583
Interest and Dividends	35,384	11,191	92,756	14,574	153,905
Other (Note 1)	148,114				148,114
Due From Other Funds (Note 12)	22,313	269,440	356	83,974	376,083
Due From Component Units (Note 12)	332			63	395
Interfund Receivable (Note 12)	15,560		3		15,563
Inventories	170,836	106,751		519	278,106
Prepaid Items	196		7,667	9	7,872
Investments	8,656		24,213,870	1,117,660	25,340,186
Loans and Contracts	170,746	261,733	1,161	242,222	675,862
Other Assets		10,589		8,034	18,623
Restricted:					
Cash and Cash Equivalents	6,880			320,265	327,145
Receivables	293				293
Loans and Contracts	122,688			650,730	773,418
Other Assets	88			86,908	86,996
Total Assets	$27,208,262	$ 5,754,984	$28,819,304	$ 7,684,470	$69,467,020
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 2,725,368	$ 1,006,137	$ 13,219	$ 235,080	$ 3,979,804
Investment Trades	8		49,219	1,246	50,473
Other Intergovernmental	1,946,082				1,946,082
Payroll	487,344	99,541	1,525	7,347	595,757
Federal	4,650			40	4,690
Interest	68,325		5,869		74,194
Due To Other Funds (Note 12)	1,061,788	4,624	1,713	73,706	1,141,831
Due To Component Units (Note 12)	426				426
Interfund Payable (Note 12)	59			2,524	2,583
Deferred Revenues	2,897,228	3,434,803	62,378	445	6,394,854
Obligations/Reverse Repurchase Agreements	146,784				146,784
Obligations/Securities Lending	201		3,458,196	16,807	3,475,204
Other Liabilities	814,833	240,658		3,016	1,058,507
Short-Term Debt (Note 4)	6,400,000	190,750			6,590,750
Total Liabilities	16,553,096	4,976,513	3,592,119	340,211	25,461,939
Fund Balances/(Deficits):					
Reserved (Note 13)	2,471,181	496,233	25,227,185	2,232,894	30,427,493
Unreserved (Note 13):					
General	8,183,985				8,183,985
Special Revenue		282,238		4,670,769	4,953,007
Capital Projects				(123,683)	(123,683)
Permanent				564,279	564,279
Total Fund Balances	10,655,166	778,471	25,227,185	7,344,259	44,005,081
Total Liabilities and Fund Balances	$27,208,262	$ 5,754,984	$28,819,304	$ 7,684,470	$69,467,020

The accompanying notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Asssets

August 31, 2008 (Amounts in Thousands)

Total Fund Balance – Governmental Funds		$ 44,005,081
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets less accumulated depreciation are included in the statement of net assets (Note 2):		
Capital Assets - Nondepreciable	$ 56,835,558	
Capital Assets - Depreciable	24,402,979	
Accumulated Depreciation	(13,911,649)	
		67,326,888
Some of the state's assets are not current available resources and are not reported in the funds.		
Net Pension Assets (Note 9)	6,928	
Deferred charges for unamortized bond issuance cost	19,770	
		26,698
Some of the state's revenues will be collected after year-end but are not available soon enough to pay current year's expenditures and therefore, are deferred in the funds.		2,436,174
Long-term liabilities applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the statement of net assets. (Note 5 and Note 9)		
Claims and Judgments	(186,181)	
Capital Lease Obligations	(9,622)	
Employees' Compensable Leave	(748,999)	
Notes and Loans Payable	(339,590)	
General Obligation Bonds Payable	(8,060,709)	
Revenue Bonds Payable	(3,444,984)	
Net Pension Obligation	(437,036)	
		(13,227,121) *
* current portion = $1,077,436 and noncurrent portion = $12,149,685.		
Interest payable applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the statement of net assets.		(281,041)
The internal service fund is used by management to charge the costs of employees life, accident and health insurance benefits fund to individual funds. Since governmental activities are the predominant activities of internal service funds, the assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		384,509
Net Assets of Governmental Activities		$100,671,188

STATE OF TEXAS

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	$38,715,847	$ 38,908	$	$ 2,501,610	$41,256,365
Federal	25,879,090	2,750,490		26,635	28,656,215
Licenses, Fees and Permits	2,799,921	1,146,625		574,866	4,521,412
Interest and Other Investment Income	721,787	146,100	(1,307,943)	71,989	(368,067)
Land Income	19,389	5,910	624,498	38	649,835
Settlement of Claims	554,412	923			555,335
Sales of Goods and Services	1,582,483	294,269	163,857	22,742	2,063,351
Other	2,504,791	8,560		76,313	2,589,664
Total Revenues	72,777,720	4,391,785	(519,588)	3,274,193	79,924,110
EXPENDITURES					
Current:					
General Government	2,395,984	12,440		219,900	2,628,324
Education	23,076,592	50,000	310,270	1,539,192	24,976,054
Employee Benefits	1,487			12,640	14,127
Teacher Retirement Benefits	1,780,758				1,780,758
Health and Human Services	32,263,718	10,000		81,559	32,355,277
Public Safety and Corrections	4,134,180	645,929		83,506	4,863,615
Transportation	8,420	3,870,772		16,118	3,895,310
Natural Resources and Recreation	1,355,996			64,315	1,420,311
Regulatory Services	301,502			91,220	392,722
Capital Outlay	137,059	4,159,789	307	106,415	4,403,570
Debt Service:					
Principal	52,317			362,646	414,963
Interest	62,539	37,641		328,271	428,451
Other Financing Fees		6,326		8,513	14,839
Total Expenditures	65,570,552	8,792,897	310,577	2,914,295	77,588,321
Excess (Deficiency) of Revenues Over (Under) Expenditures	7,207,168	(4,401,112)	(830,165)	359,898	2,335,789
OTHER FINANCING SOURCES (USES)					
Transfer In (Note 12)	4,661,664	3,727,027		5,443,058	13,831,749
Transfer Out (Note 12)	(12,057,410)	(88,032)	(716,535)	(4,915,005)	(17,776,982)
Bonds and Notes Issued		1,408,940		1,578,810	2,987,750
Bonds Issued for Refunding				515,408	515,408
Premiums on Bonds Issued		73,051		107,117	180,168
Payment to Escrow for Refunding				(558,623)	(558,623)
Sale of Capital Assets	16,747	5,311			22,058
Increase in Obligations Under Capital Leases	715				715
Insurance Recoveries	2,842	11,685		500	15,027
Total Other Financing Sources (Uses)	(7,375,442)	5,137,982	(716,535)	2,171,265	(782,730)
Net Change in Fund Balances	(168,274)	736,870	(1,546,700)	2,531,163	1,553,059
Fund Balances, September 1, 2007	10,836,321	12,198	26,773,885	4,735,617	42,358,021
Restatements (Note 14)	(12,881)	29,403		77,479	94,001
Fund Balances, September 1, 2007, as Restated	10,823,440	41,601	26,773,885	4,813,096	42,452,022
Fund Balances, August 31, 2008	$10,655,166	$ 778,471	$25,227,185	$ 7,344,259	$44,005,081

The accompanying notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

Net Change in Fund Balances		$ 1,553,059
Governmental funds report capital outlays as expenditures. In the statement of activities, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:		
Capital Outlay	$ 4,403,570	
Depreciation Expense (Note 2)	(839,637)	
		3,563,933
The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net assets.		(22,057)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(1,284,016)
The internal service fund is used by management to charge the costs of the employees life, accident and health insurance benefits fund to individual funds. The adjustments for internal service fund "close" the fund by allocating these amounts to participating governmental activities.		14,596
Bond proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net assets. Repayment of long term debt consumes current financial resources and is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets.		
Bonds and Notes Issued	(3,503,158)	
Premiums (Discounts) on Bonds Proceeds	(180,168)	
Increase in Obligations Under Capital Leases	(715)	
Repayment of Bond and Capital Lease Principal	973,586	
		(2,710,455)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.		1,270,885
Resource flows between fiduciary funds and governmental funds are converted to revenues or expenses on the statement of activities. Transfers of capital assets have not been reported in the governmental funds.		
Capital Asset Transfers	(36)	
Change in Transfers	35,740	
Increase in Revenues	1,754	
Increase in Expenses	(37,494)	
		(36)
Change in Net Assets of Governmental Activities		$ 2,385,909

STATE OF TEXAS

Statement of Net Assets
Proprietary Funds

August 31, 2008 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					
	Colleges and Universities*	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	Governmental Activities – Internal Service Fund**
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 3,431,986	$ 231,466	$	$ 237,611	$ 3,901,063	$ 23,175
Short-Term Investments	385,672	726,562			1,112,234	393,238
Securities Lending Collateral	1,169,640			397,010	1,566,650	70,014
Restricted:						
Cash and Cash Equivalents	507,430		384,933	2,196,408	3,088,771	
Short-Term Investments	308,997		21,122	381,612	711,731	
Loans and Contracts	15			83,182	83,197	
Receivables:						
Federal	426,432	3,070		10,393	439,895	
Other Intergovernmental	63,732				63,732	
Accounts	412,078	381	2,331	210,727	625,517	96,200
Interest and Dividends	55,846	37,848	1,071	55,639	150,404	3,598
Gifts	118,373				118,373	
Investment Trades	295,402			49,589	344,991	120
Other	1,160,160			2,850	1,163,010	
Due From Other Funds (Note 12)	639,396		118	26,663	666,177	729
Due From Component Units (Note 12)	18				18	
Interfund Receivable (Note 12)	14,685			56	14,741	
Inventories	113,407			14,996	128,403	
Prepaid Items	106,636			4,831	111,467	
Loans and Contracts	95,994	131,883		54,749	282,626	
Other Current Assets	259,721			253	259,974	
Total Current Assets	9,565,620	1,131,210	409,575	3,726,569	14,832,974	587,074
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents	102,766		2,213	5,484	110,463	
Short-Term Investments	45,548				45,548	
Investments	22,887,111		115,000	4,280,595	27,282,706	
Receivables	4,876			131,826	136,702	
Loans and Contracts	129,306			3,270,558	3,399,864	
Other	8,374			2,399	10,773	
Loans and Contracts	32,284	3,435,163		32,067	3,499,514	
Investments	6,338,806				6,338,806	407,818
Interfund Receivable (Note 12)	367,945				367,945	
Gifts Receivable	260,555				260,555	
Capital Assets: (Note 2)						
Nondepreciable	3,079,709		2,234,780	4,159	5,318,648	
Depreciable	23,693,435		420,283	98,456	24,212,174	
Accumulated Depreciation	(11,430,582)		(24,088)	(34,577)	(11,489,247)	
Assets Held in Trust	362			1,006	1,368	
Other Noncurrent Assets	38,476		45,357	12,570	96,403	
Total Noncurrent Assets	45,558,971	3,435,163	2,793,545	7,804,543	59,592,222	407,818
Total Assets	55,124,591	4,566,373	3,203,120	11,531,112	74,425,196	994,892

Concluded on the following page

STATE OF TEXAS

Statement of Net Assets
Proprietary Funds (concluded)

August 31, 2008 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					
	Colleges and Universities*	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	Governmental Activities – Internal Service Fund**
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	$ 1,074,902	$ 573	$ 10,859	$ 76,051	$ 1,162,385	$ 462,347
Payroll	578,444			4,496	582,940	
Other Intergovernmental	10,194				10,194	
Federal	30,762				30,762	
Investment Trades	1,125,378			61,348	1,186,726	
Interest	3,700	10,446	2,450	45,782	62,378	
Annuities				12,174	12,174	
Due To Other Funds (Note 12)	11,658	2,896	1,690	16,226	32,470	77,225
Interfund Payable (Note 12)	17,315				17,315	
Unearned Revenue	2,082,657	46,465	56,314	128,754	2,314,190	414
Obligations/Securities Lending	1,169,559			398,138	1,567,697	70,397
Claims and Judgments (Note 5)	95,634				95,634	
Capital Lease Obligations (Note 5, 7)	2,541			126	2,667	
Employees' Compensable Leave (Note 5)	312,500			3,550	316,050	
Notes and Loans Payable (Note 5)	1,321,650			71,431	1,393,081	
General Obligation Bonds Payable (Note 5, 6)	6,930	40,320		67,090	114,340	
Revenue Bonds Payable (Note 5, 6)	1,402,963	42,555		41,626	1,487,144	
Liabilities Payable From Restricted Assets (Note 5)				498,002	498,002	
Funds Held for Others	107,024				107,024	
Other Current Liabilities	455,165		5,637	10,819	471,621	
Total Current Liabilities	9,808,976	143,255	76,950	1,435,613	11,464,794	610,383
Noncurrent Liabilities:						
Interfund Payable (Note 12)	378,351				378,351	
Claims and Judgments (Note 5)	59,157				59,157	
Capital Lease Obligations (Note 5, 7)	11,426			200	11,626	
Employees' Compensable Leave (Note 5)	300,849			1,796	302,645	
Notes and Loans Payable (Note 5)	138,279		900,000	5,907	1,044,186	
Liabilities Payable From Restricted Assets (Note 5)				2,974,854	2,974,854	
General Obligation Bonds Payable (Note 5, 6)	44,673	763,065		1,785,685	2,593,423	
Revenue Bonds Payable (Note 5, 6)	6,441,029	1,319,612	1,468,735	2,653,451	11,882,827	
Assets Held for Others	721,034			1,006	722,040	
Net OPEB Obligation (Note 11)	562,987				562,987	
Other Noncurrent Liabilities	136,190			139,808	275,998	
Total Noncurrent Liabilities	8,793,975	2,082,677	2,368,735	7,562,707	20,808,094	0
Total Liabilities	18,602,951	2,225,932	2,445,685	8,998,320	32,272,888	610,383
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	7,078,895		262,240	43,368	7,384,503	
Restricted for:						
Education	2,181,416				2,181,416	
Debt Retirement	28,200		173,245	11,350	212,795	
Capital Projects	230,725				230,725	
Veterans Land Board Housing Programs				669,684	669,684	
Unemployment Trust Funds				1,788,436	1,788,436	
Funds Held as Permanent Investments:						
Nonexpendable	10,981,925				10,981,925	
Expendable	8,803,650				8,803,650	
Other				14,350	14,350	384,509
Unrestricted	7,216,829	2,340,441	321,950	5,604	9,884,824	
Total Net Assets	$36,521,640	$2,340,441	$ 757,435	$ 2,532,792	$42,152,308	$ 384,509

The accompanying notes to the financial statements are an integral part of this statement.

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

** Employees life, accident and health insurance benefits fund - no combining statements presented.

STATE OF TEXAS

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					
	Colleges and Universities*	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	Governmental Activities – Internal Service Fund**
OPERATING REVENUES						
Lottery Collections	$	$	$	$ 3,671,884	$ 3,671,884	$
Tuition Revenue	574,064				574,064	
Tuition Revenue - Pledged	2,866,959				2,866,959	
Discounts and Allowances	(618,222)				(618,222)	
Hospital Revenue - Pledged	6,185,545				6,185,545	
Discounts and Allowances	(3,168,917)				(3,168,917)	
Professional Fees	3,419,241				3,419,241	
Professional Fees - Pledged	13,745				13,745	
Discounts and Allowances	(2,147,973)				(2,147,973)	
Auxiliary Enterprises	58,984				58,984	
Auxiliary Enterprises - Pledged	861,476			86,605	948,081	
Discounts and Allowances	(28,178)				(28,178)	
Unemployment Taxes				1,058,134	1,058,134	
Other Sales of Goods and Services	63,858			15,575	79,433	
Other Sales of Goods and Services - Pledged	472,213		48,945	30,825	551,983	
Discounts and Allowances	(16,955)				(16,955)	
Interest and Investment Income	1,624	75,134		252,848	329,606	
Interest and Investment Income - Pledged	1,166	101,348			102,514	
Federal Revenue	1,869,078			154,969	2,024,047	
State Grant Revenue	159,605				159,605	
Premium Revenue						1,439,632
Other Operating Grant Revenue	450,088				450,088	1,543
Other Operating Grant Revenue - Pledged	558,316				558,316	
Other Revenues	27,959	4,108		174,300	206,367	
Other Revenues - Pledged	149,741			10	149,751	
Total Operating Revenues	11,753,417	180,590	48,945	5,445,150	17,428,102	1,441,175
OPERATING EXPENSES						
Cost of Goods Sold	139,043			63,421	202,464	
Salaries and Wages	8,705,945	6,755		46,713	8,759,413	4,520
Payroll Related Costs	2,025,415	986		11,141	2,037,542	1,124
Professional Fees and Services	794,302	1,344	6,329	75,436	877,411	831
Travel	259,420	84		750	260,254	34
Materials and Supplies	1,597,168	116	8,119	5,813	1,611,216	605
Communication and Utilities	659,593	37	1,100	1,281	662,011	244
Repairs and Maintenance	349,045	10	10,909	1,740	361,704	200
Rentals and Leases	200,695	49		7,981	208,725	365
Printing and Reproduction	59,277	3	4	11,842	71,126	29
Depreciation and Amortization	1,043,420		15,882	5,654	1,064,956	
Unemployment Benefit Payments				1,464,794	1,464,794	
Bad Debt Expense	13,394	14		896	14,304	
Interest Expense	363	99,024	11	202,804	302,202	
Scholarships	658,448				658,448	
Lottery Fees and Other Costs				280,918	280,918	
Lottery Prize Payments				2,281,125	2,281,125	
Employee/Participant Benefit Payments				(26,992)	(26,992)	1,460,528
Claims and Judgments	(574)				(574)	
Net Change in Pension/OPEB Obligations (Note 11)	562,987				562,987	
Other Expenses	1,086,724	2,292	24,662	43,713	1,157,391	370
Total Operating Expenses	18,154,665	110,714	67,016	4,479,030	22,811,425	1,468,850
Operating Income (Loss)	(6,401,248)	69,876	(18,071)	966,120	(5,383,323)	(27,675)

Concluded on the following page

STATE OF TEXAS

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					
	Colleges and Universities*	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	Governmental Activities – Internal Service Fund**
NONOPERATING REVENUES (EXPENSES)						
Federal Revenue	$ 467,596	$ 154,623	$	$ 390	$ 622,609	$
Gifts	551,668			11	551,679	
Gifts - Pledged	119,976				119,976	
Land Income	5,472		13		5,485	
Interest and Investment Income (Loss)	(380,534)		24,546	96,653	(259,335)	41,543
Interest and Investment Income - Pledged	317,643				317,643	
Loan Premium and Fees on Securities Lending				13,642	13,642	3,001
Investing Activities Expense	(113,431)			(18)	(113,449)	
Interest Expense	(294,272)		(96,776)	(3,462)	(394,510)	
Borrower Rebates and Agent Fees	(703)			(10,927)	(11,630)	(2,413)
Gain on Sale of Capital Assets	261			9	270	
Settlement of Claims				6	6	140
Claims and Judgments	(3,476)			(107)	(3,583)	
Other Revenues	106,314		34	(11,742)	94,606	
Other Revenues - Pledged	34,640				34,640	
Other Expenses	(52,349)	(2,147)	(487)	(684)	(55,667)	
Total Nonoperating Revenues (Expenses)	758,805	152,476	(72,670)	83,771	922,382	42,271
Income (Loss) Before Capital Contributions, Endowments and Transfers	(5,642,443)	222,352	(90,741)	1,049,891	(4,460,941)	14,596
CAPITAL CONTRIBUTIONS, ENDOWMENTS, SPECIAL ITEMS AND TRANSFERS						
Capital Contributions - Federal	27,412				27,412	
Capital Contributions - Other	222,797		(4,102)	(110)	218,585	
Contributions to Permanent and Term Endowments	167,692				167,692	
Special Items (Note 23)				(150,026)	(150,026)	
Transfer In (Note 12)	5,414,776	4,235	46,826	17,121	5,482,958	
Transfer Out (Note 12)	(480,462)	(9,846)		(1,083,157)	(1,573,465)	
Total Capital Contributions, Endowments, Special Items and Transfers	5,352,215	(5,611)	42,724	(1,216,172)	4,173,156	0
Change in Net Assets	(290,228)	216,741	(48,017)	(166,281)	(287,785)	14,596
Net Assets, September 1, 2007	36,835,169	2,123,700	805,452	3,134,287	42,898,608	369,913
Restatements (Note 14)	(23,301)			(435,214)	(458,515)	
Net Assets, September 1, 2007, as Restated	36,811,868	2,123,700	805,452	2,699,073	42,440,093	369,913
Net Assets, August 31, 2008	$36,521,640	$2,340,441	$757,435	$2,532,792	$42,152,308	$ 384,509

The accompanying notes to the financial statements are an integral part of this statement.

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

** Employees life, accident and health insurance benefits fund - no combining statements presented.

STATE OF TEXAS

Statement of Cash Flows – Proprietary Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					
	Colleges and Universities	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	Governmental Activities – Internal Service Fund*
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from Customers	$ 4,436,991	$	$ 84,764	$5,027,270	$ 9,549,025	$ 365,828
Proceeds from Tuition and Fees	2,881,699				2,881,699	
Proceeds from Research Grants and Contracts	3,145,641			131,114	3,276,755	
Proceeds from Gifts	12,364				12,364	
Proceeds from Loan Programs	175,416			798,396	973,812	
Proceeds from Auxiliaries	892,404				892,404	
Proceeds from Other Revenues	541,958			107,348	649,306	1,113,683
Payments to Suppliers for Goods and Services	(4,753,295)	(1,564)	(53,236)	(489,286)	(5,297,381)	(34,034)
Payments to Employees	(10,576,037)	(7,716)		(56,449)	(10,640,202)	(5,914)
Payments for Loans Provided	(195,354)			(721,483)	(916,837)	
Payments for Other Expenses	(716,022)	(81)	(28,761)	(3,909,893)	(4,654,757)	(1,427,456)
Net Cash Provided by Operating Activities	(4,154,235)	(9,361)	2,767	887,017	(3,273,812)	12,107
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from Debt Issuance		622,360		352,818	975,178	
Proceeds from State Appropriations	4,258,402	3,735			4,262,137	
Proceeds from Gifts	581,063				581,063	
Proceeds from Endowments	217,933				217,933	
Proceeds from Transfers from Other Funds	683,136	223,471		4,570,222	5,476,829	
Proceeds from Grant Receipts	463,151	153,803			616,954	
Proceeds of Advances from Other Funds		40,572			40,572	
Proceeds from Other Financing Activities	78,627			338,922	417,549	
Payments of Principal on Debt Issuance	(218)	(115,036)		(653,314)	(768,568)	
Payments of Interest	(118)	(104,883)		(211,215)	(316,216)	
Payments of Other Costs on Debt Issuance	(10)	(177)		(1,669)	(1,856)	
Payments for Transfers to Other Funds	(585,087)	(340,916)		(5,835,359)	(6,761,362)	
Payments for Grant Disbursements	(76)	(10,041)			(10,117)	
Payments for Advances to Other Funds	(21)	(55,520)			(55,541)	
Payments for Other Uses	(527,977)			(171,590)	(699,567)	
Net Cash Provided by Noncapital Financing Activities	5,168,805	417,368	0	(1,611,185)	3,974,988	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Sale of Capital Assets	2,987				2,987	
Proceeds from Debt Issuance	2,749,808		775,070		3,524,878	
Proceeds from State Grants and Contracts	22,092				22,092	
Proceeds from Federal Grants and Contracts	2,735				2,735	
Proceeds from Gifts	11,960				11,960	
Proceeds from Other Financing Activities	3,366		12	517	3,895	
Proceeds from Capital Contributions	254,554				254,554	
Proceeds of Advances from Other Funds	64,171				64,171	
Payments for Additions to Capital Assets	(2,294,549)		(89,130)	(2,034)	(2,385,713)	
Payments of Principal on Debt Issuance	(1,646,011)		(775,070)	(330)	(2,421,411)	
Payments for Capital Leases	(353)				(353)	
Payments of Interest on Debt Issuance	(302,262)		(93,362)	(1,480)	(397,104)	
Payments of Other Costs on Debt Issuance	(57,411)		(487)	(286)	(58,184)	
Net Cash Provided by Capital and Related Financing Activities	(1,188,913)	0	(182,967)	(3,613)	(1,375,493)	0

Concluded on the following page

STATE OF TEXAS

Statement of Cash Flows – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					
	Colleges and Universities	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	Governmental Activities – Internal Service Fund*
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Sale of Investments	$ 34,415,345	$	$ 138,419	$ 3,234,305	$ 37,788,069	$
Proceeds from Interest and Investment Income	1,468,869	169,664	27,357	262,253	1,928,143	1,553
Proceeds from Principal Payments on Loans	53	189,626			189,679	
Payments for Nonprogram Loans Provided		(560,162)		(6)	(560,168)	
Payments to Acquire Investments	(35,268,423)	(226,729)	(60,000)	(3,097,241)	(38,652,393)	(22,097)
Net Cash Provided by Investing Activities	615,844	(427,601)	105,776	399,311	693,330	(20,544)
Net Increase in Cash and Cash Equivalents	441,501	(19,594)	(74,424)	(328,470)	19,013	(8,437)
Cash and Cash Equivalents, September 1, 2007	3,601,965	251,060	461,570	3,265,342	7,579,937	31,666
Restatements	(1,284)			(497,369)	(498,653)	(54)
Cash and Cash Equivalents, September 1, 2007, as Restated	3,600,681	251,060	461,570	2,767,973	7,081,284	31,612
Cash and Cash Equivalents, August 31, 2008	$ 4,042,182	$ 231,466	$ 387,146	$ 2,439,503	$ 7,100,297	$ 23,175
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating Income (Loss)	$ (6,401,248)	$ 69,876	$ (18,071)	$ 966,120	$ (5,383,323)	$ (27,675)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation and Amortization	1,043,420		15,882	5,654	1,064,956	
Bad Debt Expense	251,355	14		865	252,234	
Operating Income (Loss) and Cash Flow Categories Classification Differences	(4,509)	(79,193)		104,148	20,446	24
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(467,650)		(165)	161,255	(306,560)	1,658
(Increase) Decrease in Due From Other Funds	(7,300)		5,096		(2,204)	1,021
(Increase) Decrease in Inventories	(2,776)			(510)	(3,286)	
(Increase) Decrease in Notes Receivable	493				493	
(Increase) Decrease in Loans and Contracts	(12,296)			(19,988)	(32,284)	
(Increase) Decrease in Other Assets	(12,958)			30,574	17,616	
(Increase) Decrease in Prepaid Expenses	(54,812)			(43)	(54,855)	
(Increase) Decrease in State Appropriations	(8,647)				(8,647)	
Increase (Decrease) in Payables	607,901	(29)	(2,759)	(183,800)	421,313	33,072
Increase (Decrease) in Deposits	2,911				2,911	
Increase (Decrease) in Due To Other Funds	464	(29)		27	462	3,973
Increase (Decrease) in Unearned Revenue	180,539		2,784	45,456	228,779	34
Increase (Decrease) in Compensated Absence Liability	34,815			35	34,850	
Increase (Decrease) in Benefits Payable	560,515				560,515	
Increase (Decrease) in Other Liabilities	135,548			(222,776)	(87,228)	
Total Adjustments	2,247,013	(79,237)	20,838	(79,103)	2,109,511	39,782
Net Cash Provided by Operating Activities	$ (4,154,235)	$ (9,361)	$ 2,767	$ 887,017	$ (3,273,812)	$ 12,107
NONCASH TRANSACTIONS						
Net Change in Fair Value of Investments	$ (2,040,292)	$ (161)	$ (152)	$ (71,554)	$ (2,112,159)	$ 4,560
Donation of Capital Assets	$ 93,875	$	$	$	$ 93,875	$
Borrowing Under Capital Lease Purchase	$ 3,865	$	$	$	$ 3,865	$
Other	$ (27,914)	$	$	$ (2,197)	$ (30,111)	$

The accompanying notes to the financial statements are an integral part of this statement.

* Employees life, accident and health insurance benefits fund – no combining statements presented.

STATE OF TEXAS

Statement of Fiduciary Net Assets

August 31, 2008 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private-Purpose Trust Funds	Agency Funds
ASSETS				
Cash and Cash Equivalents	$ 15,186,834	$ 666,035	$ 44,412	$ 1,154,730
Restricted Cash and Cash Equivalents			789	
Securities Lending Collateral	25,617,840		32,763	
Investments:				
U.S. Government	16,676,380	8,124,776	21,206	324,462
Corporate Equity	42,348,632		738,607	160,239
Corporate Obligations	7,268,078		82,319	125
Repurchase Agreements	880,995	8,556,171	568,246	47,676
Foreign Securities	27,372,544			
Other	18,406,989	47,406	1,601,335	26,212
Receivables:				
Interest and Dividends	450,957	19,237	3,148	1,159
Accounts	238,777		334	8,525
Other Intergovernmental				1,338
Investment Trades	130,475		1,574	
Other	384		1,708	8
Due From Other Funds (Note 12)	247,715		32	1,332
Inventories			1	
Properties, at Cost, Net of Accumulated Depreciation	35,477		997	
Other Assets	250		76,470	1,875,464
Total Assets	154,862,327	17,413,625	3,173,941	3,601,270
LIABILITIES				
Payables:				
Accounts	$ 257,085	$ 37,792	$ 14,974	$ 22
Investment Trades	308,711		2,772	
Payroll	105			
Other Intergovernmental				791,720
Interest			44	
Annuities	520,293			
Due To Other Funds (Note 12)	40,128			414
Unearned Revenue	28,872		176	
Employees' Compensable Leave	6,313			
Obligations/Securities Lending	26,004,315		32,763	
Funds Held for Others			76,469	2,809,114
Other Liabilities		751	39	
Total Liabilities	27,165,822	38,543	127,237	3,601,270
NET ASSETS				
Held in Trust for:				
Pension Benefits and Other Purposes	127,696,505			
Individuals, Organizations and Other Governments			3,046,704	
Pool Participants		17,375,082		
Total Net Assets	$127,696,505	$ 17,375,082	$ 3,046,704	$ 0

The accompanying notes to the financial statements are an integral part of this statement.

* Texas Government Investment Pool (TexPool) Trust Fund - no combining statements presented.

STATE OF TEXAS

Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private-Purpose Trust Funds
ADDITIONS			
Contributions:			
Member Contributions	$ 2,505,049	$	$
State Contributions	2,571,286		
Premium Contributions	761,545		
Federal Contributions	92,450		13,760
Other Contributions	516,148		84,029
Total Contributions	6,446,478	0	97,789
Investment Income:			
From Investing Activities:			
Net Depreciation in Fair Value of Investments	(10,594,741)		(194,237)
Interest and Investment Income	4,100,248	716,731	52,662
Total Investing Income (Loss)	(6,494,493)	716,731	(141,575)
Less Investing Activities Expense	63,490	10,293	1,021
Net Income (Loss) from Investing Activities	(6,557,983)	706,438	(142,596)
From Securities Lending Activities:			
Securities Lending Income	1,189,074		2,155
Less Securities Lending Expense:			
Borrower Rebates	901,754		2,000
Management Fees	39,676		
Net Income from Securities Lending	247,644	0	155
Total Net Investment Income (Loss)	(6,310,339)	706,438	(142,441)
Capital Share and Individual Account Transactions:			
Net Increase in Participant Investments	0	215,661	0
Other Additions:			
Settlement of Claims	25		3,403
Other Revenue	1,052		258,985
Loss on Sale of Properties	(10)		
Transfer In (Note 12)	99,803		10
Total Other Additions	100,870	0	262,398
Total Additions	237,009	922,099	217,746
DEDUCTIONS			
Benefits	9,340,614		56,427
Refunds of Contributions	350,060		
Transfer Out (Note 12)	62,319		1,754
Intergovernmental Payments			96,649
Administrative Expenses	49,659		7,252
Depreciation Expense	1,106		39
Settlement of Claims			57,440
Interest Expense	140		21
Other Expenses	2,994		234,065
Total Deductions	9,806,892	0	453,647
INCREASE (DECREASE) IN NET ASSETS	(9,569,883)	922,099	(235,901)
NET ASSETS			
Net Assets, September 1, 2007	137,266,388	16,452,983	3,282,605
Net Assets, August 31, 2008	$ 127,696,505	$ 17,375,082	$ 3,046,704

The accompanying notes to the financial statements are an integral part of this statement.

* Texas Government Investment Pool (TexPool) Trust Fund - no combining statements presented.

State of Texas
Index for Notes to Financial Statements

	Page
NOTE 1 – Summary of Significant Accounting Policies	57
NOTE 2 – Capital Assets	65
NOTE 3 – Deposits, Investments and Repurchase Agreements	68
NOTE 4 – Short-Term Debt	81
NOTE 5 – Long-Term Liabilities	82
NOTE 6 – Bonded Indebtedness	83
NOTE 7 – Capital Leases	106
NOTE 8 – Operating Leases	107
NOTE 9 – Retirement Plans	107
NOTE 10 – Deferred Compensation	116
NOTE 11 – Postemployment Health Care and Life Insurance Benefits	116
NOTE 12 – Interfund Activity and Transactions	120
NOTE 13 – Fund Balances/Net Assets	124
NOTE 14 – Adjustments to Fund Balances/Net Assets	126
NOTE 15 – Contingent Liabilities	127
NOTE 16 – Subsequent Events	128
NOTE 17 – Risk Management	132
NOTE 18 – Contested Taxes	133
NOTE 19 – Component Units and Related Organizations	133
NOTE 20 – Deficit Fund Balances/Net Assets	137
NOTE 21 – Tobacco Settlement	138
NOTE 22 – Donor-Restricted Endowments	138
NOTE 23 – Extraordinary and Special Items	139
NOTE 24 – Taxes Receivable	139
NOTE 25 – Termination Benefits	140
NOTE 26 – Segment Information	140

Note 1

Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The accompanying basic financial statements of the state of Texas have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The state implemented the following GASB Statements and GASB Technical Bulletin in fiscal 2008.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was implemented. This statement establishes standards for items reported in the financial reports of state and local governmental employers that provide other postemployment benefits (OPEB) to retirees. OPEB includes post employment healthcare and other benefits such as life insurance when provided separately from a pension plan.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, was implemented. This statement provides guidance on accounting for collateralized borrowings and sales of future revenues and receivables.

GASB Statement No. 50, *Pension Disclosures*, was implemented. This statement brings pension disclosures into alignment with those required for other postemployment plans.

GASB Technical Bulletin 2004-2, *Recognition of Pension and other Postemployment Benefit Expenditures/ Expense and Liabilities by Cost-Sharing Employers*, was implemented. This bulletin clarifies recognition requirements for cost-sharing employers related to pension and OPEB plans.

Financial reporting for the state is based on all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions and Accounting Research Bulletins issued on or before Nov. 30, 1989, that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after Nov. 30, 1989, are not followed in the preparation of the accompanying financial statements.

FINANCIAL REPORTING ENTITY

For financial reporting purposes, the state of Texas has included all funds, agencies, boards, commissions, authorities, colleges and universities and other organizations that comprise its legal entity. The reporting entity also includes legally separate organizations for which the state is financially accountable and any other organizations that would cause the financial statements to be misleading or incomplete if they were excluded. All activities considered part of the state are included. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general government, employee benefits and teacher retirement benefits.

The reporting entity for the state is in accordance with the criteria established by GASB. A listing and brief summary of the component units and their relationship to the state of Texas is discussed in Note 19. These financial statements present the state of Texas (the primary government) and its component units.

The state's public school districts and junior and community colleges are excluded from the reporting entity. The state is not financially accountable for these entities. They are legally separate entities that are fiscally independent of the state. This independence warrants their exclusion from the financial statements.

FINANCIAL REPORTING STRUCTURE

The basic financial statements include both government-wide financial statements and fund financial statements. The reporting model based on GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, focuses on the state as a whole in the government-wide financial statements and major individual funds in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) display information about the state as a whole and the change in aggregate financial position resulting from the activities of the fiscal period, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state (including its blended component units) as well as its discretely presented component units. In the statement of net assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reflected on a full accrual, economic resource basis, which incorporates noncurrent investments, capital assets as well as long-term debt and obligations.

The statement of activities reflects both the gross and net cost per functional category (public safety, transportation, etc.), which is otherwise supported by general government revenues (sales, use, franchise taxes, etc.). In the statement of activities, program revenues are netted against program expenses, which include depreciation, to present the net cost of each program. Program revenues must be directly associated with the function or with a business-type activity. Internally dedicated resources are reported as general revenues rather than program revenues. Certain general government administrative overhead expenses have been charged to the various functions of the state. These charges are paid from applicable funding sources and are reflected as direct expenses. The amount of direct interest expense included in direct expenses in the statement of activities is $53.9 million.

Program revenues include (a) charges for services, (b) operating grants and contributions and (c) capital grants and contributions. Charges for services include special assessments and payments made by parties outside of the state's citizenry if that money is restricted to a particular program. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. Multipurpose grants that provide financing for more than one program are reported as program revenue if the amounts restricted to each program are specifically identifiable. Multipurpose grants that do not provide for specific identification of the programs and amounts are reported as general revenues.

The state's fiduciary funds are presented in the fund financial statements by type (pension and other employee benefit trust, investment trust, private-purpose and agency). The assets of the fiduciary funds are held for the benefit of others and cannot be used to address activities or obligations of the government. They are not, therefore, incorporated into the government-wide financial statements.

Fund Financial Statements

The fund financial statements are presented after the government-wide financial statements. They display information about major funds individually and in the aggregate for governmental and proprietary funds. In governmental and fiduciary funds, assets and liabilities are presented in order of relative liquidity. In proprietary funds, assets and liabilities are presented in a classified format that distinguishes between all current and noncurrent assets and liabilities. Current assets in the classified format are those considered available for appropriation and expenditure. Examples of expendable financial resources include cash, various receivables and short-term investments. All other assets are considered noncurrent. Current liabilities are obligations to be paid within the next fiscal year. Examples include payables and the current portion of long-term liabilities.

The major governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate (a) compliance with legal and covenant requirements, (b) the source and use of financial resources and (c) how the state's actual experience conforms to the budget. Since the governmental fund financial statements are presented using a different measurement focus and basis of accounting than the government-wide financial statements, governmental activities column, a reconciliation is presented. This explains the adjustments required to restate the fund-based financial statements for the government-wide financial statements' governmental activities column.

The state uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. State transactions are recorded in the fund types described below.

Governmental Fund Types

Governmental funds focus on the sources and uses of funds. Included in the governmental fund financial statements are general, special revenue, debt service, capital projects and permanent funds. The general fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds. Special revenue funds account for specific revenue proceeds that are legally restricted for specific purposes. Debt service funds account for the accumulation of resources for and the payment of general long-term debt principal and interest. Capital projects funds account for financial resources used for the acquisition, repair, renovation or construction of major capital facilities other than those financed by proprietary or similar trust funds. Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state's major governmental funds are listed below.

The **General Fund** includes transactions for general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreation and regulatory services.

The **State Highway Fund** receives funds allocated by law for public road construction, maintenance, monitoring and law enforcement of the state's highway system.

The **Permanent School Fund** is an investment fund consisting of land and proceeds from the sale of land that establishes a perpetual provision for the support of the public schools of Texas. All dividends and other income are allocated to the credit of the available school fund.

Proprietary Fund Types

Proprietary funds focus on determining operating income, changes in net assets, financial position and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are applied in accounting for these funds. Included in proprietary fund financial statements are enterprise funds and an internal service fund.

Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met:

- The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity,
- Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, or
- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Internal service funds account for the financing of goods or services provided by one agency to other agencies on a cost reimbursement basis. The employees life, accident and health insurance benefits fund, presented on the proprietary fund financial statements, is used to account for the services provided by the Group Insurance Program to other agencies of the reporting entity.

The state's major enterprise funds are listed below.

The **Colleges and Universities** include University of Texas System, Texas A&M University System, Texas Tech University System, University of Houston System, Texas State University System, University of North Texas System, Texas Woman's University, Stephen F. Austin State University, Texas Southern University, Midwestern State University and Texas State Technical College. They are represented as a single column in the proprietary fund financial statements and individually in the schedules of colleges and universities in the other supplementary information section of this report.

The **Texas Water Development Board** funds include water development funds, agricultural water conservation funds and water pollution control revolving funds that issue bonds to provide assistance to political subdivisions.

The **Texas Department of Transportation Turnpike Authority** receives proceeds from the sale of bonds that are used to finance a portion of the costs of planning, designing, engineering, developing and constructing the initial phase (referred to as the "FY2002 Project") of the Central Texas Turnpike System.

Fiduciary Fund Types

Fiduciary funds account for assets held by the state in either a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund or a private-purpose trust fund is used.

Pension and other employee benefit trust funds report resources held in trust for the members and beneficiaries of defined benefit pension plans. Additional information about pension trust funds can be found in Note 9.

Investment trust funds report the external portions of investment pools reported by the sponsoring government.

Private-purpose trust funds report all other trust arrangements whose principal and interest benefit individuals, private organizations or other governments.

Agency funds report assets the state holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt and remittance of fiduciary resources to individuals, private organizations or other governments.

Component Units

All of the component units for the state of Texas are reported as nonmajor component units. The combining statement of net assets - component units and the combining statement of activities - component units are presented for all of the discrete component units.

Additional information about blended and discretely presented component units can be found in Note 19. More detailed information of the individual component units is available from the component units' separately issued financial statements.

BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENT PRESENTATION

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources and obligations of the reporting government, both current and noncurrent, are reported in the government-wide financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The state of Texas considers all major revenue reported in the governmental funds to be available if the revenues are due at year end and collected within 60 days thereafter.

Under the modified accrual basis of accounting, as used in the governmental fund financial statements, a receivable that is not expected to be collected within

60 days is not available to liquidate the liabilities of the current period and will be reported as deferred revenue. Deferred revenue also includes unearned revenue when cash or other assets are received prior to being earned.

Under the full accrual basis of accounting, as used in the government-wide statements, proprietary fund statements, and fiduciary fund statements, unearned revenue is recorded when cash or other assets are collected in advance before the revenue recognition criteria are met.

Expenditures and other uses of financial resources are recognized when the related liability is incurred. Although agency funds use the accrual basis of accounting, they do not have a measurement focus because they do not recognize revenues and expenditures.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the state are reported as reductions of the related liabilities rather than as expenditures. Proprietary fund types, pension and other employee benefit trust funds, investment trust funds and private-purpose trust funds are reported on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Proprietary funds distinguish operating from nonoperating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgetary Information

The budgetary comparison schedule and the notes to the budgetary comparison schedule are in the required supplementary information other than Management Discussion and Analysis section. The budgetary comparison schedule presents the original budget, the final budget and the actual activity of the major governmental funds. Reconciliations for the general fund and the state highway fund budgetary basis to the GAAP basis are presented as required supplementary information with explanations of the reconciling items. Budgetary information for nonmajor governmental funds is presented as other supplementary information.

Cash and Cash Equivalents

For reporting purposes, this account includes cash on hand, cash in transit, cash in local banks, cash in the Federal and State Treasuries and cash equivalents. Cash in local banks is primarily held by special revenue funds, employee benefit trust funds, enterprise funds and component units. Cash balances of most state funds are pooled and invested by the Treasury Operations Division of the Comptroller's office. Interest earned is deposited in the general revenue fund and specified funds designated by law.

The statement of cash flows for proprietary funds shows the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near maturity they present insignificant risk of changes in value due to changes in interest rates. Investments with an original maturity of three months or less and that are used for cash management rather than investing activities are considered cash equivalents. Restricted securities held as collateral for securities lending are not included as cash equivalents on the statement of cash flows.

Investments

Investments are reported at fair value in the balance sheet or other statement of financial position. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale or through consultation with industry advisors. Certain money market investments may be reported at amortized cost provided the investment has a remaining maturity of one year or less at time of purchase. All investment income, including changes in the fair value of investments, is recognized as revenue in

the operating statement or statement of activities. The distribution to the available school fund is based on the total return based formula methodology discussed in Note 22. The amount of transfers allocated to the available school fund is $716.5 million. The objective, significant terms and risks of derivative investments at Aug. 31, 2008, can be found in Note 3.

Receivables and Payables

The major receivables for governmental activities and business-type activities are taxes and investment trade, respectively. See Note 24 for details on taxes receivable. All receivables are shown net of uncollectible amounts. Other receivables consist primarily of food stamp and nutrition assistance program receivables in the general fund and receivables from private sponsored programs in the colleges and universities fund. Activities between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are interfund loans. All other outstanding balances between funds are reported as "due from/due to other funds." Any residual balances between governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

Noncurrent interfund receivables between funds, as shown in Note 12, are reported as a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable financial resources.

Trade receivables are reported for sales of investments pending settlement. Trade payables are purchases of investments pending settlement.

Inventories and Prepaid Items

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost generally utilizing the last-in, first-out method.

The consumption method of accounting is used to account for inventories that appear in both governmental and proprietary fund types. The cost of these items is expensed when the items are consumed. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded in both government-wide financial statements and fund financial statements.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include certain proceeds of enterprise fund general obligation and revenue bonds, as well as certain revenues, set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

Capital Assets

Capital assets are reported in proprietary funds, trust funds and government-wide financial statements. The capitalization threshold and the estimated useful life of the assets vary depending upon the asset type. Note 2 includes a chart identifying the capitalization threshold and the estimated useful life by asset type. It also provides information on the state's depreciation policy and other detailed information.

GASB 34 allows an alternative (modified) approach that reflects a reasonable value of the asset and cost required to maintain the service potential at established minimum standards in lieu of depreciation. The state has elected to use this option for its highway infrastructure. The state has developed and implemented an asset management system that establishes minimum standards and makes a yearly determination whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state's system of highways are included in the required supplementary information other than MD&A section of this report.

Long-Term Liabilities

Reporting long-term liabilities in the statement of net assets requires two components (a) the amount due in one year (current) and (b) the amount due in more than one year (noncurrent).

General long-term liabilities consist of the noncurrent portion of capital lease obligations, compensable leave, claims and judgments and other noncurrent liabilities. General long-term liabilities are not reported as liabilities

in governmental funds but are reported in the governmental activities column in the government-wide statement of net assets. The state reports rebatable arbitrage in claims and judgments. General long-term debt is not limited to liabilities arising from debt issuances but may also include noncurrent liabilities on lease-purchase agreements and other commitments that are not current liabilities properly recorded in governmental funds.

In the government-wide financial statements and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line or the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Deferred issuance costs are reported as deferred charges and amortized over the term of the debt.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Employees' Compensable Leave Balances

GASB Statement No. 16, *Accounting for Compensated Absences*, establishes standards of accounting and reporting for compensated absences (vacation, unpaid overtime and sick leave) by state and local governmental entities. GASB 34 requires governments to report and disclose the portion of compensated absences that is due within one year of the statement date.

Annual leave, commonly referred to as vacation leave, and other compensated absences with similar characteristics is accrued as a liability as the benefits are earned by the employee if both the employee's right to receive compensation is attributable to services already rendered and it is probable the employer will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Employees accrue vacation time at a rate of eight to 21 hours per month depending on years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 180 hours to 532 hours based on years of service.

Overtime, under the federal Fair Labor Standards Act and state laws, can be accumulated in lieu of immediate payment as compensatory leave (at one-and-one-half hours for each overtime hour worked) for nonexempt, nonemergency employees to a maximum of 240 hours. All overtime exceeding 240 hours must be paid with the next regular payroll. At termination or death, all overtime balances must be paid in full. For emergency personnel (firefighters, law enforcement, prison officers, etc.), overtime can be accumulated to a maximum of 480 hours. Unpaid overtime must be included in the calculation of current and noncurrent liabilities for each employee since it may be used like compensatory time or be paid.

Compensatory leave is allowed for exempt employees not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no death or termination benefit for compensatory leave and it is nontransferable. Compensatory leave is reported as a current liability.

Sick leave is accrued at a rate of eight hours per month with no limit on the amount that can be carried forward to the next fiscal year. Accumulated sick leave is not paid at employee termination, although an employee's estate may be paid for one-half of the accumulated sick leave to a maximum of 336 hours. A member who retires based on service or a disability is entitled to service credit in the retirement system for unused sick leave on the last day of employment. The maximum amount of the state's contingent obligation for sick leave has not been determined. The probability of a material impact on state operations in any given fiscal year is considered remote.

Capital Lease Obligations

Capital lease contracts payable, which are not funded by current resources, represent the liability for future lease payments under capital lease contracts. Note 7 provides details for capital lease obligations.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year or years.

Net Assets

Invested in capital assets, net of related debt consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes or other debt attributable to the acquisition, construction or improvement of such assets. Significant unspent related debt proceeds are not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is included in restricted for capital projects.

The state reports net assets as restricted when constraints placed on net assets are (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Restricted net assets are designated as either expendable or nonexpendable. Expendable restricted net assets are those funds that may be expended for either a stated purpose or for a general purpose subject to externally imposed stipulations. Nonexpendable restricted net assets are those funds that are required to be retained in perpetuity. Restricted net assets include the state's permanent endowment funds subject to externally imposed restrictions governing their use.

Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt or restricted net assets.

When both restricted and unrestricted net assets are available for use, it is the state's policy to use restricted resources first and then unrestricted resources as they are needed.

Fund balance reserve and designated fund balances for governmental funds are classified to reserved, unreserved/designated or unreserved/undesignated. Reserved fund balances are (a) funds legally segregated for a specific use or (b) assets that, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes. Designations reflect senior management's self-imposed limitations on the use of available current financial resources. Note 13 presents disaggregated fund balances.

Interfund Activity and Transactions - Government-wide Financial Statements

GASB 34 established a classification system with terms and definitions for interfund activity and modified requirements for reporting transfers.

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements with the exception of activities between governmental activities and business-type activities. Interfund activity with fiduciary funds has been reclassified and reported as external activity.

Interfund payables and receivables have been eliminated from the statement of net assets except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the statement of net assets. Interfund activities between the primary government and component units with a different year end are limited and immaterial. Note 12 provides details of interfund activities and transactions.

Interfund Transactions

Interfund transactions with discretely presented component units have been reclassified and reported as external activity.

Risk Financing

The state maintains a combination of commercial insurance and a self-insurance program. The state is self-insured for workers' compensation and unemployment compensation

claims and funds the liabilities on a pay-as-you-go basis. The state's group insurance program is provided through a combination of insurance contracts, a self-funded health plan and health maintenance organization contracts.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. For additional information, see Note 17.

Note 2

Capital Assets

Assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Based on the requirements of GASB Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments*, depreciation is reported on all "exhaustible" assets. "Inexhaustible assets," such as works of art and historical treasures, are not depreciated. Professional, academic and research library books and materials are considered "exhaustible" assets and are depreciated. All capital assets acquired by proprietary funds or trust funds are reported at cost or estimated historical cost if actual historical cost is not available. Donated assets are reported at fair value on the acquisition date. Assets are depreciated over the estimated useful life of the asset using the straight-line method. The capitalization threshold and useful lives are as follows.

Capitalization of Assets

Type	Capitalization Threshold	Estimated Useful Life
Land and Land Improvements	$ 0	Not applicable
Infrastructure, Non-Depreciable	0	Not applicable
Construction in Progress	0	Not applicable
Buildings and Building Improvements	100,000	5-30 years
Infrastructure, Depreciable	500,000	10-50 years
Facilities and Other Improvements	100,000	10-60 years
Furniture and Equipment	5,000	3-15 years
Vehicles, Boats and Aircraft	5,000	5-40 years
Other Capital Assets (Libraries, Leasehold Improvements and Livestock)	Various	0-22 years

Historical cost records for some land and mineral interests are incomplete or not available. Accordingly, historical costs have been estimated. The effect on the financial statements of any error resulting from assumptions and estimates is not considered material.

Most land improvements (infrastructure), including curbs, sidewalks, fences, bridges and lighting systems, are capitalized. The state's highway infrastructure, expected to be maintained in perpetuity, is reported using the modified approach allowed by GASB 34.

Capitalization of interest incurred during the construction of capital assets is not applicable for governmental activities in accordance with GASB Statement No. 37, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments: Omnibus*. For proprietary fund types and trust funds with measurement focus on income determination or capital maintenance, the net amount of interest cost for qualifying assets is capitalized.

The schedule on the following pages presents the composition of the state's capital assets, adjustments, reclassifications, additions and deletions during fiscal 2008. The adjustment column includes assets that were not previously reported, accounting errors and other changes. The reclassifications column shows completed construction projects and transfers of capital assets between agencies. The additions column includes current year purchases and depreciation. The deletions column shows assets removed during the current year.

Capital Asset Activity

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/07	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/08
GOVERNMENTAL ACTIVITIES						
Nondepreciable Assets						
Land and Land Improvements	$ 7,278,244	$ (87)	$ 5,421	$ 540,151	$ (1,818)	$ 7,821,911
Infrastructure	41,358,055	(39,029)	2,859,300			44,178,326
Construction in Progress	4,623,788	(2,271)	(3,653,965)	3,686,707		4,654,259
Other Capital Assets	181,198	(1)		186	(321)	181,062
Total Nondepreciable Assets	53,441,285	(41,388)	(789,244)	4,227,044	(2,139)	56,835,558
Depreciable Assets						
Buildings and Building Improvements	5,182,546	(18)	74,275	8,809	(9,815)	5,255,797
Infrastructure	16,108,502	38,724	703,378	3,300	(90,778)	16,763,126
Facilities and Other Improvements	199,956	(1)	7,177	377	(789)	206,720
Furniture and Equipment	1,089,879	(8,955)	722	69,062	(58,014)	1,092,694
Vehicles, Boats and Aircraft	940,857	(2,671)	1,809	99,213	(57,706)	981,502
Other Capital Assets	97,050	(16)	2,785	4,676	(1,355)	103,140
Total Depreciable Assets at Historical Cost	23,618,790	27,063	790,146	185,437	(218,457)	24,402,979
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(2,639,636)	159	(495)	(165,430)	6,760	(2,798,642)
Infrastructure	(9,068,916)	(1,476)		(523,092)	73,257	(9,520,227)
Facilities and Other Improvements	(115,839)			(7,327)	584	(122,582)
Furniture and Equipment	(834,757)	3,126	1,172	(76,729)	53,847	(853,341)
Vehicles, Boats and Aircraft	(551,759)	(219)	(1,815)	(61,628)	49,185	(566,236)
Other Capital Assets	(46,442)	(101)	200	(5,431)	1,153	(50,621)
Total Accumulated Depreciation*	(13,257,349)	1,489	(938)	(839,637)	184,786	(13,911,649)
Depreciable Assets, Net	10,361,441	28,552	789,208	(654,200)	(33,671)	10,491,330
Governmental Activities Capital Assets, Net	$ 63,802,726	$ (12,836)	$ (36)	$ 3,572,844	$ (35,810)	$ 67,326,888

* Depreciation expense was charged to Governmental Activities as follows:

General Government	$ 46,125
Education	4,994
Employee Benefits	2
Health and Human Services	39,954
Public Safety and Corrections	149,331
Transportation	571,164
Natural Resources and Recreation	25,639
Regulatory Services	2,428
Total Governmental Activities Depreciation Expense	$ 839,637

Concluded on the following page

Capital Asset Activity (concluded)

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Balance 9/1/07	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/08
BUSINESS-TYPE ACTIVITIES						
Nondepreciable Assets						
Land and Land Improvements	$ 1,274,455	$ (2,817)	$ 2,539	$ 159,669	$ (294)	$ 1,433,552
Construction in Progress	2,041,057	(3,568)	(1,806,011)	1,718,898		1,950,376
Infrastructure	1,233,841		371,753			1,605,594
Other Capital Assets	326,741	(17)	31	11,567	(9,196)	329,126
Total Nondepreciable Assets	4,876,094	(6,402)	(1,431,688)	1,890,134	(9,490)	5,318,648
Depreciable Assets						
Buildings and Building Improvements	15,129,699	4,240	1,223,798	252,451	(33,182)	16,577,006
Infrastructure	1,061,644	664	81,363	2,998	(3)	1,146,666
Facilities and Other Improvements	1,084,384	(4,176)	65,975	15,984	(9,198)	1,152,969
Furniture and Equipment	3,578,971	(2,251)	57,221	434,474	(200,763)	3,867,652
Vehicles, Boats and Aircraft	188,316	(71)	(1,135)	31,085	(11,060)	207,135
Other Capital Assets	1,214,717	(1,184)	3,478	59,350	(15,615)	1,260,746
Total Depreciable Assets at Historical Cost	22,257,731	(2,778)	1,430,700	796,342	(269,821)	24,212,174
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(6,584,543)	(2,605)	141	(550,069)	27,799	(7,109,277)
Infrastructure	(395,365)	(19)		(37,598)	3	(432,979)
Facilities and Other Improvements	(471,150)	2,274		(39,613)	5,882	(502,607)
Furniture and Equipment	(2,327,964)	(10,366)	(905)	(359,085)	178,559	(2,519,761)
Vehicles, Boats and Aircraft	(138,287)	(50)	1,788	(15,793)	10,513	(141,829)
Other Capital Assets	(733,855)	92		(61,914)	12,883	(782,794)
Total Accumulated Depreciation**	(10,651,164)	(10,674)	1,024	(1,064,072)	235,639	(11,489,247)
Depreciable Assets, Net	11,606,567	(13,452)	1,431,724	(267,730)	(34,182)	12,722,927
Business-Type Activities Capital Assets, Net	$ 16,482,661	$ (19,854)	$ 36	$ 1,622,404	$ (43,672)	$ 18,041,575
COMPONENT UNITS						
Nondepreciable Assets						
Land and Land Improvements	$ 3,469	$	$	$	$	$ 3,469
Construction in Progress	651		(455)	2,360		2,556
Total Nondepreciable Assets	4,120	0	(455)	2,360	0	6,025
Depreciable Assets						
Buildings and Building Improvements	39,792			563		40,355
Facilities and Other Improvements	370			39		409
Furniture and Equipment	32,005		455	4,972	(1,587)	35,845
Vehicles, Boats and Aircraft	23,158			984	(2,906)	21,236
Other Capital Assets	3				(1)	2
Total Depreciable Assets at Historical Cost	95,328	0	455	6,558	(4,494)	97,847
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(8,560)			(852)		(9,412)
Facilities and Other Improvements	(254)	46		(54)		(262)
Furniture and Equipment	(22,168)	122		(3,309)	1,568	(23,787)
Vehicles, Boats and Aircraft	(15,874)			(2,240)	1,897	(16,217)
Other Capital Assets				(2)		(2)
Total Accumulated Depreciation	(46,856)	168	0	(6,457)	3,465	(49,680)
Depreciable Assets, Net	48,472	168	455	101	(1,029)	48,167
Component Units Capital Assets, Net	$ 52,592	$ 168	$ 0	$ 2,461	$ (1,029)	$ 54,192

** Depreciation expense was charged to business-type activities as follows:

Colleges and Universities	$ 1,043,420
Other Business-Type Activities	21,536
Total Business-Type Activities Depreciation Expense	$ 1,064,956

Note 3

Deposits, Investments and Repurchase Agreements

LEGAL AND CONTRACTUAL PROVISIONS

Authority for Investments

All monies in funds established in the Treasury Operations Division - Comptroller's office (Treasury) by the state Constitution or by an act of the Legislature are pooled for investment purposes. State statutes authorize the Treasury to invest state funds in fully collateralized time deposits, direct security repurchase agreements, reverse repurchase agreements, obligations of the United States, obligations of various federal credit organizations, bankers' acceptances, commercial paper and contracts written by the Comptroller, which are commonly known as covered call options.

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those requirements throughout fiscal 2008. The Trust Company safekeeps U.S. Government securities in book-entry form for the major investment funds of the state, safekeeps collateral pledged to secure deposits of the Treasury in financial institutions and acts as trustee for other public bodies to hold and manage funds on their behalf.

Certain state agencies, component units and colleges and universities, are authorized to invest funds not deposited with the Treasury. The Texas Education Agency (TEA) and the Employees Retirement System (ERS) make investments following the "prudent person rule." The University of Texas System (UT) and Teacher Retirement System (TRS) comply with the "prudent investor rule" when making investments. Authorized investments include equities, fixed income obligations, cash equivalents and alternative investments.

Collateralization

State law requires that all Treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by pledging, to the Treasury, securities valued at market excluding accrued interest. Generally, the list of eligible securities includes all United States Treasury obligations, most agency obligations and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held by a third-party bank doing business in the state through a main office or one or more branches, any Federal Reserve Bank, the Trust Company, any Federal Home Loan Bank or in the vault of the Treasury. During fiscal 2008 no depository holding state funds failed.

State agencies and institutions of higher education with deposits of public funds that are not managed by the Treasury are required to secure deposits through collateral pledged by depository banks and savings and loans. Eligible collateral securities are prescribed by state law; however, retirement systems are exempt by statute from this requirement.

External Investment Pool

The state reports the Texas Government Investment Pool (TexPool) trust fund as an external investment trust fund. A separate report for TexPool can be obtained from the Trust Company.

Deposits

As of Aug. 31, 2008, the carrying amount of deposits for governmental and business-type activities was $950.9 million, for fiduciary funds was $262.6 million and for discretely presented component units was $68 million. These amounts consist of all cash in local banks and a portion of short-term investments. These amounts are included on the combined statement of net assets as part of the "Cash and Cash Equivalents," "Securities Lending Collateral" and "Investments" accounts. As of Aug. 31, 2008, the total bank balance for governmental and business-type activities was $1 billion, for fiduciary funds was $259.6 million and for discretely presented component units was $67.8 million.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the state will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The state does not have a deposit policy for custodial credit risk. The state's securities lending programs are subject to custodial credit risk. This type of risk is inherent to the securities lending programs. Bank balances were exposed to custodial credit risk as follows.

Bank Balances Exposed to Custodial Credit Risk

August 31, 2008 (Amounts in Thousands)

	Uninsured and Uncollateralized	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution
GOVERNMENTAL ACTIVITIES		
Permanent School Fund	$ 6,892	$
Total Governmental Activities	6,892	0
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities	1,565	24,824
Other Nonmajor Funds	498	
Total Business-Type Activities	2,063	24,824
Total Governmental and Business-Type Activities	$ 8,955	$ 24,824
FIDUCIARY	$ 199,855	$ 0
COMPONENT UNITS	$ 170	$ 0

Foreign Currency Risk: Foreign currency risk for bank balances is the risk that changes in exchange rates will adversely affect the deposit. The state does not have a formal deposit policy related to foreign currency. Foreign currency deposits are intended for settlement of pending international investment trades. The exposure to foreign currency risk for bank balances at Aug. 31, 2008, is as follows.

Bank Balances Exposed to Foreign Currency Risk

August 31, 2008 (Amounts in Thousands)

	Governmental and Business-Type Activities	Pension and Other Employee Benefit Trust Funds
Australian Dollar	$ (9) *	$ 12,153
Brazilian Real	105	448
Canadian Dollar	85	12,318
Chilean Peso	44	77
Czech Koruna		776
Danish Krone		1,589
Euro	3,204	75,932
Hong Kong Dollar	360	6,771
Hungarian Forint		758
Indian Rupee		94
Indonesian Rupiah		(9) *
Japanese Yen	495	24,160
Malaysian Ringgit		287
Mexican Peso		656
New Israeli Sheqel		215
New Taiwan Dollar	1,839	9,339
New Turkish Lira	191	1,666
New Zealand Dollar	4	57
Norwegian Krone		2,187
Philippine Peso		305
Polish Zloty		847
Pound Sterling	28	36,326
Qatar Riyal	436	
Russian Ruble	(167) *	
Singapore Dollar		1,448
South African Rand		2,634
South Korean Won	111	355
Swedish Krona		2,818
Swiss Franc	1,108	4,534
Thai Baht		1,028
Total	$7,834	$ 199,769

* Balances are related to the timing of trade settlements.

Investment Fair Value

August 31, 2008 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary	Component Units
U.S. Treasury	$ 2,398,193	$ 10,125,342	$ 201,168
U.S. Treasury Strips	87,101	52,603	
U.S. Treasury TIPS	610,372	2,918,743	
U.S. Government Agency	22,287,691	13,583,485	621,678
Corporate Obligations	3,322,190	5,987,677	4,185
Corporate Asset and Mortgage Back	2,637,563	8,777,950	278,547
Corporate Equity	13,713,234	42,678,921	
International Obligations	1,071,615	5,149,673	99
International Equity	5,241,618	22,220,609	
International Other Commingled Funds	663,558	739,894	
Repurchase Agreements	6,672,842	10,927,364	133,172
Fixed Income and Bond Mutual Fund	3,540,741	380,395	8,528
Other Mutual Funds	5,116,266	924,241	21,998
Other Commingled Funds	7,967,649	524,596	6,921
Commercial Paper	3,174,959	1,007,743	15,407
Securities Lending Collateral Pool	4,487,982	25,617,840	
Securities Lending Collateral Investment Pool	599,234	32,763	
Real Estate	3,079,257		
Alternative Investments	13,370,215	16,089,334	
Other Investments	2,243,049	7,987,465	480,053
Total Investments	$102,285,329	$175,726,638	$1,771,756

Investments

The fair value of the state's investments is determined from published market prices, quotations from major investment brokers or independent pricing services. In general, the fair value of fixed income securities is based on yields currently available on comparable securities of issuers with similar credit ratings or on prices from fixed income pricing services or external broker quotes. The changes in the fair value of investments are reported as revenue in the operating statements.

Where no readily ascertainable market value exists (including private equity), fair values can be determined in consultation with investment advisors and Master Trust Custodians or based on the capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for subsequent contributions, distributions, management fees and reserves.

Investments in money market investments are reported at amortized cost which approximates market value. Participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less may also be reported at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

The state's investments at Aug. 31, 2008, are as shown.

TRS, TEA, ERS and UT participate in individual securities lending programs. Cash collateral received by the lending agent on behalf of each entity is invested in a non-commingled pool exclusively for the benefit of the individual entity. Additional information about the state's securities lending activity is disclosed in the "Securities Lending" section of this note. Balances by investment type for the invested securities lending cash collateral at Aug. 31, 2008, are as follows.

Invested Securities Lending Collateral Fair Value

August 31, 2008 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary
U.S. Treasury	$ 55,562	$ 732,837
U.S. Treasury TIPS		615,484
U.S. Government Agency	10,246	1,641,655
Corporate Obligations	407,699	1,568,662
Corporate Asset and Mortgage Back	613,058	7,229,961
Corporate Equity		2,842,541
International Equity		36,314
Repurchase Agreements	1,582,359	1,105,437
Commercial Paper	423,155	166,387
Other Investments	1,395,903	9,678,562
Total Investments	$ 4,487,982	$25,617,840

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the state will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The state does not have an investment policy for custodial credit risk. Consistent with the state's securities lending program, underlying securities on loans are subject to custodial credit risk.

At Aug. 31, 2008, the state's investments were exposed to custodial credit risk as follows.

Investments Exposed to Custodial Credit Risk

August 31, 2008 (Amounts in Thousands)

	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty's Trust Department or Agent But Not in the State's Name
GOVERNMENTAL ACTIVITIES		
Permanent School Fund		
Corporate Obligations	$	$ 296,807
Corporate Asset and Mortgage Back		631,917
Repurchase Agreements		1,135,587
Commercial Paper		7,984
Other Investments		1,385,901
Total Governmental Activities	0	3,458,196
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities		
Corporate Equity	1,965	
Other Proprietary Funds		
U.S. Treasury		29,581
U.S. Government Agency		3,150
Repurchase Agreements	114,999	
Total Business-Type Activities	116,964	32,731
Total Governmental and Business-Type Activities	$ 116,964	$ 3,490,927
FIDUCIARY		
Pension and Other Employee Benefit Trust Funds		
U.S. Treasury	2,795	470,412
U.S. Treasury TIPS		40,549
U.S. Government Agency		27,893
Corporate Obligations		208
Corporate Equity		3,287
International Equity		2,659
Other Commingled Funds		22,514
Total Fiduciary	$ 2,795	$ 567,522
COMPONENT UNITS		
U.S. Treasury	9,920	
Repurchase Agreements	70,847	
Total Component Units	$ 80,767	$ 0

Foreign Currency Risk: Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. TRS, TEA, ERS and UT have exposure to investment foreign currency risk. TRS manages the risk of holding investments in foreign currencies through asset allocation limits on various international investments. UT's investment policies were amended during the year to remove limitations on investments in non-U.S. denominated bonds. The amendments became effective March 1, 2008. Prior to the amendments, UT's investment policy limited investments in non-U.S. denominated bonds to 50 percent of its total fixed income exposure. TEA and ERS do not have an investment policy for managing foreign currency risk.

The state's exposure to foreign currency risk at Aug. 31, 2008, is as follows.

Investments Exposed to Foreign Currency Risk

August 31, 2008 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary		
	International Obligations	International Equity	Alternative Investments	International Other Commingled Funds	International Obligations	International Equity	Alternative Investments
Argentine Peso	$	$ 146	$	$	$	$	$
Australian Dollar	78,185	233,163		5,557		951,137	
Bermudan Dollar		321					
Brazilian Real	16,564	122,759			3,246	418,956	
Canadian Dollar	40,725	383,203		2,628	190,551	1,222,690	
Cayman Islands Dollar		20					
Chilean Peso		4,165				36,183	
Chinese Yuan		2,242					
Colombian Peso					443		
Czech Koruna		6,889				40,293	
Danish Krone	25,359	37,708		437		146,065	
Egyptian Pound		3,243				1,539	
Euro	236,826	1,217,547	391,480	37,561	1,793,948	5,530,462	1,255,570
Hong Kong Dollar	5,967	276,876		1,071		846,148	
Hungarian Forint		6,531		1	3,589	35,166	
Iceland Krona	11,451						
Indian Rupee		1,073				45,700	
Indonesian Rupiah	8,903	11,193			1,788	65,057	
Japanese Yen	152,121	865,316		5,001	423,116	3,127,861	
Malaysian Ringgit	39,041	17,165			1,324	91,905	
Mexican Peso	18,993	37,451		16	2,559	85,033	
Moroccan Dirham		1,521					
New Israeli Sheqel	6,002	9,563				34,502	
New Taiwan Dollar		61,251		1,039		295,149	
New Turkish Lira		13,309			2,367	53,978	
New Zealand Dollar	23,092	3,925		54		10,405	
Nigerian Naira					993		
Norwegian Krone		43,851		14		201,461	
Pakistani Rupee		490					
Peruvian Nuevo Sol		239			655		
Philippine Peso		5,321				8,744	
Polish Zloty	38,019	11,941	8	4	907	49,143	
Pound Sterling	77,060	817,074	2,630	8,140	1,528,516	3,132,352	33,827
Russian Ruble		5,205					
Singapore Dollar	12,422	65,980		494		199,606	
South African Rand	24,577	55,161			2,338	228,841	
South Korean Won		93,292				387,539	
Swedish Krona	16,961	77,428		6	179,474	344,389	
Swiss Franc		241,178		663		1,173,258	
Thai Baht		15,606			1,455	79,936	
Total	$832,268	$4,749,346	$394,118	$ 62,686	$4,137,269	$18,843,498	$1,289,397

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO).

TRS' investment policy establishes tracking error limits that are intended to reduce the tracking error of the asset class. In addition, the policy states that for over-the-counter derivatives, the minimum credit rating, based on a NRSRO, must be at least A- or better at the inception of the contract. For any counterparty that experiences deterioration in credit quality that results in a NRSRO rating below the A- level subsequent to the inception of the contract, additional eligible collateral must be posted. Repurchase agreements may not exceed 5 percent of the market value of the total investment portfolio, including cash and cash equivalents, unless those transactions are covered by a third-party indemnification agreement by an organization that bears a long-term NRSRO credit rating of A- or better and is enhanced by acceptable collateral. A securities lending agent must be an organization rated A- or better by a NRSRO.

TEA's investment policy requires investments to adhere to specific Standard & Poor's rating guidelines. Fixed income securities must be rated at least BBB- and short-term money market instruments must be rated at least A-1.

ERS' general investment policies require that noncash interest paying securities in the high yield bond portfolios not exceed 15 percent of the market value of the portfolio and that investments in money market funds represent no more than 5 percent of each individual fund.

UT's investment policies were amended to remove requirements and limitations regarding investment ratings. The amendments became effective March 1, 2008. Prior to that date investment policies limited investments in U.S. domestic bonds and non-dollar denominated bond investments to those that were rated investment grade, BBB- or better by Standard & Poor's. These requirements did not apply to investment managers that were authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

At Aug. 31, 2008, the state's credit quality distribution for securities with credit risk exposure was as follows.

Investments Exposed to Credit Risk

August 31, 2008 (Amounts in Thousands)

	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
GOVERNMENTAL ACTIVITIES											
U.S. Government Agency	$ 8,030,938	$	$	$	$	$	$	$	$	$	$ 9,106,008
Corporate Obligations	588,547	1,569,658	934,113	280,433	27,436	30,536	1,713				603
Corporate Asset and Mortgage Back	2,664,876	91,088									
International Obligations			21,461	2,873	757						
Repurchase Agreements	4,119,519										2,534,101
Other Investments											135,776
Total Governmental Activities	$15,403,880	$1,660,746	$ 955,574	$ 283,306	$ 28,193	$ 30,536	$ 1,713	$ 0	$ 0	$ 0	$11,776,488
BUSINESS-TYPE ACTIVITIES											
U.S. Government Agency	$ 3,218,755	$	$	$	$	$	$	$	$	$	$ 259,127
Corporate Obligations	77,800	268,956	457,226	245,556	69,239	59,303	1,028	14			28,841
Corporate Asset and Mortgage Back	396,123	14,602	10,394	4,630	500	995					50,848
International Obligations	452,791	156,424	187,707	86,392	7,187	2,841					172,821
Repurchase Agreements	1,695,166	114,999									54,043
Alternative Investments											1,430
Other Investments	23,771	687,388	2,506	6,078	13,911	3,533					238,632
Total Business-Type Activities	$ 5,864,406	$1,242,369	$ 657,833	$ 342,656	$ 90,837	$ 66,672	$ 1,028	$ 14	$ 0	$ 0	$ 805,742
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES											
U.S. Government Agency	$11,249,693	$	$	$	$	$	$	$	$	$	$ 9,365,135
Corporate Obligations	666,347	1,838,614	1,391,339	525,989	96,675	89,839	2,741	14			29,444
Corporate Asset and Mortgage Back	3,060,999	105,690	10,394	4,630	500	995					50,848
International Obligations	452,791	156,424	209,168	89,265	7,944	2,841					172,821
Repurchase Agreements	5,814,685	114,999									2,588,144
Alternative Investments											1,430
Other Investments	23,771	687,388	2,506	6,078	13,911	3,533					374,408
Total Governmental and Business-Type Activities	$21,268,286	$2,903,115	$ 1,613,407	$ 625,962	$119,030	$ 97,208	$ 2,741	$ 14	$ 0	$ 0	$12,582,230
FIDUCIARY											
U.S. Government Agency	$11,900,163	$	$ 20,002	$	$	$	$	$	$	$	$ 512,783
Corporate Obligations	1,693,175	878,787	1,875,082	1,229,536	535,205	909,555	162,345	2,442	5,220	2,695	119,686
Corporate Asset and Mortgage Back	13,237,390	45,128	2,283,246	34,600	15,107	1,940	8,139				371,004
International Obligations	3,023,042	429,759	1,063,864	303,122	58,269	3,838					267,779
Repurchase Agreements	9,196,467		1,986,431								138,600
Other Investments	499,323	6,537,212	10,355,776			2,094					79,853
Total Fiduciary	$39,549,560	$7,890,886	$17,584,401	$1,567,258	$608,581	$917,427	$170,484	$2,442	$5,220	$2,695	$ 1,489,705
COMPONENT UNITS											
U.S. Government Agency	$ 594,765	$	$	$	$	$	$	$	$	$	$ 28,125
Corporate Obligations	907	1,655	1,623								
Corporate Asset and Mortgage Back	277,993										
International Obligations			98								
Repurchase Agreements	29,966										6,432
Total Component Units	$ 903,631	$ 1,655	$ 1,721	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 34,557

Concluded on the following page

Investments Exposed to Credit Risk (concluded)

August 31, 2008 (Amounts in Thousands)

	AAAf	AAAm	Aaf	NR
GOVERNMENTAL ACTIVITIES				
Fixed Income and Bond Mutual Fund	$4,783,413	$ 522	$	$ 1,470
BUSINESS-TYPE ACTIVITIES				
Fixed Income and Bond Mutual Fund	$2,428,907	$ 443,074	$ 66,043	$ 209,338
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES				
Fixed Income and Bond Mutual Fund	$7,212,320	$ 443,596	$ 66,043	$ 210,808
FIDUCIARY				
Fixed Income and Bond Mutual Fund	$ 353,641	$	$	$ 14,848
COMPONENT UNITS				
Fixed Income and Bond Mutual Fund	$ 21,999	$	$	$ 6,673

	A-1	A-2	NR
GOVERNMENTAL ACTIVITIES			
Commercial Paper	$3,222,323	$	$ 2,600
BUSINESS-TYPE ACTIVITIES			
Commercial Paper	$ 294,746	$ 1,185	$ 94,379
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES			
Commercial Paper	$3,517,069	$ 1,185	$ 96,979
FIDUCIARY			
Commercial Paper	$1,121,655	$	$
COMPONENT UNITS			
Commercial Paper	$ 15,407	$	$

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the state's investment in a single issuer. At Aug. 31, 2008, more than 5 percent of investments held by governmental activities were in securities issued by the Federal Home Loan Bank, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. These holdings were the result of the governmental activities' participation in the Treasury's internal investment pool. The Treasury places no limit on the amount it may invest in any one issuer.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. TEA and TRS use the effective weighted duration method to identify and manage interest rate risk. UT and ERS use the modified duration method.

Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weights. The duration of an instrument can be calculated by first multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instrument. Effective duration extends this analysis to incorporate an option adjusted measure of an instrument's sensitivity to changes in interest rates. Modified duration estimates the sensitivity of the fund's investments to changes in interest rates.

The investment policy of TEA mandates the average duration of the fixed income portfolio be consistent with the Lehman Bros. Aggregate Index's duration. The Lehman Bros. Aggregate Index duration as of Aug. 31, 2008, was 4.8 years. The maximum maturity for invested securities lending collateral is 397 days except for bank time deposits which is 60 days, bankers' acceptances, which is 45 days, reverse repurchase agreements, which is 180 days and floating rate securities, which is three years. The maximum weighted average maturity of the entire collateral portfolio must be 180 days. The maximum weighted average interest rate exposure of the entire collateral portfolio must be 60 days. TRS, UT and ERS do not have a formal investment policy with respect to interest rate risk.

TEA's investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2008, are as follows.

Investments Exposed to Interest Rate Risk

August 31, 2008

TEA Investment Type	Fair Value (in Thousands)	Effective Weighted Duration Rate
Asset Backed Securities	$ 34,163	4.19
Commercial Mortgage Backed Securities	359,336	5.37
Corporate Obligations	1,152,834	5.31
Non Agency Mortgage Backed Securities	242,350	5.56
Private Placements - Corporate	39,395	3.44
Private Placements - Government	25,841	6.82
U.S. Government Agency Mortgage Backed Securities	2,004,246	4.09
U.S. Government Agency Obligations	960,193	4.72
U.S. Treasury Securities	916,619	4.61
U.S. Treasury Strips	56,849	16.72
U.S. Treasury TIPS	61,514	0.85
Total Fixed Income	$ 5,853,340	4.75

The following provides information about TEA's interest rate risks and maturities associated with its invested securities lending collateral by investment type.

Invested Securities Lending Collateral Exposed to Interest Rate Risk

August 31, 2008 (Amounts in Thousands)

TEA Investment Type	Fair Value	Investment Maturities in Less Than One Year	Investment Maturities Greater Than One Year
Asset Backed Floating Rate Notes	$ 613,058	$ 408,906	$204,152
Bank Floating Rate Notes	999,492	593,216	406,276
Certificates of Deposit	27,002	27,002	
Commercial Paper	7,985	7,985	
Corporate Floating Rate Notes	295,420	204,042	91,378
Repurchase Agreements	1,135,587	1,135,587	
Time Deposits	355,000	355,000	
Total	$3,433,544	$2,731,738	$701,806

TRS' investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2008, are as follows. The effective weighted duration rate is an option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. It is calculated as the average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve +/-100 basis points. It incorporates the effect of embedded options for corporate bonds and changes in prepayments for mortgage backed securities (including pass-throughs, CMOs and ARMs). The effective weighted duration calculation excludes the High Yield Limited Partnerships, which are pooled instruments and not debt securities.

Investments Exposed to Interest Rate Risk

August 31, 2008

TRS Investment Type	Fair Value (in Thousands)	Effective Weighted Duration Rate
U.S. Government Obligations	$10,795,100	9.80
U.S. Government Agency Obligations	51,363	6.30
Asset and Mortgage Backed Obligations	2,347,811	6.45
Corporate Obligations	2,283,879	4.71
International Government Obligations	4,263,647	9.00
International Corporate Obligations	877,277	4.91
Total Interest Rate Risk Debt Securities	$20,619,077	8.47

ERS' investments by investment type, fair value and the modified duration rate as of Aug. 31, 2008, are as follows.

Investments Exposed to Interest Rate Risk

August 31, 2008

	Fair Value (Amounts in Thousands)		Modified Duration	
ERS Investment Type	Fiduciary Fund	Proprietary Fund	Fiduciary Fund	Proprietary Fund
U.S. Treasury Securities	$1,248,613	$106,895	6.04	6.99
U.S. Treasury TIPS	656,250		11.73	
U.S. Government Agency Obligations	3,127,437	129,962	4.69	2.68
Corporate Obligations	2,966,558	119,846	5.18	2.21
Corporate Asset and Mortgage Backed Securities	497,839	28,841	3.98	3.46
Cash and Cash Equivalents	337,962	419,078	0.01	0.05
Overall Interest Rate Risk Debt Securities	$8,834,659	$804,622	5.36	1.70

UT's investments by investment type, fair value and the modified duration rate as of Aug. 31, 2008, are as follows.

Investments Exposed to Interest Rate Risk

August 31, 2008

UT Investment Type	Fair Value (In Thousands)	Modified Duration
INVESTMENTS IN SECURITIES:		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	$ 134,107	5.23
U.S. Treasury Strips	11,628	3.09
U.S. Treasury Bills	30,468	0.07
U.S. Treasury Inflation Protected	548,857	8.56
U.S. Agency Asset Backed	103,822	4.00
Total U.S. Government Guaranteed	828,882	7.06
U.S. Government Non-Guaranteed:		
U.S. Agency	7,954	3.34
U.S. Agency Asset Backed	674,454	5.93
Total U.S. Government Non-Guaranteed	682,408	5.90
Total U.S. Government	1,511,290	6.54
Corporate Obligations:		
Domestic	820,444	5.03
Commercial Paper	44,472	0.10
Foreign	282,363	5.09
Total Corporate Obligations	1,147,279	4.86
Foreign Government and Provincial Obligations	543,447	7.76
Other Debt Securities	19,484	9.77
Total Debt Securities	562,931	7.83
Other Investment Funds – Debt	672,283	5.70
Fixed Income Money Market Funds	1,980,166	0.08
Certificates of Deposit	4,199	0.78
Total Investments in Securities	$5,878,148	4.06
DEPOSIT WITH BROKERS FOR DERIVATIVE CONTRACTS:		
U.S. Government Guaranteed:		
U.S. Treasury Bills	$ 62,644	0.17
Total U.S. Government Guaranteed	62,644	0.17
Cash	53,152	0.06
Total Deposit with Brokers for Derivative Contracts	$ 115,796	0.12

Investments with Fair Values Highly Sensitive to Interest Rate Changes

In accordance with the applicable investment policies, TEA, TRS, ERS and UT may invest in asset backed and mortgage backed obligations. Mortgage backed obligations are subject to early principal payment in a period of declining interest rates. The resultant reduction in expected cash flows will affect the fair value of these securities. Asset backed obligations are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligee of the underlying assets in periods of declining interest rates could reduce or eliminate the stream of income that would have been received. At Aug. 31, 2008, the fair value of investments in asset and mortgage backed obligations highly sensitive to interest rate changes for TEA, TRS, ERS and UT was $6.6 billion.

Reverse Repurchase Agreements

Investments in reverse repurchase agreements by the Treasury and the Trust Company are permitted by stat-

ute. A reverse repurchase agreement consists of a sale of securities by the state with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Sale proceeds are invested by the state in securities or repurchase agreements that mature at or almost at the same time as the reverse repurchase agreement. Proceeds from the matured securities are used to liquidate the agreement resulting in a matched position. With a matched position there is minimal market risk because the seller-borrower will hold the securities to maturity and liquidate them at face value. In the event of default on a reverse repurchase agreement, the Treasury would potentially suffer a loss. The loss occurs if the cash received does not exceed the fair value of the securities underlying reverse repurchase agreements. The amount of the loss would equal the difference between the fair value plus accrued interest of the underlying securities and the agreement price plus accrued interest. To minimize the risk of default, all securities backing reverse repurchase agreements are held by the Federal Reserve Bank in the state's name.

The Treasury's aggregate amount of reverse repurchase agreement obligations at Aug. 31, 2008, was $146.8 million including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was $147.6 million. The credit exposure at fiscal year end was $843.5 thousand.

Securities Lending

TRS, TEA, ERS, UT, the Trust Company, the Texas A&M University System (A&M), the General Land Office/ Veterans Land Board (GLO/VLB) and the Texas Prepaid Higher Education Tuition Board (TPHETB) participate in securities lending programs as authorized by state statute. TRS, TEA, ERS and UT have established their own separately managed securities lending programs. A&M, GLO/ VLB and TPHETB participate in collateral investment pools that commingle the cash collateral of several entities. The Trust Company manages the investments in collateral investment pools for the Treasury, Texas Historical Commission, Office of Rural and Community Affairs and the University of North Texas System.

Under these programs, the governmental entities transfer securities to an independent broker or dealer in exchange for collateral in the form of cash, governmental securities or bank letters of credit. In addition, TEA may receive collateral in the form of other assets which it specifically agrees to with its lending agent and A&M may receive collateral in the form of fixed income securities and repurchase agreements. TRS, ERS, UT and GLO/ VLB receive collateral equal to 102 percent of the value of domestic securities lent and 105 percent for international securities. TEA receives collateral in an amount of 102 percent of the fair value plus accrued income for domestic corporate securities and 105 percent of the fair value plus accrued income for foreign securities; except in the case of foreign securities denominated and payable in U.S. Dollars, the required percentage is 102 percent. A&M receives collateral of 102 percent of the value of the securities lent. The Trust Company receives collateral of 102 percent of the value of U.S. securities lent plus any accrued interest and 105 percent of the value of non-U.S. government securities plus any accrued interest. TPHETB receives collateral of 102 percent of the value of domestic securities lent plus accrued interest and 105 percent plus accrued interest for foreign securities. At fiscal year end, a portion of TRS' collateral received was other than cash or governmental securities. TRS is working with State Street Bank and Trust Company to replace and secure appropriate collateral. There is a simultaneous agreement to return the collateral for the same securities in the future.

The state's securities custodians are the security lending agents. The securities lending contracts do not allow the state to pledge or sell collateral securities unless the borrower defaults. For TRS, TEA, ERS, UT, GLO/VLB and TPHETB, the lending agents are required to indemnify the state if the borrowers fail to return the securities. For the Trust Company and A&M, the lending agent is not liable with respect to any losses except to the extent that such losses result from the lending agent's negligence, failure to live up to its contractual responsibilities or willful misconduct.

For ERS, the relationship between the maturities of investments made with cash collateral generally matched the maturities of the loan agreements. For A&M, cash col-

lateral is invested in a portfolio with a liquidity target of 20 percent, but does not generally match the maturities of investments with the term maturities of the loan agreements. TRS, the Trust Company, GLO/VLB and TPHETB loans are terminable at will. UT manages its investments to maintain an average maturity and overnight liquidity. For TEA, maturities are defined by the lending agreement and the loans are terminable at will. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses and no recoveries of prior period losses during the year.

Due to illiquidity in the securities lending market, several securities lending cash collateral pools have experienced declines in the fair value of invested cash collateral. In previous fiscal years there were no material differences between the fair value of the invested cash collateral and the cash collateral liability. Differences between the fair value of the invested cash collateral and the cash collateral liability as of Aug. 31, 2008, have been recorded as part of the net increase/(decrease) in fair value of investments. Decreases in the fair value of invested cash collateral represent additional credit risk exposure to borrowers. There is no credit risk exposure to the borrower when the fair value of the invested cash collateral exceeds the cash collateral liability. The overall securities lending activity as of Aug. 31, 2008, is summarized as follows.

Securities Lending Activity Summary

August 31, 2008 (Amounts in Thousands)

Entity	Fair Value of Securities on Loan	Non-Cash Collateral*	Cash Collateral Liability (Obligation/ Securities Lending)	Fair Value of Invested Cash Collateral (Securities Lending Collateral)	Net Increase/ (Decrease) In Fair Value**
TRS	$21,787,861	$2,845,866	$ 19,699,519	$ 19,347,275	$(352,244)
TEA	3,421,244	108,425	3,458,196	3,433,544	(24,652)
ERS	6,735,875	589,301	6,375,193	6,340,579	(34,614)
UT	968,988	20,697	984,343	984,424	81
Trust Company	51,506	2,810	50,165	50,165	
A&M	180,227	479	184,823	184,823	
GLO/VLB	89,142		90,945	89,817	(1,128)
TPHETB	304,230	5,979	307,192	307,192	
Total	$33,539,073	$3,573,557	$ 31,150,376	$ 30,737,819	$(412,557)

* Non-cash collateral received for securities lending activities are not recorded as assets because the underlying investments remain under the control of the borrower, except in the event of default.

** The Trust Company, A&M and TPHETB did not experience any net change in fair value because the cash collateral pools they participated in were maintained at amortized cost as of Aug. 31, 2008.

Derivatives

Derivatives are financial instruments (securities or contracts) whose value is linked to or "derived" from changes in interest rates, currency rates and stock and commodity prices. Certain state agencies and colleges and universities were parties to various derivative financial instruments including derivative contracts, options and investments in commingled funds that are authorized to use derivatives and swaps.

At Aug. 31, 2008, the following derivatives were held and reported at fair value on the statement of net assets and the statement of fiduciary net assets.

Type	Held By
Forward Contracts	TRS, A&M and UT
Futures Contracts	TRS, ERS, TEA and UT
Written Options	UT
Index Funds, Hedge Funds and Commingled Funds	UT
Swaps	TRS and UT

Forward contracts are bought or sold when an international trade has been made. The contract is in the currency native to the security transactions for settlement date. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform.

Futures contracts are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes.

Written options are used to alter the market (systematic) exposure without trading the underlying cash market securities and to hedge and control risks so that the actual risk/return profile is more closely aligned with the target risk/return profile. If a call option expires, the state realizes a gain to the extent of the premium received. If a call option is exercised, the difference between the proceeds of the sale

plus the amount of the premium and the fair value of the security are realized as a gain or loss. If a call option is repurchased, the difference between the premium income received and the amount paid to close the option contract is realized as a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased.

Index funds, hedge funds and commingled funds alter market exposure without trading the underlying cash market securities.

Swaps are entered into primarily to hedge and control interest rate risks.

Note 4

Short-Term Debt

On Aug. 21, 2007 (with an issue date of Sept. 4, 2007), $4.9 billion in the state of Texas Tax and Revenue Anticipation Notes, Series 2007, were sold to coordinate the cash flow of the state for the fiscal year ended Aug. 31, 2008. Issuance of these notes enhanced the state's ability to make timely payment of expenditures payable from the general revenue fund. The Series 2007 were repaid during fiscal 2008 and bore interest at 4.5 percent and were priced to yield 3.728 percent.

On Aug. 19, 2008, the Comptroller's office sold approximately $6.4 billion of the state of Texas Tax and Revenue Anticipation Notes, Series 2008, with an issue date of Aug. 28, 2008, and a maturity date of Aug. 28, 2009. The notes bear interest at 3 percent and were priced to yield 1.646 percent. They are not subject to redemption prior to maturity. On Aug. 19, 2008, good faith funds in the amount of $64 million were received. Short-term debt activity for the year ended Aug. 31, 2008, is as follows.

During fiscal 2008, the Texas Department of Transportation issued commercial paper under its short-term borrowing program. The commercial paper proceeds are being used to cover temporary funding short falls for capital expenditures.

Short-Term Debt

For the Fiscal Year Ended August 31, 2008
(Amounts in Thousands)

	Beginning Balance 09/01/07	Issued	Redeemed	Ending Balance 08/31/08
Tax and Revenue Anticipation Notes	$	$11,300,000	$4,900,000	$6,400,000
Commercial Paper	158,000	434,224	401,474	190,750
	$ 158,000	$11,734,224	$5,301,474	$6,590,750

Note 5

Long-Term Liabilities

The long-term liabilities activity for fiscal 2008 is shown in the table below.

Long-Term Liabilities Activity

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Beginning Balance 09/01/07	Additions	Reductions	Ending Balance 08/31/08	Amounts Due Within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES						
Claims and Judgments	$ 206,968	$ 24,272	$ 45,059	$ 186,181	$ 61,242	$ 124,939
Capital Lease Obligations	10,560	715	1,653	9,622	1,562	8,060
Employees' Compensable Leave	722,530	697,295	670,826	748,999	435,943	313,056
Notes and Loans Payable	215,700	145,000	21,110	339,590	27,261	312,329
General Obligation Bonds Payable	6,756,893	2,064,988	761,172	8,060,709	388,575	7,672,134
Revenue Bonds Payable	2,030,739	1,587,440	173,195	3,444,984	162,853	3,282,131
Governmental Activities Long-Term Liabilities	$ 9,943,390	$4,519,710	$1,673,015	$12,790,085	$1,077,436	$11,712,649
BUSINESS-TYPE ACTIVITIES						
Claims and Judgments	$ 163,840	$ 615,405	$ 624,454	$ 154,791	$ 95,634	$ 59,157
Capital Lease Obligations	13,579	3,612	2,898	14,293	2,667	11,626
Employees' Compensable Leave	580,183	165,542	127,030	618,695	316,050	302,645
Notes and Loans Payable	2,029,322	2,037,438	1,629,493	2,437,267	1,393,081	1,044,186
General Obligation Bonds Payable	2,775,467	249,822	317,526	2,707,763	114,340	2,593,423
Revenue Bonds Payable	12,304,358	2,374,719	1,309,106	13,369,971	1,487,144	11,882,827
Liabilities Payable From Restricted Assets	3,668,564	2,429,674	2,625,382	3,472,856	498,002	2,974,854
Business-Type Activities Long-Term Liabilities	$21,535,313	$7,876,212	$6,635,889	$22,775,636	$3,906,918	$18,868,718
COMPONENT UNITS						
Capital Lease Obligations	$ 150	$ 193	$ 178	$ 165	$ 93	$ 72
Employees' Compensable Leave	4,752	2,963	2,716	4,999	3,429	1,570
Notes and Loans Payable	168,018	200,500	226,860	141,658	38,344	103,314
Revenue Bonds Payable	376,322	57,426	20,714	413,034	16,858	396,176
Liabilities Payable From Restricted Assets	229,091	17,426	159,216	87,301		87,301
Component Units Long-Term Liabilities	$ 778,333	$ 278,508	$ 409,684	$ 647,157	$ 58,724	$ 588,433

Notes and loans payable consists of amounts used to purchase capital equipment. Other uses include the acquisition, construction and renovation of other capital assets, including the interim financing of higher education projects; software/database acquisition and development; refinancing of existing debt and the funding of agency specific missions such as economic development projects and pest eradication programs. Debt service requirements for notes and loans payable in the long-term liabilities are shown to the right and at the top of the following page.

General Obligation Bonds and Revenue Bonds are described in detail in Note 6.

Notes and Loans Payable Debt Service Requirements Governmental Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2009	$ 27,261	$ 14,502	$ 41,763
2010	26,913	14,102	41,015
2011	23,649	13,571	37,220
2012	21,426	12,464	33,890
2013	20,477	11,424	31,901
2014 - 2018	96,144	42,684	138,828
2019 - 2023	80,260	19,768	100,028
2024 - 2028	41,855	4,793	46,648
2029 - 2033	1,605	7	1,612
Total Requirements	$ 339,590	$ 133,315	$ 472,905

Notes and Loans Payable Debt Service Requirements Business-Type Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2009	$1,392,394	$ 14,884	$1,407,278
2010	6,387	25,391	31,778
2011	6,830	36,896	43,726
2012	6,807	38,211	45,018
2013	6,459	39,929	46,388
2014 - 2018	45,523	234,140	279,663
2019 - 2023	30,198	300,262	330,460
2024 - 2028	86,140	354,552	440,692
2029 - 2033	146,615	353,468	500,083
2034 - 2038	288,561	330,754	619,315
2039 - 2043	420,666	226,534	647,200
Total Requirements	2,436,580	1,955,021	4,391,601
Premium	687		687
Total Requirements	$2,437,267	$1,955,021	$4,392,288

Notes and Loans Payable Debt Service Requirements Component Units

(Amounts in Thousands)

Year	Principal	Interest	Total
2009	$ 38,344	$ 4,672	$ 43,016
2010	11,289	3,652	14,941
2011	18,803	3,571	22,374
2012	11,690	2,974	14,664
2013	15,176	2,526	17,702
2014 - 2018	45,576	3,303	48,879
2019 - 2023	179	222	401
2024 - 2028	601	219	820
Total Requirements	$ 141,658	$ 21,139	$ 162,797

Claims and judgments are payments on behalf of the state, its agencies and employees for various legal proceedings and claims. Tort claims are covered under the Texas Tort Claims Act. Numerous miscellaneous claims are covered under the Miscellaneous Claims Act for legal liabilities against the state for which no appropriation otherwise exists. Individual claims above $25,000 or numerous separate claims from the same individual or entity that in total exceed $25,000 must be approved by the Legislature before being paid.

Employees' compensable leave is the state's liability for all unused vacation and unpaid overtime accrued by employees, payable as severance pay under specified conditions. This obligation is paid only at the time of termination, usually from the same funding source(s) from which the employee's salary or wage compensation was paid.

Capital lease obligations are described in detail in Note 7.

Long-term liabilities that are associated with the acquisition of restricted assets or long-term liabilities that will be liquidated with restricted assets are classified as liabilities payable from restricted assets.

Note 6

Bonded Indebtedness

DESCRIPTION OF BOND ISSUES

The state of Texas has 495 bond issues outstanding as of Aug. 31, 2008. During fiscal 2008 the state paid $425.1 million from the general revenue fund for debt service.

Bonds Issued and Issues Outstanding

(Amounts in Thousands)

	Bond Issues Outstanding 8/31/08	Bonds Issued
GOVERNMENTAL ACTIVITIES		
General Obligation Bonds	62	$10,036,057
Revenue Bonds	31	4,190,587
Governmental Activities Bond Total	93	14,226,644
BUSINESS-TYPE ACTIVITIES		
General Obligation Bonds	90	3,826,596
Revenue Bonds	286	18,015,603
Business-Type Activities Bond Total	376	21,842,199
COMPONENT UNITS		
Revenue Bonds	26	501,682
Total Bonds	495	$36,570,525

Changes in Bonds Payable

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Bonds Outstanding 9/1/07	Bonds Issued	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 8/31/08	Due Within One Year
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds	$ 6,756,893	$ 2,064,988	$ 279,952	$ 481,220	$ 8,060,709	$ 388,575
Revenue Bonds	2,030,739	1,587,440	112,250	60,945	3,444,984	162,853
Governmental Activities Bond Total	8,787,632	3,652,428	392,202	542,165	11,505,693	551,428
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds	2,775,467	249,822	133,396	184,130	2,707,763	114,340
Revenue Bonds	12,304,358	2,374,719	578,219	730,887	13,369,971	1,487,144
Business-Type Activities Bond Total	15,079,825	2,624,541	711,615	915,017	16,077,734	1,601,484
COMPONENT UNITS						
Revenue Bonds	376,322	57,426	20,714		413,034	16,858
Total Bonds	$24,243,779	$ 6,334,395	$ 1,124,531	$ 1,457,182	$27,996,461	$ 2,169,770

Miscellaneous Bond Information

(Amounts in Thousands)

Description of Issue	Bonds Issued to Date	Range of Interest Rates		Maturities First Year	Maturities Last Year	First Call Date
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds	$10,036,057	2.00	8.00	1992	2045	07/01/04
Revenue Bonds	4,190,587	2.50	7.25	1991	2028	02/01/01
Governmental Activities Bond Total	14,226,644					
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds	3,826,596	1.37	8.06	1995	2047	02/24/94
Revenue Bonds	18,015,603	1.50	15.00	1988	2047	02/01/88
Business-Type Activities Bond Total	21,842,199					
COMPONENT UNITS						
Revenue Bonds	501,682	3.50	7.10	1986	2041	10/08/86
Grand Total	$36,570,525					

Debt Service Requirements

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES

Year	General Obligation Bonds Principal	General Obligation Bonds Interest	General Obligation Bonds Total	Revenue Bonds Principal	Revenue Bonds Interest	Revenue Bonds Total
2009	$ 379,744	$ 360,730	$ 740,474	$ 156,490	$ 152,822	$ 309,312
2010	313,160	346,232	659,392	168,785	149,061	317,846
2011	326,070	330,585	656,655	161,750	141,965	303,715
2012	294,410	316,732	611,142	170,650	134,834	305,484
2013	304,175	302,056	606,231	172,015	127,401	299,416
2014 - 2018	1,150,070	1,351,636	2,501,706	841,190	521,252	1,362,442
2019 - 2023	950,570	1,125,489	2,076,059	907,070	313,827	1,220,897
2024 - 2028	1,167,305	874,339	2,041,644	768,065	81,104	849,169
2029 - 2033	1,453,945	568,346	2,022,291			0
2034 - 2038	1,558,300	184,502	1,742,802			0
2039 - 2043	-	6,120	6,120			0
2044 - 2048	45,000	2,448	47,448			0
	7,942,749 *	5,769,215	13,711,964	3,346,015 *	1,622,266	4,968,281
Accretion	(47,860)		(47,860)	(16,992)		(16,992)
Premium	165,820		165,820	115,961		115,961
Total	$8,060,709	$5,769,215	$13,829,924	$ 3,444,984	$1,622,266	$ 5,067,250

BUSINESS-TYPE ACTIVITIES

Year	General Obligation Bonds Principal	General Obligation Bonds Interest	General Obligation Bonds Total	Revenue Bonds Principal	Revenue Bonds Interest	Revenue Bonds Total
2009	$ 114,340	$ 95,840	$ 210,180	$ 1,475,848	$ 559,967	$ 2,035,815
2010	147,398	91,314	238,712	442,957	546,218	989,175
2011	140,109	85,754	225,863	430,828	526,021	956,849
2012	113,917	80,958	194,875	440,524	506,269	946,793
2013	116,687	76,830	193,517	468,551	485,700	954,251
2014 - 2018	634,306	316,174	950,480	2,563,996	2,074,800	4,638,796
2019 - 2023	561,265	201,647	762,912	2,413,761	1,495,618	3,909,379
2024 - 2028	367,475	115,202	482,677	1,951,373	1,031,235	2,982,608
2029 - 2033	364,945	49,760	414,705	1,723,026	700,937	2,423,963
2034 - 2038	127,780	12,686	140,466	1,529,993	440,827	1,970,820
2039 - 2043	19,060	3,955	23,015	1,008,890	186,207	1,195,097
2044 - 2048	5,200	683	5,883	99,060	8,469	107,529
	2,712,482 *	1,130,803	3,843,285	14,548,807 *	8,562,268	23,111,075
Accretion	(4,718)		(4,718)	(1,357,748)		(1,357,748)
Premium	(1)		(1)	257,438		257,438
Discount				(18,609)		(18,609)
Loss on Refunding				(59,917)		(59,917)
Total	$2,707,763	$1,130,803	$ 3,838,566	$13,369,971	$8,562,268	$21,932,239

COMPONENT UNITS

Year	Revenue Bonds Principal	Revenue Bonds Interest	Revenue Bonds Total
2009	$ 16,716	$ 12,696	$ 29,412
2010	8,958	17,473	26,431
2011	3,989	16,922	20,911
2012	4,247	16,705	20,952
2013	4,506	16,469	20,975
2014 - 2018	26,348	78,284	104,632
2019 - 2023	36,306	69,921	106,227
2024 - 2028	150,316	53,842	204,158
2029 - 2033	70,917	31,814	102,731
2034 - 2038	71,273	10,153	81,426
2039 - 2043	4,885	279	5,164
	398,461 *	324,558	723,019
Premium	14,573		14,573
Total	$ 413,034	$ 324,558	$ 737,592

* Increase/Decrease is due to accretion adjustment on deep discount bonds, premium, discount and/or loss on refunding.

General Obligation Bonds – General Comments

The Texas Constitution authorizes the state to issue several types of general obligation bonds. Each issue of general obligation bonds is designed to be self-supporting from a primary revenue source related to the program being financed, except for the general obligation bonds of the Texas Public Finance Authority, the Water Development Board and the Constitutional Appropriation Bonds.

The purpose and primary pledged revenue sources of each type of general obligation bond are summarized below.

The **Texas Higher Education Coordinating Board** issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The **Texas Parks and Wildlife Department** issues bonds to finance the acquisition and development of state park sites. Park entrance fees and investment earnings are applied to debt service on the bonds.

The **Texas Public Finance Authority** (Authority) issues general obligation bonds to finance the acquisition, construction or renovation of buildings for the use of state agencies and institutions. The Authority is also authorized to issue general obligation bonds to assist local government economic development projects to enhance the value of military facilities. The bonds are payable from state appropriations.

The **Texas Water Development Board** issues bonds to provide financial assistance to political subdivisions for water development, water quality enhancement projects and flood control projects. Debt service payments are funded by principal and interest received on loans to political subdivisions, repayments of purchased water storage contracts and earnings on temporary investments.

The **General Land Office and Veterans Land Board** issues bonds to provide funds to loan to eligible Texas veterans for the purchase of land, housing or home improvements. Principal and interest payments on loans, plus investment earnings, are the primary source of repayment for bonds.

The **Texas Department of Transportation through the Texas Mobility Fund** issues bonds to pay part of the costs of constructing, reconstructing, acquiring and expanding state highways and providing participation by the state in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects. Debt service is payable from balances in and revenues of the Mobility Fund, which include certain license plate fees, investment income, motor vehicle inspection fees, driver record information fees and driver license fees. Residual funding is from state appropriations.

Constitutional Appropriation Bonds are issued in support of the construction programs of colleges and universities not benefiting from the Permanent University Fund, which is dedicated to the University of Texas and Texas A&M University systems. Debt service payments on bonds issued are limited to the $131.3 million in General Revenue Funds available for debt service each year.

The **Economic Development and Tourism Office**, a division within the Office of the Governor, issues general obligation bonds to provide financial assistance to export businesses, to promote domestic business development, to provide loans to finance the commercialization of new and improved products and processes and to provide loans to defense-related communities for economic development projects. Debt service payments are funded primarily from the repayment of loans and the disposition of debt instruments.

General Obligation Bonds – Authorized But Unissued

The Texas Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of Aug. 31, 2008, the amounts of general obligation bonds, other than Constitutional Appropriation Bonds, that were authorized but unissued are listed in the table below.

General Obligation Bonds Authorized But Unissued

(Amounts in Thousands)

SELF-SUPPORTING	
Texas Agricultural Finance Authority Bonds	$ 25,000
Farm and Ranch Loan Bonds	475,000
Veterans Land and Housing Bonds	147,157
Water Development Bonds	1,974,238
College Student Loan Bonds	600,482
Texas Military Preparedness Commission	200,405
	3,422,282
NOT SELF-SUPPORTING	
Agricultural Water Conservation Bonds	164,840
Texas Public Finance Authority Bonds	4,260,623
Water Development Bonds - Economically Distressed Areas Program	262,013
	4,687,476
Total General Obligation Bonds	$8,109,758

Revenue Bonds – General Comments

Each series of revenue bonds is backed by the pledged revenue sources and restricted funds specified in the bond resolution. Each series is designed to be self-supporting except for the following, which are supported by pledged lease or rental revenue derived from contracts with other state agencies, which in turn comes from legislative appropriations.

- Adjutant General's Department Bonds
- Texas Public Finance Authority Bonds
- Texas Department of Criminal Justice Bonds
- Texas Parks and Wildlife Department Bonds

The purpose and primary pledged revenue sources of each type of revenue bond are summarized below.

The **Adjutant General's Department** assumed the **Texas Military Facilities Commission's** responsibilities on Sept. 1, 2007. This includes the issuance of bonds for the construction, expansion and renovation of armories. The bonds are payable from certain pledged revenues, primarily rentals from the Adjutant General's Department.

The **Texas Public Finance Authority** issues bonds to finance the acquisition of real property and the construction, equipping or renovation of buildings for the use of state agencies and institutions of higher education. The bonds are payable from specified pledged revenues, primarily occupant-agency rentals collected.

The **Texas Parks and Wildlife Department** (Department) issues bonds for infrastructure repairs and construction. The bonds are payable from rent payments made by the Department to the Texas Public Finance Authority that are funded from state appropriations.

The **General Land Office and Veterans Land Board** (Board) issues bonds to assist in the construction of skilled nursing care facilities for veterans and to make home mortgage loans to veterans. The bonds are limited and special revenue obligations of the Board payable solely from the income, revenues, receipts and collateral pledged under the related trust indentures.

The **Texas Department of Housing and Community Affairs** (Department) issues bonds to assist in financing the purchase of homes by, or the construction of rental housing for, families with low to moderate incomes. Loan payments provide the revenues for debt service payments. The Department has also issued taxable bonds for investment in collateralized mortgage obligations of federal agencies to finance mortgage loans and carry out financial assistance programs.

The **Texas Water Development Board** issues bonds for the water pollution control revolving fund commonly referred to as the state revolving fund. The proceeds are used to provide financial assistance to political subdivisions for water quality enhancement purposes. Principal and interest from political subdivision bonds are pledged for debt service requirements of the bonds.

Permanent University Fund (Fund) Bonds are issued by the University of Texas and Texas A&M University systems to build, equip or buy buildings or other permanent improvements. The Texas Constitution limits each system's Fund debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of Fund

assets, excluding real estate. Revenue from investments of the Fund is pledged to secure the payment of interest and principal. The cost value of Fund assets at Aug. 31, 2008, excluding real estate, was $10.8 billion. A comparison between the legal debt limits and the actual bonds outstanding at that date is shown below.

Permanent University Fund Bonds

(Amounts in Thousands)

	Legal Debt Limits	Actual Bonds Payable	Authorized But Unissued
University of Texas System	$2,158,019	$ 918,980	$1,239,039
Texas A&M University System	1,079,009	382,630	696,379
Total	$3,237,028	$1,301,610	$1,935,418

Miscellaneous College and University Revenue Bonds are issued to provide funds to acquire, construct, improve, enlarge and equip property, buildings, structures or facilities. The revenue bonds issued by each institution's governing board are secured by the income of the respective institutions and are an obligation of the state of Texas.

The **Texas Small Business Industrial Development Corporation** (TSBIDC), a nonprofit corporation, came under the management of the Office of the Governor (Office) effective Sept. 1, 2003, based on Senate Bill 275. The Office is now the oversight agency for the TSBIDC, whose financial status is reported as a discretely presented component unit of the Office. The TSBIDC bond program is composed of revenue demand bonds secured by an amended irrevocable letter of credit (LOC) issued by Bank of America, N.A. (Bank of America) for $101.7 million. This instrument replaces the previous LOC issued by Kredietbank Bank. As of Aug. 31, 2008, no principal drawings have been made on the LOC. The Office does not have a take out agreement as part of this LOC or as a separate agreement. Bondholders may tender the bonds for repurchase every seven days. Any bonds so tendered will be purchased by proceeds of the remarketing of the bonds or, if not successfully marketed, from amounts drawn under the LOC.

The **Texas Water Resources Finance Authority**, a public authority created within the Texas Water Development Board (Board), issued bonds in order to purchase from the Board the majority of existing political subdivision bonds held. Principal and interest from political subdivision bonds are pledged for debt service requirements of the bonds.

The **Texas Department of Transportation** through the State Highway Fund issues bonds for certain State highway improvement projects. Debt service is payable from revenues of the State Highway Fund, which include dedicated registration fees, dedicated taxes, dedicated Federal revenues, amounts collected or received pursuant to other State Highway Fund Revenue Law and any interest or earnings from the investment of these funds.

The **Texas Department of Transportation Turnpike Authority** issued bonds to pay a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System located in the greater city of Austin metropolitan area in Travis and Williamson counties. The bond obligations are payable from and secured solely by a first lien on and pledge of the Trust Estate.

Demand Bonds

The Office of the Governor, the General Land Office, the Department of Housing and Community Affairs, the Department of Transportation, the University of Houston System and the University of Texas System had outstanding demand bonds at Aug. 31, 2008. Details are presented in the tables on the following pages.

A bond holder may tender any of these bonds for repurchase prior to maturity, usually every seven days. Any bonds so tendered will be purchased either by the proceeds of the remarketing of such bonds or, if not successfully remarketed, from amounts drawn under the letter of credit, liquidity agreement or standby purchase agreement of the respective agency until such time as the remarketing is finalized. As of Aug. 31, 2008, there have been no draws on the letters of credit or other agreements. Subsequent to year end, draws were made.

Demand Bonds

(Amounts in Thousands)

	Number of Demand Bond Issues 8/31/08	Standby Purchase Agreement	Letter of Credit	Other	Bonds Redeemed	Principal Balance Outstanding 8/31/08
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds						
Office of the Governor	2			2 b	None	$ 45,000
Texas Department of Transportation	2	3 a			None	241,275
	4	3	0	2	None	286,275
Revenue Bonds						
Texas Department of Transportation	1	1 a			None	100,000
	1	1	0	0	None	100,000
Governmental Activities Total	5	4	0	2	None	$ 386,275
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds						
General Land Office	29	29 a			None	$1,140,155
General Land Office/Veterans Land Board	6	6 a			None	156,035
	35	35	0	0	None	1,296,190
Revenue Bonds						
University of Texas System	3			3 b	None	1,015,440
Texas Department of Housing and Community Affairs	7	7 a			None	469,303
University of Houston System	1			1 b	None	16,127
	11	7	0	4	None	1,500,870
Business-Type Activities Bond Total	46	42	0	4	None	$2,797,060
COMPONENT UNITS						
Revenue Bonds						
Office of the Governor	1		1 c		None	$ 99,335
Texas Department of Transportation	1	1 a			None	150,000
Component Units Total	2	1	1	0	None	$ 249,335

a See Demand Bonds - Standby Purchase Agreements table.

b In the event redeemed bonds are not remarketed, internal funds of the agency are available for redemption.

c In the event that redeemed bonds are not remarketed, a letter of credit with Bank of America will be used until remarketed.

Demand Bond – Standby Purchase Agreements

Counterparties	Secured Bond Issue Agreements	Annual Liquidity Fee	Agreement Termination Date
Comptroller of Public Accounts	3	0.0400%	08/31/09
DEPFA Bank plc	8	0.0750%	02/22/10
DEPFA Bank plc	5	0.0750%	05/10/09
DEPFA Bank plc	1	0.0750%	02/22/10
DEPFA Bank plc	1	0.0800%	04/08/12
DEPFA Bank plc	1	0.0900%	11/15/09
DEPFA Bank plc	1	0.0900%	06/05/12
DEPFA Bank plc	1	0.1000%	05/01/16
Landesbank Hessen-Thuringen Girozentrale	4	0.1500%	12/31/15
Dexia Credit Local	10	0.0650%	11/15/11
Dexia Credit Local	1	0.1000%	11/15/11
Dexia Credit Local	3	0.2750%	04/28/11
Dexia Credit Local	1	0.1225%	12/15/15
Dexia Credit Local	1	0.3150%	04/28/11
State Street Bank and Trust Company	3	0.1100%	11/17/10
State Street Bank and Trust Company	1	0.0500%	12/13/13
California Public Employees Retirement System	1	0.0500%	12/13/13
Banco Bilbao Vizcaya Argentaria, S.A.	1	0.0875%	11/07/16
Total	47		

Takeout agreements are used by the Department of Housing and Community Affairs and the Department of Transportation to provide an alternative debt instrument to replace any repurchased bonds that have not been remarketed within the prescribed time constraints. The Demand Bonds - Takeout Agreement Provisions table shown below provides the estimated impact of such an event.

Demand Bonds
Takeout Agreement Provisions

(Amounts in Thousands)

	Estimated Debt Service		Rate	Basis
Governmental Activities				
General Obligation Bonds				
Texas Department of Transportation				
Texas Mobility Fund Bonds				
Series 2005B	104,276	a	4.07%	Fed Funds Rate (prior 7 Yr. Ave.) + 1.25%
Series 2006B	166,640	b	8.32%	Bank Prime Rate (prior 3 Yr. Ave.) + 1%
Revenue Bonds				
Texas Department of Transportation				
State Highway Fund Revenue Bonds				
Series 2006B	115,533	b	9.32%	Bank Prime Rate (prior 3 Yr. Ave.) + 2%
	386,449			
Business Type Activities				
Revenue Bonds				
Texas Department of Housing and Community Affairs				
Single Family Bonds				
Series 2007A	167,521	c	5.00%	Bank Prime Rate (Nov. '08) + 1%
Series 2006H	42,750	c	5.00%	Bank Prime Rate (Nov. '08) + 1%
Series 2005A	116,203	c	6.00%	Bank Prime Rate (Nov. '08) + 2%
Series 2004D	42,875	c	6.00%	Bank Prime Rate (Nov. '08) + 2%
Series 2004B	64,925	c	6.00%	Bank Prime Rate (Nov. '08) + 2%
Series 2005C	8,568	c	5.00%	Bank Prime Rate (Nov. '08) + 1%
Series 2004 Jr. Lien	4,722	c	6.00%	Bank Prime Rate (Nov. '08) + 2%
	447,564			
Component Units				
Revenue Bonds				
Texas Department of Transportation				
Texas Turnpike Authority, Central Texas Turnpike System				
1st Tier Variable Rate Demand Bonds				
Series 2002B	202,689	d	5.51%	Fed Funds Rate (prior 13 Yr. Ave.) + 1.5%
	202,689			
Total	1,036,702			

a Replacement debt is subject to semi-annual payments over seven years starting the first day of the third month of that period.
b Replacement debt is subject to semi-annual payments over three years starting the first day of the second month of that period.
c Replacement debt is subject to semi-annual payments over seven years starting the first day of the third month of that period.
d Replacement debt is subject to quarterly payments over thirteen years starting the first day of the fourth month of that period.

Early Extinguishment of Debt

Entities that had early debt extinguishments in fiscal 2008 are as follows. The source of funds used for the extinguishments included loan repayments and other available funds.

Refunding

During fiscal 2008, seven entities refunded bonds to lower interest rates or to restructure debt service requirements for cash management purposes.

Early Extinguished Debt Issues

(Amounts in Thousands)

BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
General Land Office	$ 8,460
Revenue Bonds	
Texas Workforce Commission	248,060
Texas Department of Housing and Community Affairs	89,807
Texas Southern University	3,090
University of Texas System	3,800
Business-Type Activities Total	353,217
Grand Total	$353,217

Refunding Issues

(Amounts in Thousands)

	Types of Refunding	Par Value of Refunding Issue	Par Value Refunded	Cash Flow Difference Increase	Economic Gain
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Texas Higher Education Coordinating Board	Current Refunding	$ 72,600	$ 75,730	$ 2,010	$ 5,686
Texas Public Finance Authority	Current Refunding	381,655	405,490	30,518	27,381
		454,255	481,220	32,528	33,067
Revenue Bonds					
Texas Public Finance Authority	Current Refunding	60,910	60,945	2,578	2,203
Governmental Activities Total		515,165	542,165	35,106	35,270
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
General Land Office and Veterans Land Board	Current Refunding	54,160	54,160	5,378	2,510
Texas Water Development Board	Current Refunding	118,465	121,510	14,670	6,611
		172,625	175,670	20,048	9,121
Revenue Bonds					
Texas Department of Housing and Community Affairs	Current Refunding	14,000	14,000	(248)	(154)
Texas State University System	Current Refunding	18,250	18,540	846	845
University of Texas System	Current Refunding	34,925	34,715	1,873	1,583
University of Texas System	Advance Refunding	345,460	318,875	49,439	30,193
		412,635	386,130	51,910	32,467
Business-Type Activities Total		585,260	561,800	71,958	41,588
Grand Total		$1,100,425	$1,103,965	$107,064	$76,858

Defeased Bonds Outstanding

Texas has defeased various bond issues by placing funds in irrevocable trusts in the Texas Treasury Safekeeping Trust Company (Trust Company) and external financial institutions to provide for all future debt service payments on the old bonds. Funds placed in the Trust Company to defease $313.1 million in bonds are included in the state's financial statements in an agency fund. The trust account assets and the liability for all other defeased bonds are not included in the state's financial statements.

Pledged Future Revenues

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, was implemented this year. The statement makes a basic distinction between sales of receivables and future revenues, on the one hand, and the pledging of receivables or future revenues to repay a borrowing (a collateralized borrowing), on the other. The table below provides the pledged future revenue information for the state's revenue bonds.

Defeased Bonds Outstanding

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	$ 49,515
Texas National Research Laboratory Commission	37,900
Texas Public Finance Authority	182,882
Texas Parks and Wildlife Department	8,250
Revenue Bonds	
Texas Public Finance Authority	138,550
Texas Parks and Wildlife Department	23,645
	440,742
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
General Land Office and Veterans Land Board	64,700
Texas Water Development Board	34,900
Revenue Bonds	
University of Texas System	1,734,212
Texas A&M University System	174,626
Texas Tech University System	125,135
Texas State University System	42,115
Texas Workforce Commission	84,640
University of Houston System	44,430
University of North Texas System	25,255
Texas Water Development Board	17,425
Midwestern State University	5,525
Stephen F. Austin State University	3,021
Texas Southern University	3,300
	2,359,284
Total	$2,800,026

Pledged Future Revenue

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Component Units
Pledged Revenue Required for Future Principal and Interest on Existing Revenue Bonds	$4,968,281	$ 23,111,075	$723,019
Term of Commitment Year Ending August 31,	2028	2047	2041
Percentage of Revenue Pledged	100%	100%	100%
Current Year Pledged Revenue	6,748,490	10,255,735	10,971
Current Year Principal and Interest Paid	230,453	979,153	8,700

Conduit Debt

The Texas State Affordable Housing Corporation (Corporation) is authorized to issue statewide 501(c)(3) tax-exempt multifamily mortgage revenue bonds under the Texas Government Code §2306.555. The 501(c)(3) tax-exempt multifamily mortgage revenue bond program provides long-term variable or fixed rate financing to non-profit borrower/developers of new or existing multifamily rental properties in order to generate and/or preserve affordable rental housing. The Corporation may finance single developments or pools of properties located throughout the state of Texas. Borrowers must agree to set aside a prescribed percentage of a property's units for rent to persons and families of low income. The Corporation finances properties under the program primarily through the sale of tax-exempt multifamily housing revenue bonds.

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the Corporation, the state nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statements.

As of Aug. 31, 2008, there were 22 series of multifamily housing revenue bonds outstanding with an aggregate $329 million principal amount payable.

DERIVATIVES

During fiscal 2008 the Veterans Land Board (VLB), the Texas Department of Housing and Community Affairs (the Department), the Texas Department of Transportation and the University of Texas System (UT) have reported derivatives.

Pay-Fixed, Receive-Variable Interest Rate Swaps (Veterans Land Board)

Objective of the Swaps: The Veterans Land Board is currently a party to 43 pay-fixed, receive-variable interest rate swaps that are associated with 46 variable-rate bond issues. The combination of swaps and variable-rate bonds creates synthetic fixed-rate debt. The use of synthetic fixed-rate debt has historically lowered the VLB's borrowing costs, as compared to the borrowing costs associated with the issuance of traditional fixed-rate bonds. Several of the swaps contain embedded barrier options that provide for the VLB to be "knocked out" of the swaps by the respective counterparties upon the breach of a certain predetermined barrier. In each of these cases, the VLB was paid an up-front option premium by the respective counterparties. With regard to the swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000, the knock-outs are permanent and are optional at the discretion of the counterparty. In the remainder of the swaps with embedded barrier options, the knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the barrier was breached.

Terms, Fair Values and Credit Ratings: The terms, fair values and counterparty credit ratings related to the outstanding variable-to-fixed swaps as of Aug. 31, 2008, are shown in the tables on the following pages. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

Pay-Fixed
Receive-Variable Interest Rate Swaps

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Fixed-Rate Paid	Variable-Rate Received	Knock-out Barrier
GENERAL LAND OFFICE – VETERANS LAND BOARD					
Vet Hsg Ref Bds Ser '95	$ 57,385	11/29/1995	5.5200%	Actual Bond Rate	N/A
Vet Land Ref Bds Ser '99A	28,835	06/01/1999	5.1120%	68% of 6M LIBOR**	N/A
Vet Land Tax Ref Bds Ser '99B	13,955	12/01/1999	5.1250%	100% of 6M LIBOR	1M LIBOR >= 6.50%
Vet Land Tax Ref Bds Ser 2000	39,960	12/01/2000	6.1060%	100% of 6M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2001A-2	20,000	03/22/2001	4.3000%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2001C-2	25,000	12/18/2001	4.3650%	68% of 1M LIBOR	N/A
Vet Land Bds Ser 2002	18,220	02/21/2002	4.1400%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2002A-2	26,380	07/10/2002	3.8725%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2002	27,685	12/01/2002	4.9350%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund I Tax Ref Bds Ser 2002B	19,780	12/01/2002	4.9100%	100% of 6M LIBOR	6M LIBOR > 7.00%
Vet Hsg Fund II Bds Ser 2003A	40,755	03/04/2003	3.3040%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2003B	41,980	10/22/2003	3.4030%	64.5% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2003	25,535	12/01/2003	5.1230%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund I Tax Ref Bds Ser 2003	47,865	12/01/2003	5.1900%	100% of 6M LIBOR	6M LIBOR > 7.00%
Vet Hsg Fund II Bds Ser 2004A	42,280	04/07/2004	3.3130%	68% of 1M LIBOR	N/A
Vet Hsg Fund I Tax Ref Bds Ser 2004	16,535	06/01/2004	5.4500%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2004B	45,105	09/15/2004	3.6800%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2004	23,245	12/01/2004	5.4550%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D,E	38,130	12/01/2004	5.3480%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2005A	44,770	02/24/2005	3.2790%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2005B	45,480	08/09/2005	3.0870%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2005	21,775	12/01/2005	6.5170%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C/D	24,055	12/01/2005	5.1450%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA***/LIBOR Ratio > 74%
Vet Hsg Fund I Tax Ref Bds Ser 2005C	18,030	12/01/2005	4.9290%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%
Vet Hsg Fund I Tax Ref Bds Ser 2005C	3,365	12/01/2005	4.3300%	100% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2006A	46,740	06/01/2006	3.5170%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2006A	29,680	06/01/2006	6.5400%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006C	21,375	06/01/2006	5.7900%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006B	38,570	06/01/2006	5.8300%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Land Tax Ref Bds Ser 2006B	22,990	06/01/2006	4.6100%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2006D	48,170	09/20/2006	3.6890%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2006C	38,800	12/01/2006	6.5130%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006E	39,560	12/01/2006	5.4610%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%
Vet Hsg Fund II Tax Ref Bds Ser 2007	51,615	12/01/2007	4.6580%	100% of 1M LIBOR	1M LIBOR >= 7.00%; SIFMA/5Y ISDA CMS >71%
Vet Hsg Fund II Bds Ser 2007A	48,700	02/22/2007	3.6450%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2007B	49,620	06/26/2007	3.7120%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Tax Ref Bds Ser 2008A	50,000	03/26/2008	3.1890%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Tax Ref Bds Ser 2008B	50,000	09/11/2008	3.2250%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Tax Ref Bds Ser 2009	16,950	12/01/2009	6.2200%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2009A	65,845	12/01/2009	5.4525%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2010A	66,720	06/01/2010	5.4010%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%
Vet Land Tax Ref Bds Ser 2010	16,480	12/01/2010	5.2090%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%
Vet Homes Rev Ref Bds, Ser 2012	21,795	08/01/2012	3.7600%	68% of 1M LIBOR	1M LIBOR >= 7.00%
Subtotal General Land Office – Veterans Land Board	1,479,715				

Continued on the following page

Pay-Fixed
Receive-Variable Interest Rate Swaps (continued)

(Amounts in Thousands)

Associated Bond Issue	Knock-out Type	Knock-out Period	Up-Front Knock-out Premium Received	Fair Value	Swap Termination Date	Counterparty Credit Ratings *
GENERAL LAND OFFICE – VETERANS LAND BOARD						
Vet Hsg Ref Bds Ser '95	N/A	N/A	N/A	$ (7,578)	12/01/2016	A-/A2
Vet Land Ref Bds Ser '99A	N/A	N/A	N/A	(3,491)	12/01/2018	A-/A2
Vet Land Tax Ref Bds Ser '99B	Optional	Permanent	740	(332)	12/01/2009	AAA/Aaa
Vet Land Tax Ref Bds Ser 2000	Optional	Permanent	2,700	(5,579)	12/01/2020	AAA/Aaa
Vet Hsg Fund II Bds Ser 2001A-2	N/A	N/A	N/A	(2,784)	12/01/2029	AA-/Aa1
Vet Hsg Fund II Bds Ser 2001C-2	N/A	N/A	N/A	(4,179)	12/01/2033	AAA/Aaa
Vet Land Bds Ser 2002	N/A	N/A	N/A	(2,098)	12/01/2032	A+/A1
Vet Hsg Fund II Bds Ser 2002A-2	N/A	N/A	N/A	(2,467)	06/01/2033	AAA/Aaa
Vet Land Tax Ref Bds Ser 2002	Mandatory	Periodic	2,785	(2,017)	12/01/2021	A+/A1
Vet Hsg Fund I Tax Ref Bds Ser 2002B	Mandatory	Periodic	2,165	(1,425)	06/01/2023	AAA/Aaa
Vet Hsg Fund II Bds Ser 2003A	N/A	N/A	N/A	(1,228)	06/01/2034	AA/Aaa
Vet Hsg Fund II Bds Ser 2003B	N/A	N/A	N/A	(1,712)	06/01/2034	AAA/Aaa
Vet Land Tax Ref Bds Ser 2003	Mandatory	Periodic	1,896	(2,268)	12/01/2023	AA/Aaa
Vet Hsg Fund I Tax Ref Bds Ser 2003	Mandatory	Periodic	4,470	(4,108)	06/01/2021	AAA/Aaa
Vet Hsg Fund II Bds Ser 2004A	N/A	N/A	N/A	(1,276)	12/01/2034	AAA/Aaa
Vet Hsg Fund I Tax Ref Bds Ser 2004	Mandatory	Periodic	1,442	(2,140)	12/01/2024	AAA/Aaa
Vet Hsg Fund II Bds Ser 2004B	N/A	N/A	N/A	(2,798)	12/01/2034	AAA/Aaa
Vet Land Tax Ref Bds Ser 2004	Mandatory	Periodic	2,075	(2,627)	12/01/2024	A+/A1
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D,E	Mandatory	Periodic	2,594	(3,853)	06/01/2020	AA-/Aaa
Vet Hsg Fund II Bds Ser 2005A	N/A	N/A	N/A	(1,215)	06/01/2035	AAA/Aaa
Vet Hsg Fund II Bds Ser 2005B	N/A	N/A	N/A	(493)	06/01/2036	AAA/Aaa
Vet Land Tax Ref Bds Ser 2005	Mandatory	Periodic	1,542	(4,491)	12/01/2026	AAA/Aaa
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C/D	Mandatory	Periodic	1,367	(3,285)	06/01/2026	AA/Aaa
			566			
Vet Hsg Fund I Tax Ref Bds Ser 2005C	Mandatory	Periodic	484	(1,728)	12/01/2023	AA-/Aaa
			267			
Vet Hsg Fund I Tax Ref Bds Ser 2005C	N/A	N/A	N/A	(55)	12/01/2009	AA-/Aaa
Vet Hsg Fund II Bds Ser 2006A	N/A	N/A	N/A	(2,018)	12/01/2036	AAA/Aaa
Vet Land Tax Ref Bds Ser 2006A	Mandatory	Periodic	1,931	(6,164)	12/01/2027	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2006C	Mandatory	Periodic	1,493	(3,165)	12/01/2027	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2006B	Mandatory	Periodic	1,992	(6,861)	12/01/2026	AA-/Aaa
Vet Land Tax Ref Bds Ser 2006B	Mandatory	Periodic	886	(1,190)	12/01/2026	AAA/Aaa
Vet Hsg Fund II Bds Ser 2006D	N/A	N/A	N/A	(2,871)	12/01/2036	AA-/Aa2
Vet Land Tax Ref Bds Ser 2006C	Mandatory	Periodic	2,725	(8,185)	12/01/2027	AA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2006E	Mandatory	Periodic	2,652	(6,922)	12/01/2026	AA/Aaa
			1,018			
Vet Hsg Fund II Tax Ref Bds Ser 2007	Mandatory	Periodic	935	(4,857)	06/01/2029	AA/Aaa
			1,020			
Vet Hsg Fund II Bds Ser 2007A	N/A	N/A	N/A	(2,966)	06/01/2037	AAA/Aaa
Vet Hsg Fund II Bds Ser 2007B	N/A	N/A	N/A	(3,391)	06/01/2038	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2008A	N/A	N/A	N/A	(698)	06/01/2037	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2008B	N/A	N/A	N/A	(882)	06/01/2038	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2009	Mandatory	Periodic	612	(1,862)	12/01/2021	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2009A	Mandatory	Periodic	2,740	(6,969)	06/01/2031	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2010A	Mandatory	Periodic	2,355	(9,181)	12/01/2031	AA/Aaa
			1,427			
Vet Land Tax Ref Bds Ser 2010	Mandatory	Periodic	466	(1,781)	12/01/2030	AA/Aaa
			208			
Vet Homes Rev Ref Bds, Ser 2012	Mandatory	Periodic	579	(1,566)	08/01/2035	AAA/Aaa
Subtotal General Land Office – Veterans Land Board			48,132	(136,756)		

Continued on the following page

Pay-Fixed
Receive-Variable Interest Rate Swaps (continued)

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Fixed-Rate Paid	Variable-Rate Received	Knock-out Barrier
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS					
2004B Single Family	53,000	09/01/2004	3.8430%	63% of LIBOR + .30%	N/A
2004D Single Family	35,000	01/01/2005	3.6125%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR	N/A
2005A Single Family	94,860	08/01/2005	3.9900%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR	N/A
2006H Single Family	36,000	11/15/2006	3.8570%	63% of LIBOR + .30%	N/A
2007A Single Family	141,070	06/05/2007	4.0130%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR	N/A
Subtotal Tx. Dept. of Housing and Comm Affairs	359,930				
UNIVERSITY OF TEXAS SYSTEM					
Rev Fin Sys Ref Bds Ser 2001A	19,715	08/15/2001	4.6330%	67% of 1M LIBOR	N/A
Rev Fin Sys Ref Bds Ser 2007B	345,460	12/20/2007	3.8050%	100% of SIFMA	N/A
Rev Fin Sys Ref Bds Ser 2008	310,000	03/18/2008	3.9000%	100% of SIFMA	N/A
Rev Fin Sys Ref Bds Ser 2008	375,485	03/18/2008	3.6140%	100% of SIFMA	N/A
Subtotal University of Texas System	1,050,660				
Total	$2,890,305				

* Standard and Poor's, Moody's Investor Service and Fitch Ratings, LTD.
** London Interbank Offered Rate (LIBOR).
*** Securities Industry and Financial Markets Association Index (SIMFA) rate.

Concluded on the following page

Pay-Fixed
Receive-Variable Interest Rate Swaps (concluded)

(Amounts in Thousands)

Associated Bond Issue	Knock-out Type	Knock-out Period	Up-Front Knock-out Premium Received	Fair Value	Swap Termination Date	Counterparty Credit Ratings *
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS						
2004B Single Family	N/A	N/A	N/A	(2,511)	09/01/2034	AA-/Aa2/AA+
2004D Single Family	N/A	N/A	N/A	(1,344)	03/01/2035	A/NR/AA-
2005A Single Family	N/A	N/A	N/A	(3,327)	09/01/2036	AAA/Aaa/NR
2006H Single Family	N/A	N/A	N/A	(1,829)	09/01/2025	AA-/Aa2/AA+
2007A Single Family	N/A	N/A	N/A	(4,927)	09/01/2038	AAA/Aaa/NR
Subtotal Tx. Dept. of Housing and Comm Affairs			0	(13,938)		
UNIVERSITY OF TEXAS SYSTEM						
Rev Fin Sys Ref Bds Ser 2001A	N/A	N/A	N/A	(1,231)	08/15/2013	AA/Aaa
Rev Fin Sys Ref Bds Ser 2007B	N/A	N/A	N/A	(7,315)	08/01/2034	50% AA/Aaa 50% AA-/Aa2
Rev Fin Sys Ref Bds Ser 2008	N/A	N/A	N/A	(10,524)	08/01/2036	50% AA/Aaa 50% A+/A1
Rev Fin Sys Ref Bds Ser 2008	N/A	N/A	N/A	(2,965)	08/01/2039	AA/Aaa
Subtotal University of Texas System			0	(22,035)		
Total			$48,132	$(172,729)		

Pay-Variable, Receive-Fixed Interest Rate Swaps (Veterans Land Board)

Objective of the Swaps: The VLB is currently a party to one pay-variable, receive-fixed interest rate swap that is associated with a taxable variable-rate bond issue. The swap was overlaid on an existing pay-fixed, receive-variable swap and effectively results in unhedged variable-rate bonds with an expected borrowing cost significantly below market over the life of the swap.

Terms, Fair Values and Credit Ratings: The terms, fair values and counterparty credit ratings related to the outstanding fixed-to-variable basis swaps as of Aug. 31, 2008, are shown in the table below. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

Pay-Variable Receive-Fixed Interest Rate Swaps

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Variable-Rate Paid	Fixed-Rate Received	Knock-out Barrier
GENERAL LAND OFFICE – VETERANS LAND BOARD					
Vet Land Tax Ref Bds Ser 2006B	$22,990	06/01/2006	100% of 6M LIBOR	4.6100%	6M LIBOR >= 8.00%
Total	$22,990				

Associated Bond Issue	Knock-out Type	Knock-out Period	Up-Front Knock-out Premium Received	Fair Value	Swap Termination Date	Counterparty Credit Ratings
GENERAL LAND OFFICE – VETERANS LAND BOARD						
Vet Land Tax Ref Bds Ser 2006B	Mandatory	Periodic	674	$ 978	12/01/2026	AAA/Aaa
Total			$674	$ 978		

Pay-Variable, Receive-Variable Interest Rate Swaps (Veterans Land Board)

Objective of the Swaps: The VLB is currently a party to four pay-variable, receive-variable interest rate swaps that are associated with three taxable variable-rate bond issues. These swaps are London Interbank Offered Rate (LIBOR) - to - Securities Industry Financial Markets Association rate (SIFMA) basis swaps and effectively convert the variable rate on the associated variable-rate bond issues from a LIBOR (taxable) based rate to a SIFMA (tax-exempt) based rate. The swaps are expected to generate an effective lower borrowing cost to the VLB over the life of the swaps.

Terms, Fair Values and Credit Ratings: The terms, fair values and counterparty credit ratings related to the outstanding variable-to-variable basis swaps as of Aug. 31, 2008, are shown in the table below. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

Fair Value Methodology and Risk Exposure of Swap Transactions (Veterans Land Board)

Fair Value: The fair values of the swaps were estimated using the zero-coupon method. Using observable market information for Treasury bonds and LIBOR spreads, a smoothed LIBOR swap yield curve is constructed. From this swap yield curve, the path of future expected floating LIBOR interest rates is determined for a specific swap transaction. The path of the floating payments is then averaged together to produce a single fixed swap rate for the same time horizon as the swap being valued. The difference between this calculated fixed swap rate and the actual fixed swap rate on the transaction is then multiplied by the applicable outstanding notional amount at each future payment date to generate a series of payments. These payments are then discounted back to the valuation date using hypothetical zero-coupon bond rates derived from the LIBOR swap yield curve. The sum of these discounted payments produces the fair value of the swap.

Pay-Variable Receive-Variable Interest Rate Swaps

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Variable-Rate Paid	Variable-Rate Received	Fair Value	Swap Termination Date	Counterparty Credit Ratings *
GENERAL LAND OFFICE – VETERANS LAND BOARD							
Vet Hsg Fund II Tax Bds Ser '97B-2	$ 25,000	09/27/2002	132.60% of SIFMA	100% of 3M LIBOR	$ 163	12/01/2010	AA/Aaa
Vet Hsg Fund II Tax Bds Ser '99A-2	90,000	08/05/2002	134.40% of SIFMA	100% of 1M LIBOR	156	09/01/2011	AAA/Aaa
Vet Hsg Fund II Tax Bds Ser '99A-2	60,000	08/05/2002	134.40% of SIFMA	100% of 1M LIBOR	137	09/01/2011	AAA/Aaa
Vet Land Tax Bds Ser 2000A/2002A	36,580	08/05/2002	131.25% of SIFMA	100% of 1M LIBOR	(239)	12/01/2032	A+/A1
Subtotal General Land Office – Veterans Land Board	211,580				217		
TEXAS DEPARTMENT OF TRANSPORTATION							
Mobility Fund GO Bds Ser 2006A	400,000	09/01/2007	100% of SIFMA	69.42% 10Y USD-ISDA	4,081	09/01/2027	50% AA-/Aa2/AA- 25% AAA/Aaa/NR 25% A+/A1/AA-
Subtotal Texas Department of Transportation	400,000				4,081		
Total	$611,580				$4,298		

* Standard and Poor's, Moody's Investor Service and Fitch Ratings, LTD.

For swaps with embedded options, an additional calculation similar to that described above is conducted to determine the value of the options. Using the approach described above, a swap rate is derived for each potential exercise date of each option. Market-derived data for interest rate volatility is then used to determine a probabilistic range of potential swap rates. For each potential swap rate, a value is determined for the option. These values are then weighted by their probabilities and discounted back to the valuation date using hypothetical zero-coupon bond rates as described above. The sum of the present value of the values for each exercise date produces the fair value of the option.

Credit Risk: The VLB mitigates the credit risk associated with its swaps by entering into transactions with highly-rated counterparties. As shown in the tables on the previous page, the credit ratings of the VLB's counterparties range from AAA to A- by Standard & Poor's (S&P) and Aaa to A2 by Moody's Investors Service (Moody's).

The VLB also mitigates its concentration of credit risk by diversifying its swap portfolio across several different counterparties. The VLB's 48 currently outstanding swaps are spread among nine different counterparties with no more than 26 percent of the total notional amount of swaps outstanding being associated with any single counterparty.

The VLB's swap agreements also contain collateralization provisions that require counterparties to post collateral in the full amount of the fair value of the swap if the counterparty's credit rating is at or below A+ by S&P or A1 by Moody's. Only U.S. Government obligations are acceptable forms of collateral. Posted collateral may be held either by the VLB itself or by a third party custodian that is rated at least BBB+ by S&P or Baa1 by Moody's.

Basis Risk: The VLB is exposed to basis risk to the extent that the interest payments on its variable-rate bonds do not match the variable-rate payments received on the associated swaps. The VLB mitigates this risk by (a) matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable-rate bond issue and (b) selecting an index for the variable-rate leg of each swap that is reasonably expected to closely match the interest rate resets on the associated variable-rate bonds over the life of each bond issue.

Termination Risk: The VLB or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. The VLB also has the right to terminate any of the swaps at any time without cause. In addition, the swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000 provide the counterparty with the option to terminate the swap under certain conditions. If any of the swaps are terminated, the associated variable-rate bonds would no longer have a synthetic fixed rate and the VLB would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets on the VLB's balance sheet. If, at the time of termination for a reason other than the exercise of a termination option held by a counterparty, a swap has a negative fair value, the VLB would owe the respective counterparty a termination payment equal to the swap's fair value.

Rollover Risk: The swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000 provide the counterparty with the option to terminate the swap under certain conditions at any time.

Interest Rate Swaps Subject to Rollover

Associated Bond Issue	Maturity Date of Bonds	Option Exercise Date	Swap Termination Date
GENERAL LAND OFFICE – VETERANS LAND BOARD			
Vet Land Tax Ref Bds Ser '99B	12/01/09	04/29/02	12/01/09
Vet Land Tax Ref Bds Ser 2000	12/01/20	04/29/02	12/01/20
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS			
2004 Single Family Series B	09/01/34	03/01/14	09/01/34
2004 Single Family Series D	03/01/35	09/01/14	03/01/35
2005 Single Family Series A	09/01/36	Anytime with 10 day notice	09/01/36
2006 Single Family Series H	09/01/37	03/01/16	09/01/25
2007 Single Family Series A	09/01/38	Anytime with 10 day notice	09/01/38
TEXAS DEPARTMENT OF TRANSPORTATION			
Mobility Fund GO Bds Ser 2006A	04/01/35	N/A	09/01/27

If either of these swaps is terminated through the counterparty's exercise of its option, the associated variable-rate bonds would no longer have a synthetic fixed rate and the VLB would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets on the VLB's balance sheet.

Bonds that are exposed to such rollover risk are shown in the table on the previous page.

Swap Payments and Associated Debt: Using rates as of Aug. 31, 2008, the estimated debt service requirements of the VLB's variable-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are shown in the tables below: "Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments" and "Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments." As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2009	$ 67,250	$ 52,063	$ 57,277	$ 176,590
2010	80,790	50,625	55,728	187,143
2011	73,335	49,026	53,982	176,343
2012	79,755	47,566	52,321	179,642
2013	85,455	45,989	50,516	181,960
2014 - 2018	489,720	201,353	220,705	911,778
2019 - 2023	507,660	147,241	162,904	817,805
2024 - 2028	541,675	93,647	103,800	739,122
2029 - 2033	468,520	47,050	51,742	567,312
2034 - 2038	249,870	12,408	13,156	275,434
2039 - 2043	9,930	163	171	10,264
Total	$2,653,960	$ 747,131	$ 822,302	$4,223,393

Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2009	$ 700	$ 5,729	$ (137)	$ 6,292
2010	745	5,710	(137)	6,318
2011	790	5,691	(90)	6,391
2012	845	5,670	(34)	6,481
2013	890	5,648	(23)	6,515
2014 - 2018	5,370	27,856	(106)	33,120
2019 - 2023	12,160	26,960	(84)	39,036
2024 - 2028	24,625	24,452	(54)	49,023
2029 - 2033	165,455	6,900	(16)	172,339
2034 - 2038				
Total	$ 211,580	$ 114,616	$ (681)	$ 325,515

Pay-Variable, Receive-Variable Interest Rate Swaps (Texas Department of Transportation)

Objective of the Swaps: The Texas Department of Transportation's Texas Transportation Commission (Commission) is currently a party to three pay-variable, receive-variable Constant Maturity Swaps (CMS) associated with the Commission's State of Texas General Obligation Mobility Fund Series 2006A fixed rate bonds. These swaps exchange SIFMA rates for LIBOR rates. The swaps are expected to generate an effective lower borrowing cost to the Commission over the life of the swaps through the assumption of yield curve risk (the difference between short-term and long-term rates) and tax risk (the spread between tax-exempt rates and taxable rates).

Terms, Fair Values and Credit Ratings: The terms, fair values and counterparty credit ratings related to the outstanding variable-to-variable basis swaps as of Aug. 31, 2008, are shown on the following page. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Fixed-Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Fixed-Rate Bonds Principal	Fixed-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2009	$ 375	$ 49,795	$ (5,060)	$ 45,110
2010	1,325	49,779	(5,060)	46,044
2011	2,275	49,727	(5,060)	46,942
2012	3,215	49,635	(5,060)	47,790
2013	4,185	49,507	(5,060)	48,632
2014 - 2018	39,500	244,153	(25,300)	258,353
2019 - 2023	124,510	227,491	(25,300)	326,701
2024 - 2028	252,315	184,777	(20,662)	416,430
2029 - 2033	418,080	109,458		527,538
2034 - 2038	194,300	12,622		206,922
Total	$1,040,080	$1,026,944	$ (96,562)	$1,970,462

Risk Exposure of Swap Transactions (Texas Department of Transportation)

Credit Risk: The Commission mitigates the credit risk associated with its swaps by entering into transactions with highly-rated counterparties. The credit ratings of the Commission's counterparties range from AAA to A+ by S&P and Aaa to A1 by Moody's.

The Commission also mitigates its concentration of credit risk by diversifying its swap portfolio across several different counterparties. The Commission's three currently outstanding swaps are spread among three different counterparties, with no more than 50 percent of the total notional amount of swaps outstanding being associated with any single counterparty.

The Commission's swap agreements also contain collateralization provisions that require counterparties to post collateral in the full amount of the fair value of the swap if the counterparty's credit rating is downgraded. Only cash in the form of U.S. Dollars or U.S. Government obligations are acceptable forms of collateral. Posted collateral may be held either by the Commission or its designated third party custodian.

Basis Risk: The Commission is exposed to basis risk to the extent that the interest payments on its variable-rate bonds do not match the variable-rate payments received on the associated swaps. The Commission mitigates this risk by (a) matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable-rate bond issue, (b) selecting an index for the variable-rate leg of each swap that is reasonably expected to closely match the interest rate resets on the associated variable-rate bonds over the life of each bond issue and (c) limiting the portion of the total portfolio that can be exposed to this risk at a given time.

Termination Risk: The Commission or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. The Commission also has the right to terminate any of the swaps at any time without cause. The Commission mitigates termination risk by maintaining a strong financial standing and by maintaining sufficient reserves to cover all or part of a termination payment that might materialize.

Rollover Risk: The swaps terminate on Sept. 1, 2027. Final maturity of the associated debt is April 1, 2035. The Commission accepted the rollover risk for the period beyond Sept. 1, 2027, because extending the term of the swap agreements to match the final maturity of the associated debt provided only marginal projected benefit.

Swap Payments and Associated Debt: Using rates as of Aug. 31, 2008, the estimated debt service requirements of the Commission's fixed-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are included in the table above: "Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Fixed-Rate Debt Outstanding and Net Swap Payments." As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

Market-Access Risk: Market-access risk is the risk that an entity will not be able to enter credit markets or that credit will become more costly. This swap does not present market-access risk because the transaction does not require access to the credit market.

Pay-Fixed, Receive-Variable Interest Rate Swaps (Texas Department of Housing and Community Affairs)

Objective of the Swaps: The Department is a party to five pay-fixed, receive-variable interest rate swap agreements with three rated counterparties, UBS AG, Goldman Sachs Capital Markets, L.P. (Goldman) and Bear Stearns Financial Products, Inc. The objective of the swaps is to reduce interest rate risk of certain variable rate demand bonds. Under the terms of the agreements, the Department makes periodic fixed interest rate payments in exchange for receiving variable rate payments comparable to the rates payable on the variable rate demand bonds. The swap notional amounts amortize in accordance with the scheduled and/or anticipated reductions in the related variable rate demand bond liability. The Department is potentially exposed to loss in the event of nonperformance by the counterparties under the swap agreements. Termination of the swap agreements may result in the Department making or receiving termination payments. Each swap agreement includes optional early termination provisions granting the Department the right, but not an obligation, to terminate the interest rate swaps at par without a termination payment after an effective date.

Terms, Fair Values and Credit Ratings: The terms, fair values and counterparty credit ratings related to the outstanding variable-to-fixed swaps as of Aug. 31, 2008, are shown in the table titled "Pay-Fixed, Receive-Variable Interest Rate Swaps." The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

Credit Risk: As of Aug. 31, 2008, the Department is not exposed to credit risk on any of its outstanding swaps. The Department has entered into these transactions with highly-rated counterparties to mitigate credit risk. The swap portfolio is spread among three counterparties. Collateral agreements and insurance policy requirements contained in the swap agreements further mitigate credit risk.

Basis Risk: The Department's variable-rate bond coupon payments are equivalent to the SIFMA rate. Payments received on these swaps are a function of LIBOR. As these rates converge, basis risk exposure increases.

Rollover Risk: The Department is exposed to rollover risk on swap agreements which mature or may be terminated prior to the maturity of the associated debt. Bonds that are exposed to rollover risk are shown in table "Interest Rate Swaps Subject to Rollover."

Swap Payments and Associated Debt: Using rates as of Aug. 31, 2008, the estimated debt service requirements of the Department's variable-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are shown in the table "Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments." As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

Pay-Fixed, Receive-Variable Interest Rate Swaps (University of Texas System)

Objective of the interest rate swap: In June 1999, the UT Board of Regents executed forward-starting, floating-to-fixed rate interest rate swap agreements with J.P. Morgan Chase Bank (Morgan) and Goldman Sachs Mitsui Marine Derivative Products, LP (Goldman Mitsui). The swap agreements were used to create a synthetic fixed-rate refunding of $80.5 million of UT Revenue Financing System Bonds, Series 1991A and 1991B ("Refunded Bonds"), on their optional redemption date of Aug. 15, 2001, to achieve debt service savings. On May 17, 2001, UT issued its Revenue Financing System Refunding Bonds, Series 2001A, in the form of variable rate demand bonds. The swap agreements effectively change UT's interest rate on the Series 2001A Bonds, subject to some basis risk discussed below, to a fixed rate of 4.633 percent. The difference between the swap rate and the rates on the Refunded Bonds called Aug. 15, 2001, resulted in estimated present value debt service savings of approximately $5.6 million.

On Dec. 4, 2007, UT executed floating-to-fixed rate interest rate swap agreements ("2007B swap agreements") with Morgan and UBS AG ("UBS"). On Dec. 20, 2007, UT issued its Revenue Financing System Refunding Bonds, Series 2007B, in the form of variable rate demand bonds

for the purpose of refunding portions of the outstanding Revenue Financing System Bonds, Series 2003B and Revenue Financing System Bonds, Series 2004D ("Series 2007B Refunded Bonds"). The 2007B swap agreements effectively change UT's interest rate on the Series 2007B Bonds to a fixed rate of 3.805 percent. The difference between the swap rate and the rates on the Series 2007B Refunded Bonds resulted in estimated present value debt service savings of approximately $30.2 million.

In March 2007, UT executed forward-starting, floating-to-fixed rate interest rate swap agreements (2008B Initial Swap Agreements) with Morgan and Morgan Stanley Capital Services, Inc. (MSCS). The 2008B swap agreements are being used to hedge interest rate risk on revenue financing system bonds expected to be issued in February 2008. In February 2008, UT executed an additional floating-to-fixed rate interest rate swap agreement (2008B Additional Swap Agreement) to hedge the remainder of the Revenue Financing System Bonds to be issued in March. On March 18, 2008, UT issued its Revenue Financing System Bonds, Series 2008B, in the form of variable rate demand bonds. The 2008B Swap Agreements effectively change UT's interest rate on the Series 2008B Bonds to a fixed rate of 3.743 percent. The difference between the swap rate and the rates on the Series 2008B Refunded Bonds resulted in estimated present value debt service savings of approximately $1.6 million.

Terms, Fair Values and Credit Ratings: On Feb. 6, 2007, the Goldman Mitsui 2001A Swap Agreement was ended and the Morgan 2001A Swap Agreement was increased to 100 percent of the notional amount. The terms, fair values and counterparty credit ratings related to the outstanding variable-to-fixed swaps as of Aug. 31, 2008, are shown in the table titled "Pay-Fixed, Receive-Variable Interest Rate Swaps." The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds. Because interest rates have declined since the execution of the 2001A Swap Agreements, the 2001A Swap Agreements had a negative fair value of $1.2 million as of Aug. 31, 2008. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

Pursuant to the terms of the 2007B Swap Agreements, UT agreed to pay interest on a notional amount of $345.5 million at a fixed rate of 3.805 percent per annum, with such obligation commencing on Dec. 20, 2007. In consideration of receiving the payments from UT, Morgan and UBS agreed to pay to UT a variable rate based on the SIFMA Municipal Swap Index. The Morgan 2007B Swap Agreement was for 50 percent of the notional amount and the UBS 2007B Swap Agreement was for 50 percent of the notional amount. The 2007B Swap Agreements are scheduled to terminate on Aug. 1, 2034, and had a negative fair value of $7.3 million as of Aug. 31, 2008. The fair value was estimated using market-standard practice, as described above.

Pursuant to the terms of the 2008B initial swap agreements, UT agreed to pay interest on a notional amount of $310 million at a fixed rate of 3.9 percent per annum, commencing on March 18, 2008. Pursuant to the terms of the 2008B additional swap agreements, UT agreed to pay interest on a notional amount of $375 million at a fixed rate of 3.614 percent per annum, commencing on March 18, 2008. In consideration for these payments, Morgan and MSCS agreed to pay UT a variable rate based on SIFMA Municipal Swap Index. The Morgan Swap Agreement and the MSCS Swap Agreement were each for 50 percent of the notional amount of the 2008B initial swap agreement. Morgan is the sole counterparty in the 2008B additional swap agreement. The 2008B initial swap agreements are scheduled to terminate on Aug. 1, 2036, and the 2008B additional swap agreement is scheduled to terminate on Aug. 1, 2039. Fair value of the 2008B swap agreements at Aug. 31, 2008 was estimated at a negative $13.5 million ($10.5 million and $3 million, respectively) using market-standard practice as described above.

Basis and Termination Risk: The Morgan 2001A Swap Agreement exposes UT to basis risk as the variable rate received under the swap agreement does not perfectly match the variable rate paid on the Series 2001A Bonds. The swap agreement may be terminated if the counterparty does not maintain a credit rating of at least Aa3 by

Moody's or AA- by S&P. The Aug. 31, 2008, ratings are disclosed in the "Pay-Fixed Receive-Variable Interest Rate Swaps" table. The swap agreement may also be terminated by Morgan if UT does not maintain a credit rating of at least Aa3 by Moody's or AA- by S&P. As of Aug. 31, 2008, the UT Revenue Financing System obligations were rated Aaa by Moody's and AAA by S&P.

The 2007B swap agreements expose UT to termination risk. Each 2007B swap agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Baa2 by Moody's Investors Service ("Moody's") or BBB by Standard & Poor's Corporation ("S&P"). The Aug. 31, 2008, ratings are disclosed in the "Pay-Fixed Receive-Variable Interest Rate Swaps" table. As of Aug. 31, 2008, the UT Revenue Financing System obligations were rated Aaa by Moody's and AAA by S&P. The 2007B swap agreements may also be terminated by Morgan or UBS, respectively, if UT's Revenue Financing System obligations are not rated at least Baa2 by Moody's or BBB by S&P.

The 2008B swap agreements expose UT to termination risk. Each 2008B swap agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Baa2 by Moody's or BBB by S&P. The Aug. 31, 2008, ratings are disclosed in the "Pay-Fixed Receive-Variable Interest Rate Swaps" table. The swap agreements may also be terminated by Morgan or MSCS if the UT does not maintain a credit rating of at least Baa2 by Moody's or BBB by S&P. As of Aug. 31, 2008, the UT Revenue Financing System obligations were rated Aaa by Moody's and AAA by S&P.

Swap Payments and Associated Debt: Using rates as of Aug. 31, 2008, the estimated debt service requirements of UT's variable-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are shown on the table "Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments." As rates and index relationships vary in the future, so will the resulting actual interest and net swap payments.

Note 7

Capital Leases

The state has entered into long-term capital leases to buy certain assets. The capital assets are recorded at the present value of the future minimum lease payments at the inception of the lease plus any cash paid or trade-in value received.

For governmental and business-type activities, the assets and liabilities are recorded in the government-wide financial statements.

The table below is a summary of the future minimum lease payments for capital leases.

Future Capital Lease Payments

August 31, 2008 (Amounts in Thousands)

	Primary Government						Discretely Presented Component Units		
	Governmental Activities			Business-Type Activities					
Year	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments
2009	$ 1,562	$ 612	$ 2,174	$ 2,667	$ 557	$ 3,224	$ 93	$ 3	$ 96
2010	1,664	505	2,169	2,143	561	2,704	64	2	66
2011	1,633	395	2,028	1,664	360	2,024	8		8
2012	1,659	285	1,944	975	293	1,268			
2013	2,144	154	2,298	935	255	1,190			
2014 - 2018	960	29	989	3,993	751	4,744			
2019 - 2023				1,488	246	1,734			
2024 - 2028				428	50	478			
Total	$ 9,622	$ 1,980	$ 11,602	$ 14,293	$ 3,073	$ 17,366	$ 165	$ 5	$ 170

The following table is an analysis of the property acquired under capital leases by asset category at Aug. 31, 2008.

Assets Under Capital Leases

August 31, 2008 (Amounts in Thousands)

	Primary Government				Discretely Presented Component Units*	
	Governmental Activities		Business-Type Activities			
Type	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation
Land	$	$	$ 456	$	$	$
Buildings	18,084	10,974	12,059	1,838		
Furniture and Equipment	4,707	3,718	10,624	3,003		
Vehicles, Boats, etc.			375	194		
Total	$ 22,791	$ 14,692	$ 23,514	$ 5,035	$ 0	$ 0

* The original cost of each asset reported as a capital lease was lower than the capital asset threshold.

Note 8

Operating Leases

Included in rental expenditures or expenses are assets leased on a long-term basis that have been classified as operating leases. The following is a schedule of minimum future rentals on noncancelable operating leases as of Aug. 31, 2008.

Noncancelable Operating Leases

August 31, 2008 (Amounts in Thousands)

	Minimum Future Lease Payments	
Year	Primary Government	Component Units
2009	$220,440	$ 1,421
2010	188,087	893
2011	150,776	636
2012	119,864	322
2013	91,221	262
2014 – 2018	180,419	649
2019 – 2023	5,943	
2024 – 2028	1,345	
2029 – 2033	917	
2034 – 2038	312	
Total	$959,324	$ 4,183

Note 9

Retirement Plans

The state of Texas has three public employee retirement systems (PERS) that administer six defined benefit pension plans. All defined benefit plans are included in the state's financial statements as pension trust funds. Amounts and types of securities held by the retirement systems are included in Note 3. The three entities that administer the plans are: the Employees Retirement System of Texas (ERS), the Teacher Retirement System of Texas (TRS) and the Fire Fighters' Pension Commission (FPC). These entities issue separate financial reports. These reports are individually audited with a separate opinion issued for each and may be obtained from the following:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

Fire Fighters' Pension Commission
920 Colorado Street, 11th Floor
Austin, Texas 78701-2332

The state has also established a defined contribution plan as authorized by Tex. Gov. Code, Chapter 830. The optional retirement program (ORP) is available as an alternative to the TRS defined benefit pension plan for certain eligible employees of public higher education institutions.

GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, is not applicable for the state of Texas since the health care plans are not administered by the pension trust funds.

DESCRIPTION OF PLANS AND FUNDING POLICY

Employees Retirement System of Texas

The Board of Trustees of ERS is the administrator of four pension plans. Each of these plans is considered to be a single-employer defined benefit pension plan.

- The Employees Retirement System of Texas Plan (ERS Plan);
- The Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS); and
- The Judicial Retirement System of Texas Plan One and Plan Two (JRS).

Each plan provides a standard monthly benefit in a life annuity at retirement as well as death and disability benefits for members. A Partial Lump Sum Payment Option is available to members of the employee class, the elected class and law enforcement and custodial officers. A one-time partial lump sum of up to three years of standard annuity at retirement can be taken and the annuity is reduced for life. The benefit and contribution provisions are authorized by state law and may be amended by the Legislature. Contribution requirements are not actuarially

determined, but are set by legislation, except for the JRS Plan Two under which state contribution rates are actuarially determined every even-numbered year for the next biennium.

Investments of the ERS administered pension plans are reported at fair value. The fair value is based on published market prices and quotations from major investment brokers at current exchange rates, as available, plus accrued interest and dividends. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors and the Master Trust Custodian, determines the fair values for the individual investments.

The ERS audited report contains the actuarial valuations as of Aug. 31, 2008, along with an actuarial letter dated Nov. 6, 2008. No subsequent legislative action that would negatively affect their certification of actuarial soundness of the funds was noted.

The ERS Plan, established by the Tex. Gov. Code, Title 8, Subtitle B, Chapters 811-815 covers elected class members, employee class members, commissioned peace officers and custodial officers. The funding policy requires monthly contributions by both the state and employees (see "Funding Information, Actuarial Methods and Assumptions" table). The monthly benefit is determined by the years and months of service multiplied by a statutorily determined percentage and may vary by class.

- The elected class members are vested after eight years of credited service and may retire at age 50 with 12 years of service or at age 60 with eight years of service. The statutory percentage is equal to 2.3 percent of the current state salary of a district judge.
- The employee class includes all employees and appointed officers of the state and excludes independent contractors and their employees and employees covered by TRS and JRS. Employee class retirement benefits vest after five years of credited service and employees may retire at age 60 with five years of service or at any age when the combination of age and service (including months) total 80. The monthly standard annuity equals the statutory percentage of 2.3 percent times the average of the highest 36 months of compensation. The minimum monthly standard annuity is $150; the maximum standard annuity is 100 percent of the average monthly compensation.
- Commissioned peace officers and custodial officers may retire at age 55 with 10 years of service.

LECOS, established under Tex. Gov. Code, Chapter 814.107, covers statutorily certified custodial officers employed by the Department of Criminal Justice, including the Board of Pardons and Paroles, who have contact with inmates of that institution. The fund also covers other commissioned state agency law enforcement officers who are recognized by the Commission on Law Enforcement Officer Standards and Education.

Benefits vest after 20 years of credited service. Covered employees may retire at age 50, if vested, or the age at which the sum of the member's age and amount of service credit in the employee class equals 80. A member may receive reduced benefits upon completing 20 years of service, regardless of age. The monthly benefit at retirement is payable in a life only form of annuity. The monthly annuity is equal to 2.8 percent of average monthly compensation multiplied by years of service. Average monthly compensation is the average of the highest 36 months of salary out of the member's established service. The minimum monthly standard annuity is $150; the maximum standard annuity is 100 percent of the average monthly compensation.

There are no member contributions for the LECOS fund. Annual actuarial valuations of the fund are performed to monitor the adequacy of the financing arrangement. During the 2007 legislative session, state funding was appropriated for this fund for the biennium ending Aug. 31, 2009, based on 1.59 percent of covered payroll for LECOS members.

JRS covers judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, district courts and certain commissions to a court. Members prior to Sept. 1, 1985, participate in Plan One and all others participate in Plan Two. Participants in both plans may retire at age 65 with 10 years of service with at least the last year being continuous and currently holding judicial office, or at age 65 with 12 years of service. Members of Plan One and Plan Two may retire at

any age with 20 years of service. Prior to Sept. 1, 2005, members of Plan Two were restricted to retirement at age 55 with 20 years of service. Participants in both plans are eligible for reduced early service retirement benefits once they attain age 60 and complete 10 years of service if the member currently holds judicial office with at least the last year being continuous or at age 60 with 12 years of service.

The monthly benefit at retirement is payable in a life only form of annuity. The monthly benefit for members of both plans is equal to 50 percent of the salary for the position from which the member retired and is increased by 10 percent of final compensation if in office within one year of benefit commencement.

Tex. Gov. Code, Title 8, Subtitle D, Chapter 835 requires employees to contribute 6 percent of their compensation and the state to make appropriations from the general revenue fund sufficient to administer JRS Plan One. The contribution requirements are not actuarially determined since the plan is not funded in advance. There are actuarial valuations and an actuarial cost method only for fulfilling GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, requirements.

The funding policy of JRS Plan Two is established by Tex. Gov. Code, Title 8, Subtitle E, Chapter 840. The state's contribution to the plan is determined each even-numbered year for the next biennium and is based upon an actuarial valuation. Significant actuarial assumptions are the same as those used to compute the net pension benefit.

Teacher Retirement System of Texas

TRS administers retirement, proportional retirement, disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school system of Texas (the Plan). TRS is a multiple-employer PERS. It is a cost-sharing PERS with one exception: risks and costs are generally not shared by the employers (unless the employer is a senior college, medical school or a state agency in which case the employer is considered the state of Texas) but are the responsibility of the state of Texas. The state of Texas has elected to report the Plan under the sole-employer provisions of GASB 27 since it is legally responsible for a significant portion of the annual required contributions. The benefit and contribution provisions of the Plan are authorized by state law and may be amended by the Legislature.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Tex. Gov. Code, Title 8, Subtitle C, Chapter 822 are covered by the Plan.

A member is vested after five years of creditable service and is eligible to retire at a future date and receive a lifetime monthly annuity. The normal service retirement is at age 65 with five years of credited service or when the sum of the member's age and years of credited service equals at least 80 years. The service age requirement for early retirement is age 55 with five years of credited service or any age below 50 with 30 years of credited service. The standard life annuity benefit formula is 2.3 percent of the average of the five highest annual salaries multiplied by the years of service. For members who are "grandfathered," the three highest annual salaries are used. At normal retirement age, the minimum monthly standard annuity is the greater of $150 or the formula standard annuity. Total payments shall in no case be less than accumulated contributions at retirement.

Law changes from the 2007 legislative session modified the state contribution rate for the TRS plan. Effective Sept. 1, 2007, the state contribution rate was increased from 6 percent to 6.58 percent of pay. The new law also requires the state contribution rate to be at least equal to the member contribution rate.

At Aug. 31, 2008, the number of participating employing districts was as follows.

Employing Districts

Public Schools, Service Centers and Charter Schools	1,256
Colleges, Universities and Medical Schools	102
Educational State Agencies	2
Total	1,360

Contribution requirements are not actuarially determined, but are legally established each biennium pursuant to the following state funding policy.

The Texas Constitution requires the Legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation of all members of TRS during that fiscal year. A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Investments of the Plan are reported at fair value. The fair value of investments is based on published market prices and quotations and current exchange rates. The fair value of commingled funds is based on the Net Asset Value of the fund at the valuation date. For alternative investments where no readily ascertainable market value exists, management has determined fair values for individual investments based on the capital account balance at the closest available reporting period, adjusted for subsequent contributions, distributions, management fees and reserves.

TRS offers to all service and eligible disability retirees several annuity payment options that reduce the standard annuity by application of age-related actuarial reduction factors in order to continue payment to a beneficiary after the retiree's death. The available options include 100, 75 and 50 percent joint and survivor annuities and five and 10 year guaranteed period annuities.

TRS also offers two other annuity payment options:

- The Deferred Retirement Option Plan (DROP)
  DROP allows members to freeze their standard annuity and, instead of retiring, to have a portion of the frozen standard annuity deposited into a DROP account while continuing to work for a TRS-affiliated employer. Members may elect to participate in the DROP program for up to five years. The plan was closed for new participants effective Dec. 31, 2005.
- A Partial Lump-Sum Cash Option (PLSO)
  PLSO reduces the standard monthly annuity and provides a cash lump sum distribution. Members may participate in the PLSO if they are eligible for service retirement and meet the Rule of 90 (age and years of service credit equal at least 90), are not participating in the DROP plan and are not retiring with disability benefits.

Optional Retirement Program

All public higher education and public K-12 education employees employed in a position that is eligible for the TRS defined benefit pension plan are automatically enrolled in TRS on their first day of employment. Full-time faculty, librarians and certain professionals and administrators employed in public higher education are eligible to elect the Optional Retirement Program (ORP) in lieu of TRS before the 91st day after becoming eligible. It is a one-time irrevocable choice between two distinct plans. The ORP is administered by the benefits offices at each employer. The Texas Higher Education Coordinating Board develops policies, practices and procedures to provide greater uniformity in the administration of the ORP.

The ORP is a defined contribution pension plan in which each participant selects from a variety of investments offered by several companies through annuity contracts or mutual fund investments. These types of investments are authorized by Section 403(b) of the Internal Revenue Code. With the purchase of these individual contracts, the state has effectively transferred the obligation for the payment of benefits to the company. Benefits in the ORP vest after one year of participation.

The contributory percentages of participant salaries provided by each participant and the state were 6.65 percent for the participant and 6.58 percent for the state. Institutions and agencies authorized under state law to provide ORP to their employees may supplement the state contribution at a rate up to 1.92 percent of payroll.

Individual accounts are maintained at the insurance and investment companies selected by each ORP participant. Separate financial statements for ORP are not pre-

Retirement Systems' Membership

	ERS*	LECOS*	JRS1*	JRS2*	TRS**	TESRS***
Retirees and Beneficiaries Currently Receiving Benefits	72,678	6,204	471	117	275,228	1,939
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	74,094	35	7	120	56,300	1,975
Current Employees: Vested and Non-Vested	134,626	33,642	27	518	924,247	4,340
Total Members	281,398	39,881	505	755	1,255,775	8,254

* Totals are from actuarial valuations as of Aug. 31, 2008.

** Totals are from the audited agency annual financial report.

*** This total does not include the 562 retirees and beneficiaries from the TLFFRA (Texas Local Firefighters Retirement Act) plan as of Aug. 31, 2008.

Funding Information, Actuarial Methods and Assumptions

(Amounts in Thousands)

	ERS	LECOS	JRS1	JRS2	TRS	TESRS*
Contribution Rates						
Employees	6.0%	0.0%	6.0%	6.0%	6.4%	N/A
Legislators	8.0%	N/A	N/A	N/A	N/A	N/A
Employer**	6.45%	1.59%	N/A	16.83%	6.58%	N/A
Annual Pension Cost	$378,269	$19,678	$26,792	$11,480	$1,432,030	$3,161
Employer Contributions Made***	$341,628	$20,192	$28,657	$11,138	$1,451,028	$2,439
Actuarial Valuation Date	Aug. 31, 2008	Aug. 31, 2008	Aug. 31, 2008	Aug. 31, 2008	Aug. 31, 2008	Aug. 31, 2008
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age
Amortization Method	Level Percent Open	Level Percent Open	Level Dollar Open	Level Percent Open	Level Percent Open	Level Dollar Open
Remaining Amortization Period of Unfunded Liability	30 years	30 years	30 years	2.8 years****	20.7 years	6 years
Asset Valuation Method	5-year Smoothed Fair Value	5-year Smoothed Fair Value	N/A	5-year Smoothed Fair Value	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:						
Investment Rate of Return	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases	0.0%-13.5%	5.5%-13.5%	3.5%	3.5%	4.25%-26.4%	N/A
Includes Inflation at	3.5%	3.5%	3.5%	3.5%	3.0%	3.5%
Cost-of-Living Adjustments	None-Employee 3.5%-Elected	None	3.5%	None	None	None

* Contributions and benefits are not based on the salaries of members.

** The plan for JRS1 is closed to new participants and the state contributions are based upon benefits paid to participants during the year. Contribution requirements for JRS2 are actuarially determined each even-numbered year. TRS and ERS contribution requirements are based on actuarial evaluations as established by state statute.

*** Contributions do not include $8.8 million of state appropriations to the TESRS plan.

**** The amortization period was calculated based on estimated fiscal 2009 covered payroll. At the end of fiscal 2009, the ARC and the amortization period will be recalculated based on actual 2009 covered payroll.

pared because the state retains no liability for plan performance and has very limited administrative involvement.

The employers of the ORP are state universities, one educational state agency and several two-year college institutions that are not part of the state reporting entity. State entity participation in the ORP plan for fiscal 2008 resulted in participant contributions of $200.3 million and employer contributions of $234.2 million.

Updated information for the complete ORP plan will be available in the fiscal 2008 *ORP Participation Report Summary* published annually by the Texas Higher Education Coordinating Board. For the year ended Aug. 31, 2007, the ORP plan had 39,429 participants. The total participant contributions were $226 million and total employer contributions were $257.3 million. ORP participation reports may be obtained from the following:

Statewide Coordinator, Optional Retirement Program
Texas Higher Education Coordinating Board
P.O. Box 12788
Austin, TX 78711-2788

Fire Fighters' Pension Commission

FPC is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple-employer pension plan established and administered by the state of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At Aug. 31, 2008, there were 182 member fire departments participating in TESRS.

The statutory authority for TESRS is found in Tex. Gov. Code, Title 8, Subtitle H, Chapters 861-865. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member. No contributions are required by individual members of participating departments. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS. The state may also be required to make a limited amount of annual contributions to make the fund actuarially sound. The contributions may not exceed the amount of one-third of the total of all contributions by governing bodies in one year. The state is not an employer of the TESRS plan; therefore, the sole-employer reporting provisions of GASB 27 for net pension obligation calculations are not applicable.

Investments of TESRS are reported at fair value. The fair value of investments is based on market prices provided by the fund custodian, State Street Bank and Trust. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, determines the fair values for the individual investments.

Eligible members include volunteer emergency service personnel who are members in good standing with a qualifying fire-fighting unit. Effective Jan. 1, 2007, the TESRS board amended the vesting and reduced the compounded amount paid for each year of service over 15 years. The TESRS board protected currently vested members by "grandfathering" vested accrued benefits as of Dec. 31, 2006.

Through Dec. 31, 2006, a current member became vested upon completing at least five years of qualified service. These members were vested, beginning with the fifth year of service at 5 percent per year of service for the first 10 years and 10 percent for each of the next five years of service.

Effective Jan. 1, 2007, a member must have at least ten years of qualified service to become vested. Those members are vested at 50 percent and accrue an additional 10 percent for each of the next five years of service.

Vested members are eligible to receive a pension for life starting at age 55 that is equal to six times the average contribution rate paid by the governing entity over the member's period of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 7 percent compounded annually for "grandfathered" members, or 6.2 percent for members vested under the amended Jan. 1, 2007, TESRS board rules.

Actuarial valuations are performed biennially. Death and disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump-sum amount and continuing monthly payments to a member's spouse and dependents.

The member fire department contributions to the fund for the years ending Aug. 31, 2008, 2007 and 2006, were $2.4 million, $2.5 million and $2.1 million, respectively. In addition, the Legislature appropriated $8.8 million of contributions for the fiscal year ending Aug. 31, 2008. Contributions made were greater than the yearly statutorily required contributions.

The Texas Local Fire Fighters' Retirement Act (TLFFRA) allows participating cities to administer local fire fighter pension funds. These individually managed funds have varied contribution requirements. FPC provides oversight, records administration and other administrative support to the locally managed pension plans.

Upon election, a department under TLFFRA can merge with the TESRS plan. At Aug. 31, 2008, there were 101 plans merged into the TESRS plan. Benefit determinations for these merged plans are determined by each local governing board. Authority for contributions is established by statute.

Separate accounts are maintained for each merged plan. The vested members of former TLFFRA plans will be paid by FPC with funds received from the local governing bodies on a pay-as-you-go basis. There are no reserves required in the TLFFRA retirement program. Fund assets are always offset by an equal amount of fund liabilities in accordance with the statutory requirements of the TLFFRA retirement program. As of Aug. 31, 2008, membership consisted of 562 retirees and beneficiaries currently receiving TLFFRA benefits.

Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation for plans subject to sole-employer provisions of GASB 27 for fiscal 2008 are presented below.

Annual Pension Cost and Net Pension Obligation

(Amounts in Thousands)

	ERS	LECOS	JRS1	JRS2	TRS*	TESRS**
Annual Required Contribution, ARC	$ 378,236	$ 19,516	$ 27,258	$ 11,022	$1,426,771	$ 3,161
Interest on Net Pension Obligation, NPO	113	557	6,818	(582)	26,255	N/A
Adjustment to ARC	(80)	(395)	(7,285)	1,040	(20,996)	N/A
Annual Pension Cost	378,269	19,678	26,791	11,480	1,432,030	3,161
Employer Contributions Made	341,628	20,192	28,656	11,138	1,451,028	2,439
Increase (Decrease) in NPO	36,641	(514)	(1,865)	342	(18,998)	N/A
Net Pension Obligation/(Asset), September 1, 2007	1,409	6,956	85,225	(7,270)	328,182	N/A
Net Pension Obligation/(Asset), August 31, 2008***	$ 38,050	$ 6,442	$ 83,360	$ (6,928)	$ 309,184	N/A

* The sole-employer provisions of GASB 27 apply to TRS.

** An NPO calculation is not applicable for TESRS because the state is not an employer in the TESRS plan. Contributions do not include $8.8 million of state appropriations to the FPC plan.

*** See "Funding Information, Actuarial Methods and Assumptions" table for actuarial assumptions used in determining cost and obligation.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

The table below presents the three-year trend information regarding annual pension cost and net pension obligation of the plans.

Three-Year Trend Information

(Amounts in Thousands)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Employees Retirement System (ERS)			
08/31/08	$ 378,269	90.3%	$ 38,050
08/31/07	369,599	89.2%	1,409
08/31/06	360,224	87.8%	(38,666)
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)			
08/31/08	$ 19,678	102.6%	$ 6,442
08/31/07	6,956	0.0%	6,956
08/31/06	0	0.0%	0
Judicial Retirement System Plan One (JRS1)			
08/31/08	$ 26,791	107.0%	$ 83,360
08/31/07	28,497	101.9%	85,225
08/31/06	27,239	101.6%	85,757
Judicial Retirement System Plan Two (JRS2)			
08/31/08	$ 11,480	97.0%	$ (6,928)
08/31/07	11,148	97.9%	(7,270)
08/31/06	9,938	101.1%	(7,509)
Teacher Retirement System of Texas (TRS)			
08/31/08	$ 1,432,030	101.3%	$ 309,184
08/31/07	1,722,454	85.4%	328,182
08/31/06	1,593,347	83.6%	76,859
Texas Emergency Services Retirement System (TESRS)*			
08/31/08 **	$ 3,161	356.0%	N/A
08/31/06 **	2,753	100.0%	N/A
08/31/04	2,897	65.0%	N/A

* TESRS is not subject to NPO calculation because the state is not an employer in the TESRS plan.

** Actuarial assumptions and methodology were changed for the Aug. 31, 2006 and Aug. 31, 2008 valuations.

Funded Status

The state's pension plans funded status information for each plan as of Aug. 31, 2008, is presented below.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Included in the audited financial reports for the Employees Retirement System of Texas, the Teacher Retirement System of Texas and the Fire Fighters' Pension Commission are:

(1) Schedules of funding progress that include historical trend information about the actuarially determined funded status of the plan from a long-term on-going plan perspective and the progress made in accumulating sufficient assets to pay benefits when due.

(2) Schedules of employer contributions that include historical trend information about the Annual Required Contributions (ARC) of the employer and the contributions made by the employers in relation to the ARC.

Funded Status

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll (c)	Excess/UAAL as a Percentage of Covered Payroll ((a-b)/c)
Employees Retirement System (ERS)						
08/31/08	$ 23,511,918	$ 25,403,280	$ (1,891,362)	92.6%	$ 5,379,527	(35.2)%
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)						
08/31/08	$ 774,509	$ 842,135	$ (67,626)	92.0%	$ 1,242,122	(5.4)%
Judicial Retirement System Plan One (JRS1)						
08/31/08	$ 0	$ 289,671	$ (289,671)	0.0%	$ 3,478	(8,328.7)%
Judicial Retirement System Plan Two (JRS2)						
08/31/08	$ 232,891	$ 239,098	$ (6,207)	97.4%	$ 66,110	(9.4)%
Teacher Retirement System of Texas (TRS)						
08/31/08	$ 110,233,420	$ 121,756,542	$ (11,523,122)	90.5%	$ 33,237,904	(34.7)%

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Total Members Covered (not rounded)	Excess/UAAL Per Member Covered (not rounded)
Texas Emergency Services Retirement System (TESRS)						
08/31/08*	$ 60,987	$ 64,227	$ (3,240)	95.0%	8,254	$ (393)

* Actuarial assumptions and methodology were changed for the Aug. 31, 2008 valuation.

Note 10

Deferred Compensation

The state of Texas offers to all state employees two deferred compensation plans. One is established in accordance with Internal Revenue Code Section 457. The second is established in accordance with Internal Revenue Code Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants. The assets of the two plans remain the property of the contributing employees and are not presented in the accompanying financial statements. The state makes no contributions to either plan, the assets do not belong to the state and the state has no liability related to the plans.

The University of Texas System (System) offers its own deferred compensation plan, created in accordance with Internal Revenue Code Section 457(b). All System employees are eligible to participate in the System's plan, and do not participate in the plan offered by the state of Texas. All investments, amounts, property and rights held under the deferred compensation trust fund are held for the exclusive benefit of participants and beneficiaries at the fair market value of the plan account for each participant. The System has no liability under the plan.

Note 11

Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state of Texas contributes to four plans that provide health care and life insurance benefits for retired employees, their spouses and beneficiaries. These other postemployment benefits (OPEB) are authorized by statute and contributions are determined by the General Appropriations Act.

The state of Texas is a participating employer in three different OPEB plans and is an on-behalf contributor to one plan. The financial statement recognition and note disclosure requirements in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, were applied separately for each plan. The following note disclosures are organized by OPEB plan administrator.

University of Texas and Texas A&M University Systems

The state of Texas contributes to two single-employer defined benefit retiree health care plans: the UT System Employee Group Insurance Program (UT plan) and A&M Care Health and Life Plan (A&M plan). The UT plan is administered by the University of Texas System and the A&M plan is administered by the Texas A&M University System.

The University of Texas System and the Texas A&M University System elected to implement GASB 45 in fiscal 2008. The results of the first annual OPEB valuations for the UT and A&M plans are incorporated into this note. Each system issues a publically available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to the systems at the following addresses.

University of Texas System
601 Colorado Street
Austin, Texas 78701-2982

Texas A&M University System
200 Technology Way
College Station, Texas 77845

Plan Descriptions

Each plan provides separate postemployment health care and life insurance coverage to university system retirees, surviving spouses and beneficiaries. The University of Texas System and Texas A&M University System are part of the state of Texas primary government. Employees of these systems are considered to be state employees. Benefit provisions for the UT plan and A&M plan are established and amended by the administering systems as allowed under Texas Insurance Code Chapter 1601. Retiree eligibility for insurance continuation after employment is determined by the Legislature and is subject to change.

Funding Policy

The university system and member contribution rates are determined annually by each system based on the recommendations of the employee benefits office and consulting actuaries. The plan rates are based on the plan costs that are expected to be incurred, the funds appropriated for the plans and the funding policy established by the Legislature in connection with benefits provided through the plan. Amounts contributed by the state are currently based on pay-as-you-go financing requirements determined during each legislative session. State contribution requirements are established and may be amended by the Legislature. For fiscal 2008 the employer contributions and annual OPEB costs are presented below.

Schedule of Contributions from the Employers and Other Contributing Entities

(Amounts in Thousands)

Fiscal Year Ending	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
UT Plan				
8/31/08	$ 99,892	$522,570	19.1%	$422,678
A&M Plan				
8/31/08	$ 36,284	$176,593	20.5%	$140,309

For the year ended Aug. 31, 2008, the state made monthly contributions for health care and life insurance to the UT and A&M plans. Contribution rates are shown below. Costs are estimated by an actuary for claims expected to be paid during the year. The retiree contributes any premium over and above state contributions.

Employer Contribution Rates – Retiree Health and Basic Life Premium

For the Fiscal Year Ended August 31, 2008

Level of Coverage	UT Plan	A&M Plan
Retiree Only	$ 369	$ 376
Retiree/Spouse	$ 563	$ 552
Retiree/Children	$ 493	$ 486
Retiree/Family	$ 687	$ 639

Annual OPEB Cost and Net OPEB Obligation

The state's annual OPEB cost for the UT and A&M plans is calculated based on the annual required contributions of the employers (ARC). The ARC is an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period no greater than 30 years. The following table shows the components of the annual OPEB cost for the year for the UT and A&M plans.

Annual OPEB Cost and Net OPEB Obligation

(Amounts in Thousands)

	UT Plan	A&M Plan
Annual Required Contribution, ARC	$522,570	$176,593
Interest on Net OPEB Obligation		
Adjustment to ARC		
Annual OPEB Cost	522,570	176,593
Employer Contributions Made	99,892	36,284
Increase Net OPEB Obligation	422,678	140,309
Net OPEB Obligation, September 1, 2007	0	0
Net OPEB Obligation, August 31, 2008	$422,678	$140,309

Funded Status and Funding Progress

The funded status of the UT and A&M plans as of Aug. 31, 2008, is disclosed below.

Funded Status

(Amounts in Thousands)

	UT Plan	A&M Plan
Actuarial Accrued Liability (AAL)	$5,014,217	$1,993,236
Actuarial Value of Plan Assets		
Unfunded Actuarial Accrued Liability (UAAL)	$5,014,217	$1,993,236
Funded Ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered Payroll (active plan members)	$4,312,904	$1,140,126
UAAL as a Percentage of Covered Payroll	116.3%	174.8%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented as required supplementary information following the notes to the financial statements. The schedule presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used in the UT and A&M plan valuations include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. See the table below for additional detail on the actuarial methods and assumptions used in the UT and A&M plans valuations.

Summary of Actuarial Methods and Assumptions

	UT Plan	A&M Plan
Actuarial Valuation Date	Dec. 31, 2007	Sept. 1, 2007
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Open	Level Percent Open
Remaining Amortization Period of Unfunded Liability	30 years	30 years
Asset Valuation Method	Market	N/A
Actuarial Assumptions:		
Investment Rate of Return	7%	7%
Includes Inflation at	4%	4%
Health Care Trend Rates	8% initial 6% ultimate	8% initial 6% ultimate

Employees Retirement System of Texas

The Employees Retirement System (ERS) administers a program that provides postemployment health care, life and dental insurance benefits to retirees through the Group Benefits Program as authorized by Texas Insurance Code Section 1551.102. The State Retiree Health Plan (SRHP) is a cost-sharing multiple-employer defined benefit plan with 56 participating employers.

In a cost sharing multiple-employer plan without a special funding situation, employers recognize their annual contractually required contributions to the plan in the fund financial statements. Because the SRHP is funded by multiple employers the GASB 45 special funding situation does not apply.

For cost-sharing multiple-employer defined benefit plans like the SRHP, the amount of OPEB liability or asset is equal to the difference between contributions required and contributions made. Contractually required contributions to a cost-sharing multiple-employer OPEB Plan are not required to be based on the plan ARC. The contractually required contributions of the SRHP are currently set equal to the pay-as-you-go annual cost of the plan benefits.

Each employer has limited note disclosure requirements under the cost sharing multiple-employer provisions of GASB 45. Additionally, each employer is not required to disclose the actuarial information as it relates to the entire plan on their individual employer report. Instead, the OPEB plan discloses all required actuarial calculations in the notes to their financial statements and required supplementary information. ERS issues a publically available financial report that includes financial statements and required supplementary information for the SRHP. That report may be obtained by writing to ERS at the following address.

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207

Plan Description

Retirees of state agencies, state universities (not part of the University of Texas and Texas A&M University systems) and other non-state entities selected by the Legislature are eligible to receive these OPEB through the SRHP. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. Surviving spouses and dependents of retirees are also covered by the plan. Benefit and contribution provisions of the SRHP are authorized by state law and may be amended by the Legislature.

The financial statements of the SRHP are reported using the accrual basis of accounting. Contributions are recognized when due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Investments of the SRHP are reported at fair value. The fair value is based on published market prices and quotations from major investment brokers at current exchange rates, as available, plus accrued interest and dividends. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors and the Master Trust Custodian, determines the fair values for the individual investments.

Funding Policy

The Legislature sets and has the power to amend annual state contributions to the SRHP. Currently, the state pays 100 percent of eligible retiree health insurance premiums and 50 percent of dependents' premiums. The retiree contributes any premium over and above state contributions. The chart below summarizes the maximum monthly employer contribution toward the health and basic life premiums of eligible retirees.

Employer Contribution Rates – Retiree Health and Basic Life Premium

For the Fiscal Year Ended August 31, 2008

Level of Coverage	ERS SRHP
Retiree Only	$ 361
Retiree/Spouse	$ 567
Retiree/Children	$ 498
Retiree/Family	$ 705

Contractually required contributions to the plan are currently based on the annual pay-as-you-go expenses of the SRHP. In fiscal 2008 the state contributed $376.5 million to the SRHP, which equaled the required contribution.

Teacher Retirement System

The Teacher Retirement System (TRS) administers a program that provides benefits to public school district retirees with at least 10 years of service. The Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit plan with 1,255 participating employers, provides a free basic level of coverage for eligible retirees and optional coverage for eligible retirees and their dependents.

The state of Texas is not an employer in the TRS-Care OPEB plan and is not legally required to continue contributing benefits. A special funding situation is not created because costs are shared between the state and the many participating non-state school district employers. The fiscal 2008 contributions to the TRS-Care OPEB plan are displayed below.

Schedule of Contributions from the Employers and Other Contributing Entities

For the Fiscal Year Ended August 31, 2008
(Amounts in Thousands)

	TRS-Care
From Reporting Entities	$ 141,673
On Behalf From State	254,722
On Behalf From Federal Government	59,486
	$ 455,881

TRS issues a publically available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to TRS at the following address.

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

Plan Description

Basic coverage includes participation in a major medical group health insurance plan with deductibles based upon enrollment in Part A or Part B of Medicare. Eligibility provisions of the TRS-Care plan are established in Texas Insurance Code Chapter 1575.

The financial statements for TRS-Care are reported using the accrual basis of accounting. Contributions are recognized in the period in which amounts are due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Investments of TRS-Care are reported at fair value. The fair value of investments is based on published market prices and quotations at current exchange rates. For investments where no readily ascertainable market value exists, management has determined fair values for the individual investments based on the capital account balance at the closest available reporting period, adjusted for subsequent contributions, distributions, management fees and reserves.

Funding Policy

Funding for free basic coverage is provided based on public school district payroll. The state and active school employee contribution rates are 1 percent and 0.65 percent of school district payroll, respectively, with school districts also contributing 0.55 percent of payroll.

TRS-Care retiree health care and life insurance benefits are financed on a pay-as-you-go basis. The expenditures are recognized when reimbursements are made for claims paid by non-state entities or when premiums are paid.

In fiscal 2008 the state contributed $254.7 million to TRS-Care. The state is not contractually required to contribute to the TRS-Care plan because it is not an employer in the plan.

Medicare Part D

In fiscal 2008 the administrators of each OPEB plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requires that these on-behalf payments be recorded as revenues and expenses of each plan. The OPEB administrators reported the following amounts of Medicare Part D payments from the federal government in fiscal 2008.

Medicare Part D Receipts

For the Fiscal Year Ended August 31, 2008
(Amounts in Thousands)

UT Plan	$ 6,215
A&M Plan	3,092
ERS SRHP	32,964
TRS-Care	59,486
	$ 101,757

Note 12

Interfund Activity and Transactions

Interfund activity refers to financial interactions between funds and/or blended component units and is restricted to internal events. Interfund transactions under GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, refer to financial interactions with legally separate entities, i.e., discrete component units and other governments, and are restricted to external events.

Reciprocal Interfund Activity

Interfund loans are reciprocal interfund activity between funds and blended component units with a requirement for repayment. These loans are reported as interfund receivables/payables, classified as either current or noncurrent.

Interfund services are sales and purchases of goods and services between funds for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

Nonreciprocal Interfund Activity

Interfund transfers are nonreciprocal interfund activity. This activity refers to flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing sources or uses. In proprietary funds, transfers are reported after nonoperating revenues and expenses. The majority of transfers are legally authorized by statute or bond covenant to move amounts from one fund to another. Amounts not transferred at fiscal year end are accrued as "due from/due to." Activity occurring within the same fund has been eliminated. Additional eliminations have been made and transfers in and out have been netted and presented in the government-wide statement of activities as "transfers-internal activities."

According to GASB 34, certain reclassifications and eliminations have been made between the fund financial statements and the government-wide financial statements. Resource flows between the primary government and its discretely presented component units have been reported as revenues and expenses, as if they were external transactions on the fund financial statements and the government-wide financial statements. Transfers between the governmental or business-type activities and the fiduciary funds have been reported as transfers on the fund financial statements and were reclassified to revenues and expenses, as if they were external transactions on the government-wide financial statements.

Due from/due to amounts between the primary government and the discretely presented component units are reported separately from due from/due to amounts between funds in the fund financial statements and the government-wide financial statements, according to GASB 34. Due from/due to amounts between governmental or business-type activities and fiduciary funds are reported as due from/due to amounts between funds in the fund financial statements and are reclassified to receivables from fiduciary funds/payables to fiduciary funds, as if they were external transactions on the government-wide financial statements.

Interfund reimbursements are repayments from funds responsible for payment of expenditures or expenses to the funds that actually made the payment. Reimbursements are not displayed in the financial statements.

For the state of Texas, routine transfers are those transfers from unrestricted revenue collected in the general revenue fund to finance various programs accounted for in other funds in accordance with the General Appropriation Act, which is the primary budget document for the state of Texas. Other transfers are legally authorized by statute to move resources from one fund to another. The noncurrent interfund receivables/payables include loans for energy efficiency programs of approximately $12.5 million. There is also a $367.9 million receivable for Texas A&M System from the University of Texas System from permanent university funds. The earnings will be used for bond payments. Significant transfers include a $980.7 million transfer from lottery earnings to the foundation school fund for educational programs and a $716.5 million transfer from the permanent school fund to the available school fund. There was also a $2.3 billion transfer to the highway fund from the general revenue fund. The detail of interfund activity and transactions by fund type and category as of Aug. 31, 2008, is shown on the following pages.

Interfund Receivables/Payables per the Fund Statements

(Amounts in Thousands)

Fund Type	Current Interfund Receivables	Current Interfund Payables	Noncurrent Interfund Receivables	Noncurrent Interfund Payables	Total Interfund Receivables	Total Interfund Payables
INTERFUND RECEIVABLES/PAYABLES WITHIN THE PRIMARY GOVERNMENT						
Governmental Funds						
General Fund	$ 3,050	$ 59	$ 12,510	$	$ 15,560	$ 59
Permanent School Fund	3				3	
Nonmajor Governmental Funds		420		2,104		2,524
	3,053	479	12,510	2,104	15,563	2,583
Proprietary Funds						
Colleges and Universities	14,685	17,315	367,945	378,351	382,630	395,666
Nonmajor Enterprise Funds	56				56	
	14,741	17,315	367,945	378,351	382,686	395,666
Total Interfund Receivables/Payables Within the Primary Government	$ 17,794	$ 17,794	$ 380,455	$ 380,455	$ 398,249	$ 398,249

Due From/Due To per the Fund Statements

(Amounts in Thousands)

Fund Type	Due From Other Funds	Due From Primary Government	Due From Component Unit	Due To Other Funds	Due To Primary Government	Due To Component Unit
DUE FROM/DUE TO WITHIN THE PRIMARY GOVERNMENT						
Governmental Funds						
General Fund	$ 22,313	$	$ 332	$1,061,788	$	$ 426
State Highway Fund	269,440			4,624		
Permanent School Fund	356			1,713		
Nonmajor Governmental Funds	83,974		63	73,706		
	376,083	0	395	1,141,831	0	426
Proprietary Funds						
Colleges and Universities	639,396		18	11,658		
Texas Water Development Board Funds				2,896		
Texas Department of Transportation Turnpike Authority	118			1,690		
Nonmajor Enterprise Funds	26,663			16,226		
Internal Service Fund	729			77,225		
	666,906	0	18	109,695	0	0
Fiduciary Funds						
Pension and Other Employee Benefit Trust Funds	247,715			40,128		
Private-Purpose Trust Funds	32					
Agency Funds	1,332			414		
	249,079	0	0	40,542	0	0
Total Due From/Due To Within the Primary Government	$1,292,068	$ 0	$ 413	$1,292,068	$ 0	$ 426
DUE FROM/DUE TO OUTSIDE THE PRIMARY GOVERNMENT						
Discretely Presented Component Units	$	$ 426	$	$	$ 413	$
Total Due From/Due To Outside the Primary Government	$ 0	$ 426	$ 0	$ 0	$ 413	$ 0
TOTAL DUE FROM/DUE TO			$1,292,907			$1,292,907

Internal Balances per the Government-wide Financial Statements

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Total
NONCURRENT ASSETS			
Internal Balances–Receivables	$ 10,406	$ (10,406)	$ 0
CURRENT LIABILITIES			
Internal Balances–Payables	$ 631,164	$ (631,164)	$ 0

Transfers In/Out per the Fund Statements

(Amounts in Thousands)

Fund Type	Transfers In Other Funds	Transfers Out Other Funds
Governmental Funds		
General Fund	$ 4,661,664	$ 12,057,410
State Highway Fund	3,727,027	88,032
Permanent School Fund		716,535
Nonmajor Governmental Funds	5,443,058	4,915,005
	13,831,749	17,776,982
Proprietary Funds		
Colleges and Universities	5,414,776	480,462
Texas Water Development Board Funds	4,235	9,846
Texas Department of Transportation Turnpike Authority	46,826	
Nonmajor Enterprise Funds	17,121	1,083,157
	5,482,958	1,573,465
Fiduciary Funds		
Pension and Other Employee Benefit Trust Funds	99,803	62,319
Private-Purpose Trust Funds	10	1,754
	99,813	64,073
Total Transfers In/Out	$ 19,414,520	$ 19,414,520

Transfers In/Out per the Government-wide Financial Statements

(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	$(3,909,529)
Business-Type Activities	$ 3,909,529

Note 13

Fund Balances/Net Assets

A summary of the nature and purposes of governmental fund balances is shown in the table below by fund type at Aug. 31, 2008.

The classification of unreserved undesignated or unreserved designated fund balances for governmental funds is based on the function of the operation of the agencies within the funds. The fund balances of oversight agencies are classified as designated for general government.

The government-wide, proprietary and fiduciary restrictions are listed on the face of their statements of net assets. The government-wide statement of net assets reports $56.2 billion of restricted net assets for the primary government, of which $38.6 billion is restricted by enabling legislation.

Governmental Fund Balances – Reserved, Unreserved/Designated, Unreserved/Undesignated

(Amounts in Thousands)

MAJOR FUNDS	
General Fund – Reserved:	
Encumbrances	$ 1,478,793
Inventories	170,836
Imprest Accounts	3,730
Loans and Contracts	247,137
Interfund Receivables (Noncurrent)	12,510
Tax Receivables (Noncurrent)	424,524
Health and Human Services	133,651
	$ 2,471,181
General Fund – Unreserved	
Undesignated:	$ 8,183,985
State Highway Fund – Reserved:	
Encumbrances	$ 140,593
Inventories	106,751
Imprest Accounts	584
Loans and Contracts	248,305
	$ 496,233
State Highway Fund – Unreserved:	
Designated:	
General Government	$ 1,625
Transportation	330,527
Total Unreserved/Designated	332,152
Undesignated:	
General Government	$ (49,661)
Public Safety and Corrections	(253)
Total Unreserved/Undesignated	(49,914)
	$ 282,238
Permanent School Fund – Reserved:	
Encumbrances	$ 997
Loans and Contracts	1,160
Public School Support	25,225,028
	$ 25,227,185

NONMAJOR FUNDS	
Special Revenue Funds – Reserved:	
Encumbrances	$ 30,834
Inventories	437
Imprest Accounts	10
Loans and Contracts	1,122,173
	$ 1,153,454
Special Revenue Funds – Unreserved:	
Designated:	
General Government	$ 3,120,752
Regulatory Services	491,586
Health and Human Services	12,703
Natural Resources and Recreation	191,083
Education	88,048
Transportation	884,486
Public Safety and Corrections	6,825
Employee Benefits	90
Total Unreserved/Designated	$ 4,795,573
Special Revenue Funds – Unreserved/Undesignated:	
Undesignated:	
General Government	(7,172)
Education	(117,201)
Public Safety and Corrections	(431)
Total Unreserved/Undesignated	(124,804)
Total Special Revenue Funds - Unreserved	$ 4,670,769
Debt Service Funds – Reserved:	
Debt Service	$ 189,203

Concluded on the following page

Governmental Fund Balances – Reserved, Unreserved/Designated, Unreserved/Undesignated (concluded)

(Amounts in Thousands)

NONMAJOR FUNDS (continued)	
Capital Projects Funds – Reserved:	
Encumbrances	$ 116,689
Inventories	82
Capital Projects	197,535
	$ 314,306
Capital Projects Funds – Unreserved:	
Designated:	
Public Safety and Corrections	$ 563
Total Unreserved/Designated	563
Undesignated:	
General Government	1,818
Health and Human Services	(110,743)
Natural Resources and Recreation	6
Education	(35)
Public Safety and Corrections	(15,292)
Total Unreserved/Undesignated	(124,246)
	$ (123,683)

NONMAJOR FUNDS (concluded)	
Permanent Funds – Reserved:	
Education	$ 575,931
	$ 575,931
Permanent Funds – Unreserved:	
Designated:	
Permanent Health Fund	$ 560,520
Total Unreserved/Designated	560,520
Undesignated:	
General Government	9,829
Education	(6,070)
Total Unreserved/Undesignated	3,759
	$ 564,279

ALL GOVERNMENTAL FUNDS	
Reserved	$ 30,427,493
Unreserved/Designated	5,688,808
Unreserved/Undesignated	7,888,780
Total Fund Balances – Governmental Funds	$ 44,005,081

Note 14

Adjustments to Fund Balances/ Net Assets

During fiscal 2008 certain accounting changes and adjustments were made that required the restatement of fund balances or net assets as shown below and discussed on the following page.

Restatements to Fund Balances/Net Assets

(Amounts in Thousands)

	September 1, 2007, As Previously Reported	Restatements	September 1, 2007, As Restated
GOVERNMENTAL FUNDS AND GOVERNMENT-WIDE ACTIVITIES			
Major Funds:			
General Fund	$ 10,836,321	$ (12,881)	$ 10,823,440
State Highway Fund	12,198	29,403	41,601
Permanent School Fund	26,773,885		26,773,885
Total Major Funds	37,622,404	16,522	37,638,926
Nonmajor Funds:			
Special Revenue Funds	3,242,576	69,143	3,311,719
Debt Service Funds	145,165	48	145,213
Capital Project Funds	98,415	8,288	106,703
Permanent Funds	1,249,461		1,249,461
Total Nonmajor Funds	4,735,617	77,479	4,813,096
Total Governmental Funds	42,358,021	94,001	42,452,022
Governmental Activities:			
Capital Assets Net of Accumulated Depreciation	63,802,726	(12,836)	63,789,890
Long-Term Liabilities	(10,461,260)	(145,990)	(10,607,250)
Other Adjustments	2,280,704		2,280,704
Internal Service Fund	369,913		369,913
Total Governmental Activities	55,992,083	(158,826)	55,833,257
Total Governmental Funds and Government-wide Activities	98,350,104	(64,825)	98,285,279
PROPRIETARY FUNDS			
Major Funds:			
Colleges and Universities	36,835,169	(23,301)	36,811,868
Texas Water Development Board Funds	2,123,700		2,123,700
Texas Department of Transportation Turnpike Authority	805,452		805,452
Nonmajor Enterprise Funds	3,134,287	(435,214)	2,699,073
Total Proprietary Funds	42,898,608	(458,515)	42,440,093
FIDUCIARY FUNDS			
Pension and Other Employee Benefit Trust Funds	137,266,388		137,266,388
External Investment Trust Funds	16,452,983		16,452,983
Private-Purpose Trust Funds	3,282,605		3,282,605
Total Fiduciary Funds	157,001,976	0	157,001,976
Total Primary Government	298,250,688	(523,340)	297,727,348
Discretely Presented Component Units	516,547	435,753	952,300
Total Reporting Entity	$298,767,235	$ (87,587)	$298,679,648

Restatements by Activity

(Amounts in Thousands)

Restatements	Governmental Activities	Business-Type Activities	Component Unit	Total Restatements
A.	$ 2,340	$ (4,300)	$ (91)	$ (2,051)
B.	(12,836)	(18,920)	167	(31,589)
C.	(53,947)			(53,947)
D.	(382)	(435,295)	435,677	0
Total Restatements	$ (64,825)	$ (458,515)	$ 435,753	$ (87,587)

A. These are miscellaneous restatements and other changes necessary to correct accounting errors in the prior period that resulted in the over or understatement of revenues and/or expenditures.

B. This restatement is for adjusting capital assets and accumulated depreciation.

C. This restatement relates to the adjustment for the Texas mobility fund and the state highway fund to eliminate accrued interest payable and related interest expense as well as to restore unamortized premiums, discounts and issuance costs.

D. These restatements recognize a change in the reporting of the Teacher Retirement System (TRS). Previously TRS was reported as part of the state of Texas primary government. TRS is now reported as a discrete component unit because TRS was determined to be a separate legal entity that does not provide services entirely or almost entirely to the state of Texas. Therefore, the beginning balances of TRS' governmental and proprietary activities were restated and moved to the component unit financial statements.

Note 15

Contingent Liabilities

The state has been named as a defendant in routine legal proceedings, which normally occur in governmental operations. The recurring pattern of such litigation is not likely to have a materially adverse effect on the state's revenues or expenditures. Potential claims have been classified into the following categories to facilitate disclosure.

Protested Tax Payments

As of Aug. 31, 2008, the state held protested tax payments of $118.4 million, the majority of which were held by the Texas Comptroller of Public Accounts. The taxes included state sales and use tax, franchise tax, insurance premium and maintenance taxes, surtaxes and various other fees under protest. In addition, plaintiffs have filed lawsuits seeking refunds for franchise, sales, insurance, motor vehicle sales and use and oil and gas production taxes totaling $708 million. Although the outcome of these cases cannot presently be determined, adverse rulings in some of them could result in significant additional refunds.

Unpaid Claims and Lawsuits

A variety of cases with claims totaling $270.9 million have been filed that may affect the state. While the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Included are a number of lawsuits and claims that may be significant to individual state agencies. The Texas Department of Transportation faces a potential liability of $106.1 million from litigation and contractual claims. The Department of Family and Protective Services is potentially impacted from civil rights, discrimination and tort claims of $133.4 million.

Outstanding Loan Commitments

The state makes loan commitments to political subdivisions for financing purposes to be provided from remaining current bond proceeds, future bond proceeds and federal drawdowns.

The Texas Water Development Board has loan commitments totaling $1.4 billion as of Aug. 31, 2008.

Federal Assistance

The state receives federal financial assistance which is subject to review or audit by federal grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance as a result of the audits may become a liability of the state.

The Texas Department of Aging and Disability Services has potential federal funding deferrals totaling $60.2 million as of Aug. 31, 2008.

The Health and Human Services Commission Office of Inspector General and the Office of the Attorney General investigate allegations of overpayments to Medicaid providers. Until investigations are completed, the total amount of overpayments to providers are potentially subject to recovery (amounts associated with the "open case list") and may represent a corresponding potential liability for the federal share of these payments - about 60 percent of that total.

An actual liability is realized only after (a) a completed investigation substantiates an overpayment, and (b) the provider is notified of the results and given an opportunity to submit rebuttal or claims for offsets. The percent of total dollars on the open case list that are ultimately confirmed as overpayments cannot be reliably predicted. The state estimates the amounts that may become payable to the federal government will be immaterial to its overall financial condition.

Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code Section 148 as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investment were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue and, therefore, limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

Guaranteed Debt

At Aug. 31, 2008, $49.9 billion in debt had been guaranteed by the permanent school fund for 2,596 outstanding bond issues in 780 school districts in the state. Under state statute, payments by the permanent school fund on such guarantees are recoverable from the state of Texas. The $49.9 billion represents principal amount and does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount also excludes bonds that have been refunded and released from the Bond Guarantee Program.

Partnerships

The University of Texas System (UT) has invested in certain limited partnerships. The partnership agreements commit UT to possible future capital contributions amounting to $2.9 billion as of Aug. 31, 2008. The Teacher Retirement System has $14.2 billion in remaining commitments for private equity domestic and international partnerships.

Note 16

Subsequent Events

Primary Government

Bonds and Commercial Paper Issued/Refunded/ Other Financing

State agencies and universities have issued $358.8 million in new bonds and commercial paper and $461.7 million in refunding bonds since Aug. 31, 2008. This is significantly less than fiscal 2007 due to the delay in issuing the Central Texas Turnpike Bonds and Texas Mobility Fund Bonds because of unfavorable market conditions. This routine activity finances state facilities, housing assistance programs, educational loans and refunds outstanding debt.

The state's bond financing has been affected by significant events and volatility in the financial markets. Some state entities including the Texas State University System

and the Texas Department of Transportation have opted to postpone issuing bonds until the financial climate is more favorable. Since the conclusion of fiscal 2008, adverse events in the financial markets led to a period where volatile and higher than historic interest rates were borne by the variable rate bonds for the Texas Department of Transportation. Additionally, the credit rating of a standby bond purchase provider was downgraded, which resulted in sustained higher than comparable market rates on the Texas Mobility Fund Series 2005-B variable rate bonds, as well as tenders and failed remarketing of a portion of those bonds outstanding. Remedies to resolve the status of the bank held bonds are being pursued and are expected to be successful due to the high quality of the underlying general obligation credit rating of the state of Texas that the bonds bear.

On Sept. 29, 2008, DEPFA Bank was downgraded to a BBB rating by the rating agencies. DEPFA Bank is the liquidity provider for the Department of Housing and Community Affairs (Department) 2006H Single Family and 2007A Single Family variable rate demand bonds. A bond holder may tender these bonds for repurchase prior to maturity. On Oct. 2, 2008, these bonds were downgraded from A-1 to A-2 by Standard & Poor's rating agency. Upon the downgrade these bonds were no longer eligible investments in tax-exempt money market funds; therefore, the Department began to receive tender notices on these bonds. Once the remarketing of the bonds was unsuccessful, DEPFA Bank acquired temporary ownership of the "bank bonds" until the Department is able to get a new liquidity provider and subsequently have the bonds upgraded in rating.

Lehman Brothers, Inc. is owned by Lehman Brothers Holding, Inc., which filed for Chapter 11 bankruptcy protection on Sept. 15, 2008. On Sept. 26, 2008, two interest rate swaps with Lehman Brothers Derivative Products, Inc. on the State of Texas Veterans Housing Assistance Program, Fund II Series 2004A Bonds and the State of Texas Veterans Housing Assistance Program, Fund II Series 2005B Bonds were terminated. On Oct. 14, 2008, the Veterans Land Board replaced Lehman Brothers, Inc. with Goldman Sachs & Co. as the remarketing agent for the State of Texas Veterans Housing Assistance Bonds, Series 1994A-1; the State of Texas Veterans Housing Assistance Program, Fund II Series 2004A Bonds; and the State of Texas Veterans Housing Assistance Program, Fund II Series 2005B Bonds. The Texas Comptroller of Public Accounts notified Lehman that the marketing and client services contract provided by Lehman Brothers, Inc. was terminated effective Oct. 17, 2008. The marketing and client services previously provided by Lehman Brothers, Inc. under the contract were transferred by the Texas Safekeeping Trust Company to Federated Investors, Inc.

The General Land Office (GLO) and Veterans Land Board issued $50 million State of Texas Veterans Housing Assistance Program, Fund II Series 2008B Bonds on Sept. 11, 2008. The Series 2008B Bonds were issued to augment Veterans Housing Assistance Fund II.

Texas Public Finance Authority (TPFA) issued $10 million of General Obligation Commercial Paper Notes, Series 2002A on Oct. 21, 2008. TPFA issued $2 million of Master Lease Commercial Paper Notes, Series 2003 on Oct. 15, 2008.

The Texas Water Development Board issued non-general obligation debt, self-supporting Refunding Bonds Series 2008B for $26.5 million for the purpose of refunding 1998A, DFUND program bonds and general obligation debt and Refunding Bonds Series 2008C (EDAP) for $34.2 million for the purpose of refunding 1998C EDAP program bonds on Jan. 6, 2009.

The Department of Agriculture on Sept. 18, 2008, refinanced $25 million in outstanding commercial paper. The commercial paper matured and was subsequently refinanced on Sept. 19, Sept. 26 and Oct. 2, 2008.

Stephen F. Austin University issued $10.2 million in Higher Education Fund bonds in December 2008. The university is also planning an issuance of Tuition Revenue Bonds, $13 million for a nursing center and $10 million for deferred maintenance for Feb. 1, 2009.

On Oct. 30, 2008, the University of Texas (UT) System Board of Regents issued $400.9 million in Permanent University Fund (PUF) Bonds, Series 2008A to refund $400 million of outstanding PUF Flexible Rate Notes, Series A. On Nov. 5, 2008, the UT System Board of Regents issued $238.6 million in Revenue Financing Sys-

tem Commercial Paper Notes, Series A to finance a variety of capital projects at various UT System institutions.

The Texas Department of Criminal Justice (TDCJ), in an effort to fund fiscal 2008 operational shortfalls primarily related to salaries, overtime, food, fuel and utility costs, requested approval from the Legislative Budget Board and the Office of the Governor to transfer appropriations totaling $22.5 million from fiscal 2009 to fiscal 2008 as per the guidelines set forth in the General Appropriations Act, 80th Legislature, Regular Session. The transfer of appropriations between years will result in a significant impact to fiscal 2009.

Pending approval from the Texas Board of Criminal Justice in December 2008, ownership of the Marlin VA Hospital will transfer from the Veterans Administration to the TDCJ to utilize as a medical facility.

In accordance with Section 204.123 of the Labor Code, in September 2008, taxes that had been deposited to the Employment Training Investment Act (ETIA) holding fund during fiscal 2008 were transferred to the Skills Development Appropriation and the governor's enterprise fund in the amounts of $20 million and $52.3 million, respectively. $17.4 million of the remaining balance is reserved for the training and stabilization fund.

Investments/Economic Environment

Subsequent to the Aug. 31 fiscal year end, the financial markets have in general experienced a significant decline in value due to the financial and credit crisis initiated by the subprime mortgage meltdown. This resulted in substantial declines in equity, fixed income and commodities markets in which the state invests directly, and indirectly, through its investments in various hedge funds, private investments and public markets. The financial results of the state are impacted by market volatility and therefore the state's investments have been negatively impacted as a result of these market conditions. Since the global financial markets are highly dynamic and change in value daily, the value of the state's various investment portfolios change every day.

The state's overriding investment philosophy continues to center on proven principles of diversification and the search for long-term value. The state's investment portfolios are well diversified across asset classes; however, the declines after Aug. 31 had negative impacts on almost every investment asset class. A risk remains that continued uncertainty in the markets may lead to additional equity declines. This period, however, also will provide opportunities to acquire assets at substantial discounts that will benefit returns over longer investment cycles.

The largest investment portfolios of the state that have been affected by the market volatility are those held by the Teacher Retirement System (TRS), the Employee Retirement System (ERS), the University of Texas System (UT) and the Texas Education Agency (TEA). As of Dec. 31, 2008, the investment portfolios have declined significantly. As reported by the custodian of the funds, TRS had declined $23.2 billion or 22.5 percent; ERS had declined $4.6 billion or 20.8 percent; UT Permanent University Fund had declined $2.5 billion or 22.3 percent; and TEA Permanent School Fund had declined $5.2 billion or 22.8 percent since Aug. 31, 2008.

Hurricane Ike

On Sept. 13, 2008, a catastrophic disaster impacted the state of Texas when Hurricane Ike, a Category 2 hurricane, struck the southeast Texas coast, causing massive losses to Texas structures and property as well as economic dislocations for Texans. By Nov. 1, 2008, initial unemployment claims from Texans who had lost their job as a result of Hurricane Ike exceeded 111,000 and unemployment benefit payments arising from these claims were approximately $21 million. The financial impact of the disaster was estimated at over $29 billion in the Annual Financial Report for the Office of the Governor submitted in late November 2008. Private and corporate donations in excess of $3 million were received by the Texas Disaster Relief Fund, a nonprofit corporation, and will be distributed during fiscal 2009 to assist with Hurricane Ike relief efforts.

Pursuant to the Texas Administrative Code (TAC) and the Funds Management Agreement (FMA), the Commissioner of Insurance authorized the transfer of all funds in the Catastrophe Reserve Trust Fund to the Texas Windstorm Insurance Association for the payment of losses

as defined by the FMA and the TAC. The approximate amount of transfer was $370 million.

Numerous state entities were affected by Hurricane Ike. The state is still accumulating data from state entities in an effort to assess the damage caused by the hurricane. Details for some of the entities impacted are addressed in the following paragraphs.

The TDCJ responded to Hurricane Ike by providing evacuation transportation to approximately 5,900 offenders incarcerated at nine coastal correctional facilities and approximately 1,100 high risk parolees from coastal counties. In addition to the cost of transportation, the TDCJ incurred costs related to overtime, fuel and maintenance and repair. Estimated operational costs related to this event are $18 million.

Texas parks on the Texas coast suffered significant losses led by Galveston Island and Sea Rim. On Galveston Island there was extensive beach erosion, loss of headquarters, restrooms, shelters, vehicles and some roads. At Sea Rim in Jefferson County, water has receded but with over 400 feet of beach lost. All park buildings are a total loss. Cost estimates for these two locations top $83.8 million with losses at other locations totaling about $15.5 million.

Cost estimates for the Health and Human Services Commission (HHSC) for Hurricane Ike exceed $340 million. After federal dollars are taken into account, the state share is almost $100 million. The majority of this cost relates to HHSC client services for Other Needs Assistance (individual and household programs) and Medicaid Acute Care. It is unknown if additional federal dollars will be available for some of the state's costs.

The Department of State Health Services (DSHS) provided a number of services, including but not limited to: ambulances for evacuation, shelters for individuals with special needs, medical staffing, medical supplies, crisis counseling and vector control for mosquitoes. The DSHS cost for the response is estimated to be $27 million.

The Texas Department of Public Safety (DPS) incurred an estimated cost to the agency from Hurricane Ike of between $15 million and $20 million for response expenses for travel, salary, supplies and flight time as well as damage to buildings and equipment. DPS anticipates federal reimbursement of $10 million to $15 million.

Hurricane Ike made landfall at Galveston, Texas resulting in temporary closures of University of Texas Health Science Center at Houston (UT-HSC Houston) and University of Texas M.D. Anderson Cancer Center (UT MD Anderson) and closure of a significant portion of University of Texas Medical Branch at Galveston (UTMB Galveston) for an undetermined period of time. Physical structures at UT-HSC Houston and UT MD Anderson sustained property damage of up to $10 million. UTMB Galveston sustained significant physical damage and loss of patient care activity. Costs for protecting and restoring facilities, replacement of infrastructure and equipment and evacuation and relocation, together with loss of revenue, may exceed $700 million based upon preliminary estimates. UTMB Galveston is implementing restored operations for all of research and education, and a portion of the clinical activity. Clinical activity restoration will take an extended period of time due to the extent and nature of damages to related facilities.

The UT System maintains property insurance coverage through its comprehensive property protection plan. Losses (including business interruption) due to named windstorms are covered up to $100 million under a commercial insurance policy subject to a $50 million deductible. Underlying National Flood Insurance Program and Texas Windstorm Insurance Association policies provide up to $10 million in additional insurance recovery. Preliminary estimates for loss of revenue resulting from Hurricane Ike approximate $300 million. In December 2008, the United States Federal Emergency Management Agency (FEMA) obligated almost $39 million to the state of Texas as an advance on reimbursing repairs to UTMB Galveston. Hurricane Ike will result in a permanent impairment of capital assets for UTMB Galveston. It is unknown at this time if UT-HSC Houston and UT MD Anderson will have permanent impairment of capital assets.

As a result of the financial losses stemming from Hurricane Ike, on Nov. 12, 2008, the UT System Board of Regents ordered layoffs of approximately 3,800 employees at UTMB Galveston. The university employs more than

12,000 people who have been on the payroll since Hurricane Ike struck Galveston. With UTMB Galveston's hospital largely shut down, the university's expenses have exceeded revenues by $40 million a month and reserves will be exhausted shortly. The affected employees were carried on the payroll until mid-January of 2009.

Component Unit

Subsequent to fiscal year end, the Texas State Affordable Housing Corporation made a decision to cancel the Single Family Drawdown Program. All outstanding bonds in the Drawdown Program were expected to be redeemed prior to Jan. 1, 2009.

Note 17

Risk Management

It is the policy of the state and its agencies to periodically assess the proper combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. The state is not involved in any risk pools with other governmental entities.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported.

For workers' compensation and unemployment compensation claims, the state is generally self-insured and funds such liabilities on a pay-as-you-go basis. The state assumes substantially all risks associated with tort claims and liability claims against the state or its agencies due to conditions of property, vehicles, aircraft or watercraft.

The Texas Employees Group Benefits Program (GBP), provides health, life, accidental death and dismemberment (AD&D), disability and dental insurance coverage to state and higher education employees, retirees and their dependents. Coverage is provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, health maintenance organization (HMO) contracts and dental health maintenance organization (DHMO) contracts. Effective Sept. 1, 1992, the Employees Retirement System of Texas (ERS) implemented a self-funded managed care health plan, HealthSelect of Texas. The managed care arrangement includes provider fee negotiations and utilization management. HealthSelect is administered by Blue Cross and Blue Shield of Texas, Inc.

The administrative contract involves no transfer of risk to the administrator. The state's Group Insurance Fund retains all risk under HealthSelect. The GBP also includes HMOs to provide health care services in lieu of coverage under HealthSelect. There is a full transfer of risk to the HMOs. The state retains no risk beyond the payment of premiums. The life, AD&D and disability insurance coverages are administered by Group Life and Health (the carrier), a division of Fort Dearborn Life Insurance Company. The carrier, not the fund, is liable in the event claims exceed the claims portion of premium. The AD&D insurance is fully insured. The ERS approved two dental plans for fiscal year 2008, a dental health maintenance organization (DHMO) administered by Aetna Dental, Inc., and a dental indemnity plan administered by the Government Employees Hospital Association (GEHA). The DHMO is fully insured with all risk transferred to Aetna Dental, Inc. Beginning Sept. 1, 1997, the dental indemnity plan became self-funded by ERS with all risk retained by the Group Insurance Fund.

The 77th Texas Legislature enacted the Texas School Employees Uniform Group Health Coverage Act, establishing a statewide health coverage program for public school employees and their dependents. The Teacher Retirement System administers this program. Enrollment commenced in September 2002. The plan includes employees of most small to mid-size districts, charter schools, education service centers and certain other employers. The risk associated with this plan is retained by the plan's participants, and no risk is transferred to the plans administrators or to the state.

A number of state universities have self-insurance plans providing various coverages in the areas of workers' compensation, unemployment compensation, employee health and medical malpractice on a funded or pay-as-you-go basis. Liabilities are reported when it is probable

that a loss has occurred and the amount of that loss can be reasonably estimated. Estimates of liabilities for incurred (both reported and unreported) but unpaid claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends and any other factors that would modify past experience. There have been no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years.

The following table presents the changes in claims liability reported in various balance sheet/statement of net assets liability accounts for the general fund government-wide governmental activities, enterprise funds, internal service fund and colleges and universities during fiscal years ending Aug. 31, 2007, and Aug. 31, 2008. Claims and Judgment amounts presented in Note 5 (Long-Term Liabilities) are also included in the table.

Changes in Claims Liability Balances

(Amounts in Thousands)

	Beginning Balance	Increases	Decreases	Ending* Balance
2008	$717,883	$1,982,250	$1,983,073	$717,060
2007	$810,226	$1,716,867	$1,809,210	$717,883

* The ending balance includes both short-term and long-term claims. Long-term claims are reported as claims and judgments (current and noncurrent liabilities), which are included in Note 5 (long-term liabilities). Short-term claims payable, the majority of which relate to claims filed for the state's Group Benefits Program, are included as accounts payable in the statement of net assets and are not included in Note 5.

Note 18

Contested Taxes

Taxpayers may petition for a formal hearing before an independent administrative law judge if they wish to challenge a tax liability assessed by the state. If the request for a determination hearing is received within a specified time, the taxpayer does not have to pay the tax until a final decision is reached. Collectability of these assessments is dependent upon the decisions of administrative law judges. These assessments are not recognized as tax revenue until the administrative hearing is final. Therefore, these amounts are not included in the receivables reported in the financial statements. As of Aug. 31, 2008, the redetermination hearings process had an estimated amount of $657 million.

Note 19

Component Units and Related Organizations

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Component units can also be other organizations for which the nature and significance of their relationship with a primary government is such that exclusion would cause the reporting entities financial statements to be misleading or incomplete. In addition, component units can be organizations that raise and hold economic resources for the direct benefit of a government unit. Because of the closeness of their relationships with the primary government, some component units are blended as though they are part of the primary government. Most component units, however, are discretely presented. None of the component units for the state of Texas meet the criteria for major component unit presentation and those presented are for information purposes of interested parties. The component units are reported for the year ended Aug. 31, 2008, unless indicated otherwise.

Blended Component Units

The state is financially accountable for the following material blended component units. These component units are reported as if they are part of the primary government because they provide substantially all of their services directly to the state. The component unit's financial data is blended in the appropriate funds within the financial statements. There are no other material blended component units of the state.

Employees Retirement System of Texas (ERS) is a legal entity established by the Legislature to administer benefits for officers and employees of the state. ERS is governed by a six member board of trustees. The governor, with the advice and consent of the Senate, appoints three of

the six members of the board of trustees. The state of Texas has the ability to impose its will upon ERS through its budget approval powers. Separate financial statements may be obtained by contacting the ERS at P.O. Box 13207, Austin, Texas 78711.

Texas Treasury Safekeeping Trust Company (Texas Trust) is a legally separate entity established by the Legislature. The Comptroller of Public Accounts is the single shareholder of the Texas Trust and is charged with managing the Texas Trust. The Texas Trust is authorized to manage, disburse, transfer, safekeep and invest funds and securities provided by statute or belonging to state and local entities and gives the Comptroller direct access to services provided by the Federal Reserve System. Separate financial statements may be obtained by contacting the Texas Trust at 208 E. 10th St., 4th Floor, Austin, Texas, 78701.

Discretely Presented Component Units

The state is financially accountable for the following legally separate entities (component units); however, the units do not provide services entirely or almost entirely to the state. The component unit's financial data is discretely presented in the component unit column of the state's financial statements.

Teacher Retirement System (TRS) is a legally separate entity established by the Legislature to administer retirement and disability annuities to employees and beneficiaries of public school systems, colleges and universities of Texas. TRS is governed by a nine member board of trustees, three of whom are direct appointments of the governor. The remaining trustees are appointed by the governor from lists prepared by various constituent groups. The state of Texas has the ability to impose its will on TRS through its budget approval powers. Separate financial statements may be obtained by contacting TRS at 1000 Red River Street, Austin, Texas 78701.

State Bar of Texas is a public corporation and an administrative agency of the judicial branch of government. The purpose of the State Bar is to ensure that public responsibilities of the legal profession are effectively discharged. The state of Texas has the ability to impose its will upon the State Bar through its budget approval powers. The State Bar is reported for the year ended May 31, 2008. Separate financial statements may be obtained by contacting the State Bar of Texas at 1414 Colorado St., Austin, Texas 78701.

Texas Agricultural Finance Authority (Authority) is a legally separate entity within the Texas Department of Agriculture (TDA) and is financially accountable to the state. The governor, with the advice and consent of the Senate, appoints seven of the nine members of the board of directors. The commissioner of TDA administers the Authority with the assistance of the board. The Authority was created to provide financial assistance for the expansion, development and diversification of agricultural businesses. The Authority primarily benefits the citizens of Texas. If there are insufficient funds to pay the Authority's bond obligations, the primary government shall transfer money from the state treasury to the Authority in an amount sufficient to pay those obligations. Separate financial statements may be obtained by contacting the TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas On-Site Wastewater Treatment Research Council (Council) awards competitive grants and contracts to support applied research, demonstration projects and information transfer regarding on-site wastewater treatment. The Council is not an advisory council and does not regulate the on-site wastewater industry in the state of Texas. The Council is a component unit due to its fiscal dependency on the Texas Commission on Environmental Quality (TCEQ). The Council's fiscal operations (revenues, budget, expenditures and administration) are maintained by TCEQ. In order to emphasize that the Council is a legally separate entity, its financial information is presented in a separate column in the TCEQ combined financial statements.

Texas Appraiser Licensing and Certification Board (TALCB) was statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) and is a legally separate entity from the primary government. The governor appoints the members of the board. TREC provides administrative support to TALCB, but has no authority to approve or modify its budget or to set its fees. Although TALCB is not fiscally dependent on TREC, to exclude it would result in presentation of incomplete finan-

cial statements. TALCB serves the real estate community in Texas. Financial statements can be obtained by contacting TREC at P.O. Box 12188, Austin, Texas 78711-2188.

Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc. (Foundation) is a legally separate entity created to provide prepaid tuition scholarships to students meeting economic or academic requirements. The Foundation is a direct-support organization of the prepaid tuition program and is authorized by Section 54-633 of the Texas Education Code. The Foundation is governed by a board composed of the Comptroller of Public Accounts, a member appointed by the governor with the advice and consent of the Senate and three members appointed jointly by the Comptroller and the member who is appointed by the governor. The state of Texas is financially accountable for the Foundation through board appointment and through the Comptroller serving as custodian of the assets of the Foundation. Separate financial statements may be obtained by contacting the Texas Comptroller of Public Accounts, Texas Guaranteed Tuition Plan at 111 E. 17th Street, Austin, Texas 78774.

Texas Guaranteed Student Loan Corporation (Corporation) is a public nonprofit corporation that guarantees loans made to eligible students under the federal guaranteed student loan program. The state of Texas is financially accountable for the Corporation through board appointment and imposition of will. All members of the Corporation's board are appointed by the governor with the advice and consent of the Senate. The Corporation's liabilities are not debts of the state. The Corporation received a one-time appropriation of $1.5 million to fund initial startup operations. The Corporation is reported for the year ended Sept. 30, 2008. Separate financial statements may be obtained by contacting the Corporation at P.O. Box 201725, Austin, Texas 78720-1725.

Texas Boll Weevil Eradication Foundation, Inc. (Foundation) was created by Senate Bill 30, 73rd Legislature, 1993 (now codified at Texas Agriculture Code, Chapter 74, Subchapter D). The Foundation establishes and implements a boll weevil eradication program for Texas. It is a legally separate entity, fiscally dependent on the TDA and governed by sixteen board members. TDA's commissioner appoints eight of the board members. TDA approves the Foundation's budget, assessment fees and debt. The Foundation is reported for the year ended Dec. 31, 2007. Separate financial statements may be obtained by contacting the TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Water Resources Finance Authority (Authority) was created by the Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects. A board of directors, composed of the six members of the Texas Water Development Board (TWDB), governs the Authority. The members of the TWDB are appointed by the governor. TWDB, through a sales and servicing agreement, wholly manages the Authority's operations. Prior to any bonds being issued by the Authority, the issuance must be reviewed by the Bond Review Board, which is composed of the governor, lieutenant governor, speaker of the house of representatives and the Comptroller of Public Accounts. Financial statements may be obtained by contacting the TWDB at P.O. Box 13231, Austin, Texas 78711-3231.

Texas Small Business Industrial Development Corporation (TSBIDC) was chartered in 1983 under the Development Corporation Act of 1979 to promote economic development in the state of Texas. The Office of the Governor is the oversight agency for the TSBIDC and is its reporting entity. The board of directors is appointed by the governor, and all programs and expenditures of the TSBIDC must be approved on behalf of the state by the Texas Economic Development Bank. TSBIDC's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Economic Development Corporation (TED Corp), a nonprofit corporation, was created in 1991 under the provisions of the Texas NonProfit Corporation Act to assist, promote, develop and advance economic development in the state of Texas. The Office of the Governor is the oversight agency for the TED Corp and is its reporting entity. The board of directors is appointed by the governor. The entity's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contact-

ing the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Disaster Relief Fund (TDRF), a nonprofit corporation, was established to help the Office of the Governor provide disaster relief. The chief of staff, director of homeland security and the chief financial officer of the Office of the Governor serve as initial directors and will change only when these positions change. The services provided by TDRF assist the Office of the Governor in responding to the needs of the citizens before, during and after a disaster in Texas. TDRF's financial statements for the fiscal year ended Aug. 31, 2008, may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Surplus Lines Stamping Office of Texas (Stamping Office) is a nonprofit corporation created by the Legislature to assist the Texas Department of Insurance (TDI) in the regulation of surplus lines insurance. TDI's commissioner appoints the board. The Stamping Office performs its functions under a plan of operation approved by order of TDI. The Stamping Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the Stamping Office. The state of Texas has the ability to impose its will upon the Stamping Office through the approval of the assessment rate that funds its operations. The Stamping Office is reported for the year ended Dec, 31, 2007. Separate financial statements may be obtained at P.O. Box 160170, Austin, Texas 78716-0170.

Texas Health Reinsurance System reinsures risks covered under the health benefit plans of small employers' insurance carriers. TDI's commissioner appoints, supervises and controls the nine-member board. The state of Texas has the ability to impose its will through TDI commissioner approval of base reinsurance premium rates and the assessment rates against reinsured health benefit plan issuers. Financial statements may be obtained at 100 Great Meadow Rd., Suite 704, Wethersfield, Connecticut 06109.

Texas Health Insurance Risk Pool provides access to quality health care at a minimum cost to the public for those unable to obtain traditional health care coverage. The TDI approves all rates and rate schedules before they are used. The board of directors, composed of nine members, is appointed by TDI's commissioner. Financial statements may be obtained at 1701 Director's Blvd., Suite 120, Austin, Texas 78744.

Texas State Affordable Housing Corporation (TSAHC) was incorporated under the Texas NonProfit Corporation Act and is legally separate from the state. Its purpose is to serve the housing needs of low-income Texans, professional educators, firefighters and police officers who are first-time home buyers and are not afforded housing finance options through conventional lending channels. TSAHC operates under the name Texas Star Mortgage to provide single and multifamily loans to low-income Texans. Although a separate entity from the state, there is a statutory link between the state and TSAHC as it issues bonds. Because of this link, TSAHC is included in the state's CAFR as a discretely presented component unit. Separate financial statements may be obtained by contacting TSAHC at P.O. Box 12637, Austin, Texas 78711-2637.

Texas Health Services Authority (THSA) was created by House Bill 1066, 80th Session to assist the Office of the Governor support the improvement of the Texas health care system. The THSA promotes and coordinates the electronic exchange of health information throughout the state to ensure that information is available to health care providers and to improve patient safety and quality of care. The board of directors consists of 11 members and is appointed by the governor, with the advice and consent of the Senate. The state of Texas has the ability to impose its will upon THSA through the ability of the governor to order the dissolution of THSA at any time the governor delares the purposes of THSA have been fulfilled or that THSA is inoperative or abandoned. As of Aug. 31, 2008, THSA did not have any financial activity.

Related Organizations

Related organizations are legally separate, fiscally independent entities for which the state appoints a voting majority of the board, but the state is not financially accountable for the entity.

Life, Accident, Health and Hospital Service Insurance Guaranty Association (Association) was created for the protection of persons against failure in the performance

of contractual obligations under life, accident and health insurance policies and annuity contracts, because of the impairment or insolvency of the member insurer that issued the policies or contracts. TDI's commissioner appoints a board of directors of the Association consisting of nine members.

Texas Title Insurance Guaranty Association was created for the purpose of providing funds for the protection of holders of "covered claims," as defined in Article 9.48 of the Texas Insurance Code. This applies to all title insurance written by title insurance companies authorized to do business in Texas. The nine-member board of directors is appointed by TDI's commissioner.

Texas Mutual Insurance Company (Texas Mutual) was created by House Bill 3458. It was previously known as the Texas Workers' Compensation Insurance Fund and reported as a discretely presented component unit. Texas Mutual operates as a domestic mutual insurance company providing workers' compensation insurance in the state of Texas and also serves as the insurer of last resort. It is legally separate and fiscally independent of the state, but the state appoints a voting majority of the Texas Mutual's board.

Midwestern State University Charitable Trust is a nonprofit organization with the sole purpose of educational and other activities of Midwestern State University. It is governed by a five-member board of trustees. This board appoints individuals to fill vacancies on the board as they occur.

River Authorities are political subdivisions that are created by Texas statute. The Texas Constitution, Article XVI, Section 59, authorizes the Legislature to create districts that conserve and develop natural resources of the state. The conservation and development of the state's natural resources includes the control, storing, preservation and distribution of its storm and flood waters, the waters of its rivers and streams, for irrigation, power and all other useful purposes; the reclamation and irrigation of its arid, semiarid and other lands needing irrigation; the reclamation of drainage of its overflowed lands and other lands needing drainage; the conservation and development of its forests, water and hydro-electric power; the navigation of its inland and coastal waters and the preservation and conservation of all such natural resources of the state. The state of Texas has voting majority for the following 15 river/water authorities:

- Angelina and Neches River Authority
- Brazos River Authority
- Central Colorado River Authority
- Guadalupe-Blanco River Authority
- Lavaca-Navidad River Authority
- Lower Colorado River Authority
- Lower Neches Valley River Authority
- Nueces River Authority
- Red River Authority
- Sabine River Authority
- Sulphur River Basin Authority
- Trinity River Authority
- Upper Colorado River Authority
- Upper Guadalupe River Authority
- Upper Neches Municipal Water Authority

Note 20

Deficit Fund Balances/Net Assets

A. Primary Government

Governmental Funds

The **State Textbook Fund**, a nonmajor special revenue fund, reported a deficit of $117.2 million. This is the result of $130.6 million in payments owed to textbook vendors at Aug. 31, 2008, that will be paid out of fiscal 2009 appropriations.

The **Texas Health Agencies Project Funds**, a set of related funds categorized as a nonmajor capital projects fund, reported a deficit of $38.2 million. This deficit is primarily due to the commercial paper funding mechanism used for these projects. Because of arbitrage rebate guidelines, commercial paper is issued only to fund what is anticipated to be expended in the near future. The agencies, however, encumber balances related to long-term contracts. Prior year renovation costs also contributed to this deficit. Monies were advanced from the LoanStar program for renovating the electrical systems of various Texas Health and Human Services agencies. Future savings in utility costs will be used to repay the loans to the State Energy Conservation Office.

Proprietary Funds

The **Texas Prepaid Higher Education Tuition Board**, a nonmajor enterprise fund, reported a deficit of $206.3 million. This deficit was caused by the impact of a lower than expected return on investments in fiscal 2008 and a change in the investment return and tuition increase assumptions for future years. The assumptions for investment returns in future years were lowered, but the impact of that change was partially offset by a reduction in the assumption for future tuition increases.

B. Discretely Presented Component Units

The Texas Boll Weevil Eradication Foundation, Inc., a component unit of the Texas Department of Agriculture, reported a deficit unrestricted net assets of $15.9 million. This is a result of incurring debt during the early years of the eradication program that resulted in a decrease in unrestricted net assets on the statement of activities and an unrestricted deficit on the statement of net assets. Although this "loss" was incurred during the initial operations of the program, management expects an increase in net assets in later years to offset this loss.

Note 21

Tobacco Settlement

The state of Texas settled a lawsuit against certain tobacco manufacturers in 1998. The settlement included monetary and injunctive relief. The tobacco manufacturers agreed to remit annual payments to the state. Estimates made at the time of the agreement projected that these payments could total $15.1 billion over the first 25 years of the agreement. The actual amounts of the annual payments are subject to adjustments for domestic tobacco sales, inflation and any other court-ordered factors; however, the tobacco companies have no obligation to make settlement payments until cigarettes are shipped (sales). Since annual payments are based on cigarette sales from the preceding calendar year, a revenue accrual of $324.8 million has been calculated on estimated sales from Jan. 1 to the end of the fiscal year. Tobacco settlement revenues were $503 million in fiscal 2007 and $520.1 million in fiscal 2008. Cumulative actual tobacco settlement revenues as of fiscal 2008 were $5.7 billion.

Note 22

Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of $23.4 billion on investments that are available for authorization for expenditure by the governing board. Details for the amounts of the net appreciation on investments and how they are reported in net assets can be found in the donor-restricted endowments schedule on the following page. True endowments require the principal to be maintained inviolate and in perpetuity. Term endowments allow the principal to be expended after the passage of a stated period of time and all conditions of the endowment have been met. Expendable funds are those funds that may be expended for either a stated purpose or for a general purpose as per the endowment gift terms. Nonexpendable funds are those that are required to be retained in perpetuity. The policies of each individual state agency govern the authorizing and spending of net appreciation on endowment investments.

Each endowment fund is evaluated to allocate their restricted net assets between expendable and nonexpendable. The permanent school fund (PSF) and permanent university fund (PUF) account for the majority of the donor-restricted endowment funds reported by the state. The PSF and PUF each consider historical oil and gas contributions from endowment lands as nonexpendable net assets. The PUF also considers the reported value of the land as nonexpendable net assets. The PSF does not include the value of its land in calculating nonexpendable net assets as the land is considered investment property and not part of the original corpus of the endowment. The remaining restricted net assets of each endowment are classified as expendable.

The Uniform Prudent Management of Institutional Funds Act, Property Code - Chapter 163, provides general guidelines on how endowments should be maintained for higher education institutions. Each institution sets the

amounts and/or percentages that are authorized for expenditure in its spending plan; however, the PSF and PUF are governed by provisions of the Texas Constitution. Distributions made by the PSF and PUF endowments to the available school fund (ASF) and available university fund (AUF), respectively, are made using a total return methodology. The ASF distribution should not exceed the lesser of 6 percent or the total return on all investment assets over the current year and proceeding nine years. The AUF distribution should not exceed 7 percent of the average net fair value of investment assets.

Donor-Restricted Endowments

(Amounts in Thousands)

Donor-Restricted Endowments	Amount of Net Appreciation	Reported in Net Assets
True Endowments	$23,383,426	Expendable
Term Endowments	33,790	Expendable
	$23,417,216	

Note 23

Extraordinary and Special Items

The state did not report extraordinary items in the current fiscal year. Extraordinary items, as defined in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, are transactions or other events that are both unusual in nature and infrequent in occurrence.

The state reported a special item equal to $150 million in the current fiscal year. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. At Oct. 1, 2007, the unemployment compensation trust fund exceeded the statutorily mandated ceiling of 2 percent of taxable wages. This required the refunding of surplus tax credits to eligible employers based on tax returns filed during the 2008 calendar year. Tax refunds of $150 million applied to 260,000 employers who had paid taxes into the unemployment compensation trust fund.

Note 24

Taxes Receivable

Taxes receivable represent amounts due to the state at Aug. 31, 2008, for revenues earned in the current fiscal year that will be collected in the future. Amounts expected to be collected in the next fiscal year are classified as "current" and amounts expected to be collected beyond the next fiscal year are classified as "noncurrent." The receivables have been recorded net of allowances for uncollectible accounts. Revenue is recorded on the governmental fund financial statements using the modified accrual basis of accounting for amounts due to the state of Texas at Aug. 31, 2008, that are considered "available" (e.g. received by the state within approximately 60 days after that date). Revenue earned but not "available" at Aug. 31, 2008, is recorded as deferred revenue. Prepaid taxes are also recorded as deferred revenue.

On the government-wide financial statements, a corresponding amount is recorded as revenue using the accrual basis of accounting, which includes revenue earned at fiscal year end regardless of its availability. Deferred revenue includes only the prepaid taxes that have not been earned by fiscal year end. Taxes receivable are the same for both modified and full accrual bases.

Taxes receivable, as reported in the general fund on the balance sheet – governmental funds, are detailed by tax type as follows.

Taxes Receivable by Tax Type

August 31, 2008 (Amounts in Thousands)

Tax Type	Net Taxes Receivable
Sales and Use Tax	$1,443,039
Motor Vehicle and Manufactured Housing	131,053
Motor Fuels	133,798
Franchise	1,354,404
Oil and Natural Gas Production	322,253
Insurance Occupation	117,993
Cigarette and Tobacco	7,682
Other	206,565
Total Net Taxes Receivable	$3,716,787
Liquidity Characteristics:	
Current Taxes Receivable	$3,292,262
Noncurrent Taxes Receivable	424,525
Total Net Taxes Receivable	$3,716,787

COBRA Benefits

Fiscal 2008 Summary Benefits Provided Through:	Number of Participants	Amounts in Thousands: Premium Revenue	2 Percent Administrative Fee Revenue	Claims Paid	Cost to State
Employees Retirement System	2,138	$ 8,175	$ 163	$22,895	$14,557
University of Texas System	1,203	4,558	90	8,363	3,715
Texas A&M University System	251	740	15	1,499	744
Total	3,592	$13,473	$ 268	$32,757	$19,016

Note 25

Termination Benefits

Healthcare-Related Termination Benefits

Health care continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA) is provided for both voluntary and involuntary terminations. The COBRA members are eligible to remain in their eligible insurance program for 18 months or 29 months if disabled. Covered dependents are eligible to remain in the program for 36 months. The COBRA Plan administrators for the state include the Employees Retirement System of Texas, University of Texas System and Texas A&M University System.

The insurance carrier performs the billing and collections process for COBRA participants. The plan administrators collect 100 percent of the blended insurance premiums and a 2 percent administrative fee from each COBRA participant. However, since the plan is self-insured, the plan administrators are responsible for any claims or administrative costs associated with COBRA participants that exceed these payments. For fiscal 2008, the cost to the state was approximately $19 million for 3,592 COBRA participants.

For the fully-insured HMO health insurance plans, the insurance carrier retains all premiums and is liable for all claims and expenses. Premium and expense information is not available for these plans.

Non-Healthcare-Related Termination Benefits

There were no material non-healthcare-related voluntary or involuntary termination benefits accepted in fiscal 2008.

Note 26

Segment Information

Primary Government

Segments are separately identifiable activities reported as or within enterprise funds for which revenue bonds or other revenue-backed debt instruments are outstanding and for which related expenses, gains, losses, assets and liabilities can be identified. To qualify as a segment, an activity must also be subject to an external requirement to separately account for this revenue stream. The activities reported in the following financial information meet these requirements.

The State of Texas David A. Gloier State Veterans Home Program was created to provide long-term skilled nursing care for veterans, spouses of veterans and gold star parents of veterans of the state of Texas. The construction of the first four homes was funded by the issuance of revenue bonds, which require these homes' revenues, expenses, gains and losses, assets and liabilities to be separately accounted for and independently audited. The tables on the following page present the financial statements of the homes related to the revenue bonds.

Condensed Statement of Net Assets

(Amounts in Thousands)

	Veterans Homes Revenue Bonds
ASSETS	
Current Restricted Assets:	
Cash and Cash Equivalents	$ 3,721
Other Current Assets	3,736
Capital Assets, Net of Depreciation	29,025
Total Assets	36,482
LIABILITIES	
Current Liabilities	5,302
Noncurrent Liabilities	22,995
Total Liabilities	28,297
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	5,680
Restricted Net Assets	2,505
Total Net Assets	$ 8,185

Condensed Statement of Cash Flows

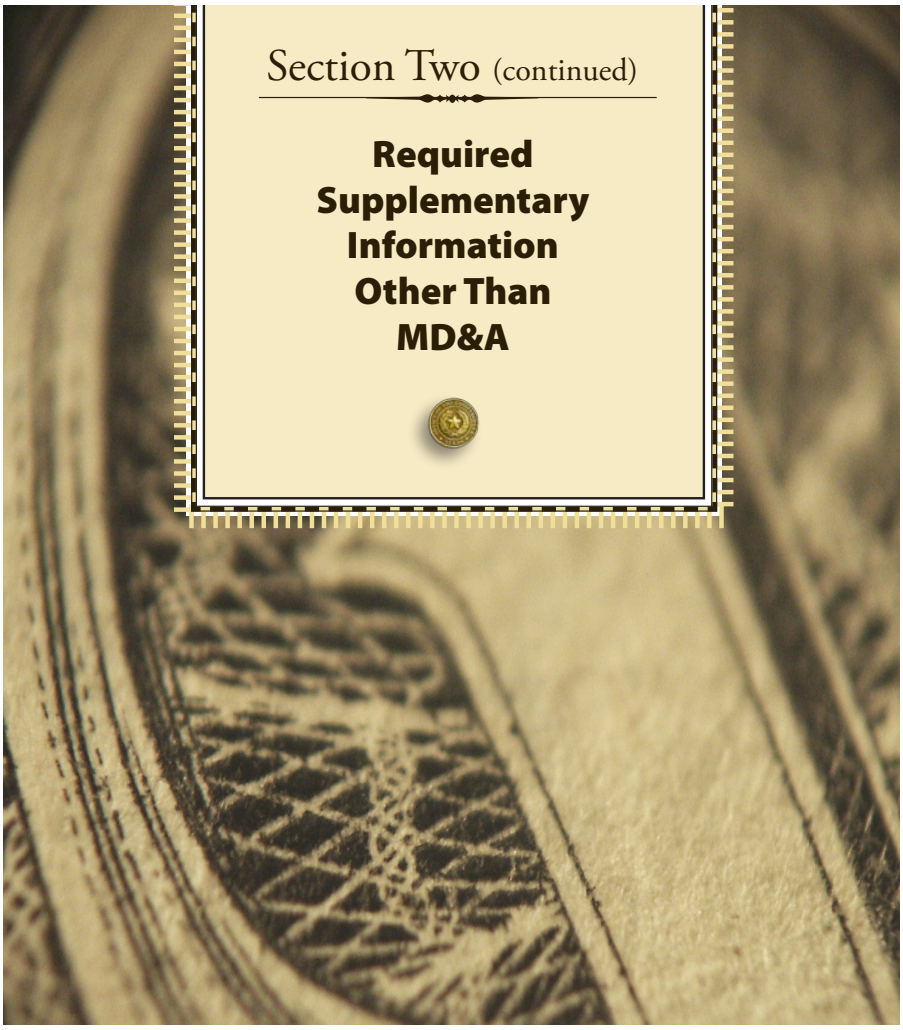
(Amounts in Thousands)

	Veterans Homes Revenue Bonds
NET CASH PROVIDED (USED) BY:	
Operating Activities	$ 3,400
Noncapital Financing Activities	(11,238)
Capital and Related Financing Activities	(1,809)
Investing Activities	1,246
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,401)
Cash and Cash Equivalents, September 1, 2007	12,122
Cash and Cash Equivalents, August 31, 2008	$ 3,721

Condensed Statement of Revenues, Expenses and Changes in Net Assets

(Amounts in Thousands)

	Veterans Homes Revenue Bonds
OPERATING REVENUES (EXPENSES)	
Sale of Goods and Services	$ 35,369
Other Operating Revenues	7
Operating Expenses	(34,937)
Net Operating Income	439
NONOPERATING REVENUES (EXPENSES)	
Other Nonoperating Revenues	481
Interest Expense	(1,478)
Net Nonoperating Revenues	(997)
OTHER TRANSFERS – TRANSFER OUT	(11,237)
Change in Net Assets	(11,795)
Net Assets, September 1, 2007	19,980
Net Assets, August 31, 2008	$ 8,185



Section Two (continued)

Required Supplementary Information Other Than MD&A

STATE OF TEXAS

Budgetary Comparison Schedule
General Fund

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts Budgetary Basis	Final to Actual Variance
	Original	Final		
REVENUES				
Taxes	$35,654,606	$36,423,499	$38,081,725	$ 1,658,226
Federal	21,350,697	24,417,600	22,734,688	(1,682,912)
Licenses, Fees and Permits	2,494,007	2,844,629	2,388,651	(455,978)
Interest and Other Investment Income	592,863	727,878	736,406	8,528
Land Income	10,530	10,585	19,389	8,804
Settlement of Claims	480,449	508,128	561,462	53,334
Sales of Goods and Services	985,785	1,296,001	1,325,618	29,617
Other	1,830,439	1,689,629	2,523,846	834,217
Total Revenues	63,399,376	67,917,949	68,371,785	453,836
EXPENDITURES				
General Government	4,567,589	3,476,415	1,666,345	1,810,070
Education	18,826,224	23,666,327	22,973,060	693,267
Employee Benefits	1,177,043	1,449	1,446	3
Teacher Retirement Benefits	1,780,757	1,780,757	1,780,757	
Health and Human Services	26,991,174	29,670,708	28,372,226	1,298,482
Public Safety and Corrections	3,542,699	4,445,543	4,138,279	307,264
Transportation	4,495	6,889	6,988	(99)
Natural Resources and Recreation	1,460,310	1,652,492	1,379,894	272,598
Regulatory Services	280,266	332,497	303,466	29,031
Total Expenditures	58,630,557	65,033,077	60,622,461	4,410,616
Excess of Revenues Over Expenditures	4,768,819	2,884,872	7,749,324	4,864,452
OTHER FINANCING SOURCES (USES)				
Transfer In	5,829,396	4,570,781	4,661,664	90,883
Transfer Out	(6,832,785)	(10,429,097)	(12,057,410)	(1,628,313)
Sale of Capital Assets	12,061	12,158	16,747	4,589
Insurance Recoveries	450	837	2,841	2,004
Available Beginning Balances	11,460,633	11,460,633	11,460,633	
Total Other Financing Sources (Uses)	10,469,755	5,615,312	4,084,475	(1,530,837)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	$15,238,574	$ 8,500,184	$11,833,799	$ 3,333,615

STATE OF TEXAS

Budgetary Comparison Schedule
Major Special Revenue Fund – State Highway Fund

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts Budgetary Basis	Final to Actual Variance
	Original	Final		
REVENUES				
Taxes	$ 38,908	$ 38,908	$ 38,908	$
Federal	3,076,789	3,560,785	5,827,788	2,267,003
Licenses, Fees and Permits	1,070,721	1,103,581	1,152,717	49,136
Interest and Other Investment Income	3,600	3,600	145,217	141,617
Land Income	3,702	3,702	5,910	2,208
Settlement of Claims	1,442	1,442	923	(519)
Sales of Goods and Services	179,736	230,860	293,192	62,332
Other	7,392	33,728	8,560	(25,168)
Total Revenues	4,382,290	4,976,606	7,473,215	2,496,609
EXPENDITURES				
General Government	21,372	23,210	12,210	11,000
Education	50,000	50,000	50,000	
Health and Human Services	10,000	10,000	10,000	
Public Safety and Corrections	582,929	671,447	681,838	(10,391)
Transportation	6,932,030	7,280,589	7,991,329	(710,740)
Total Expenditures	7,596,331	8,035,246	8,745,377	(710,131)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,214,041)	(3,058,640)	(1,272,162)	1,786,478
OTHER FINANCING SOURCES (USES)				
Transfer In	2,260,798	2,264,744	3,727,027	1,462,283
Transfer Out			(88,032)	(88,032)
Bond Proceeds*	1,404,840	1,404,840	1,408,940	4,100
Sale of Capital Assets	4,500	4,538	5,311	773
Insurance Recoveries	7,600	7,810	11,686	3,876
Available Beginning Balances	558,832	558,832	558,832	
Total Other Financing Sources (Uses)	4,236,570	4,240,764	5,623,764	1,383,000
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	$ 1,022,529	$ 1,182,124	$ 4,351,602	$ 3,169,478

* The state highway fund received $1.4 billion in bond proceeds. These are authorized by Article 3, Sec 49-n of the Texas Constitution and Section 222.003, Texas Transportation Code.

Note to Budgetary Comparison Schedule

The Budgetary Comparison Schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of these differences is required and is presented below.

Reconciliation of Budgetary Basis to GAAP Basis

August 31, 2008 (Amounts in Thousands)

	General Fund	State Highway Fund
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis	$ 11,833,799	$ 4,351,602
Basis of Accounting Differences:		
Receivables and Deferred Revenues	346,453	(3,081,430)
Payables	(669,521)	(3,554)
Perspective Differences:		
Beginning Cash Balances Reported as Other Financing Sources	(11,460,633)	(558,832)
Federal Program Revenues Not Budgeted	(3,969,175)	
Federal Program Expenditures Not Budgeted	3,969,175	
Other Revenues Not Budgeted	90,306	73,051
Other Expenditures Not Budgeted	(309,393)	(43,967)
Entity Differences:		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Other Activities	715	
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – GAAP Basis	$ (168,274)	$ 736,870

The major reconciling items between the Budgetary Comparison Schedule actual and the GAAP financial statements are due to the following items.

Basis of Accounting Differences

Revenues and expenditures are reported on the cash basis of accounting in the Budgetary Comparison Schedule but are reported on the modified accrual basis on the GAAP financial statements. Therefore, deferred revenues, receivables and payables are included as reconciling items.

Perspective Differences

Certain revenues and expenditures, including debt service, the Federal Food Stamps Program and the disproportionate share portion of the Federal Medical Assistance program are not budgeted by the Legislature. The activity for these programs has been excluded from the Budgetary Comparison Schedule.

The beginning cash balances are included as other financing sources in the Budgetary Comparison Schedule. The beginning fund balances are not included as financing sources on the GAAP financial statements.

Entity Differences

Budgets are not established for sources from capital leases. These financing sources are not included in the Budgetary Comparison Schedule.

Excess of Actual Budgetary Basis Expenditures over Final Budget

General fund - the $99 thousand variance in transportation is due to expenditures made from beginning fund balance that are included in other financing sources.

Major special revenue fund - state highway fund - the $711 million variance in transportation is due to expenditures made, appropriated transfers-in and bond proceeds that are included in other financing sources. The $10 million variance in public safety and corrections is the result of expenditures being made from beginning cash balance in the fund.

Basis of Budgeting

The state's budget is prepared on a cash basis. The Texas Constitution limits appropriation bills to two years. The Legislative Budget Board (LBB) is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue,

not dedicated by the Texas Constitution, that is available for spending in the next biennium. If the Legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the Legislature may provide appropriations in excess of the adopted limit. The Governor's Budget Office and LBB initiate the process by submitting budget requests to the Legislature. At final passage of the Appropriations Bill by the Legislature, it is sent to the Comptroller for certification. If the Comptroller certifies that appropriated amounts are available in the affected funds, the bill is sent to the governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The governor has the option of vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce a line item of appropriation. Upon approval by the governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The Comptroller is responsible for controlling, accounting and reporting expenditures in accordance with the expenditure budgets.

Legal Level of Budgetary Control

The Texas Constitution requires the Comptroller to submit a *Biennial Revenue Estimate* to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anticipated revenues based on laws then in effect and estimated expenditures from prior appropriations. The Texas Constitution also requires the Comptroller to submit supplementary revenue estimates at any special session of the Legislature and at other necessary times to show probable changes.

The level of legal control for the budget is established at the strategy (line item) level by agency. For example, "Highway Patrol," "Driver License and Records" and "Vehicle Inspection Program" are three of the strategies for the Texas Department of Public Safety. The legal level of budgetary control is defined as the level at which the governing body must approve any over expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 12.5 percent, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the Comptroller's office to ensure the agency's authorized budget is not exceeded.

The level of legal control for all agencies is documented in the *Appropriation Summary* Report, which is available by request from the Comptroller's office. This separate document includes budget and actual data by appropriation line item for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the governor may authorize additional appropriations from deficiency and emergency appropriation reserves. During fiscal 2008, $7.7 million was transferred to the Adjutant General and the Texas Department of Public Safety to assist with disaster recovery cash flow needs. Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day "lapse" period. Other appropriations referred to as "reappropriated unexpended balances" represent the continuation of a prior year's balances for completion of a program.

Modified Approach to Reporting Infrastructure Assets

As permitted by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the state has adopted the modified approach for reporting its highway system. Under the modified approach, depreciation is not reported and certain preservation and maintenance costs are expensed.

The modified approach requires that the state:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets,
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government, and
- Estimate each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

Although bridges are an integral part of the highway system, the state has elected to depreciate bridges. Therefore, they are not reported using the modified approach.

Condition Assessments

The Texas Department of Transportation (TxDOT) performs yearly condition assessments through its Texas Maintenance Assessment Program (TxMAP). Under this program, visual inspections are conducted on approximately 10 percent of the interstate system and 5 percent of the non-interstate system (national, state and farm-to-market roadways). For each section of highway observed, 21 elements separated into three highway components are assessed scores from 0 to 5 (0=NA, 1=Failed, 2=Poor, 3=Fair, 4=Good, 5=Excellent) in order to determine the condition of the highways. Each element within a component is weighted according to importance and each component is weighted according to importance to determine the overall condition of the highways. The overall score is converted to a percentage measurement for reporting (1=20 percent, 2=40 percent, 3=60 percent, 4=80 percent, 5=100 percent).

Assessed Conditions

TxDOT has adopted a minimum condition level of 80 percent for the interstate system, 75 percent for the non-interstate system and 80 percent for the Central Texas Turnpike System based on TxMap assessments.

Year	Interstate Condition (Minimum 80%)	Non-Interstate Condition (Minimum 75%)	Central Texas Turnpike System (Minimum (80%)
2008	83.7%	79.0%	91.7%
2007	84.1%	79.5%	N/A
2006	83.4%	78.0%	N/A
2005	82.1%	77.9%	N/A
2004	82.3%	79.1%	N/A

Estimated and Actual Costs for Maintenance

The table below provides a comparison between TxDOT's estimate of maintenance expenditures required to maintain the highway system at or above the adopted condition levels and the actual expenditures.

Maintenance Cost

(Amounts in Thousands)

	2008	2007	2006	2005	2004
INTERSTATE HIGHWAYS					
Estimate	$ 502,128	$ 438,460	$ 469,818	$ 314,000	$ 400,000
Actual	$ 438,237	$ 471,925	$ 434,088	$ 427,107	$ 383,933
OTHER HIGHWAYS					
Estimate	$2,455,243	$1,702,612	$1,608,015	$1,590,417	$1,450,000
Actual	$1,649,317	$1,881,285	$1,750,438	$1,604,781	$1,378,863
CENTRAL TEXAS TURNPIKE SYSTEM*					
Estimate	6,910	N/A	N/A	N/A	N/A
Actual	5,411	N/A	N/A	N/A	N/A

* Fiscal 2008 is the first fiscal year in which a condition assessment has been conducted for the Central Texas Turnpike System, which opened in fiscal 2007.

Factors Affecting Condition Assessments

TxDOT continues to develop its methods for determining such estimates. As additional experience is acquired in the estimation and reporting processes, TxDOT hopes to achieve a greater correlation between the estimated maintenance expenditures needed to maintain the highway system at or above the adopted condition levels and the condition level of the highways. In comparing actual expenditures to estimated expenditures, factors such as increases in traffic, legislative mandates, budgetary constraints and environmental effects (rainfall, drought, freeze, thaw, etc.) should be considered as they may have a major impact on needed funds and the condition of Texas roads.

Schedules of Funding Progress

The schedules of funding progress for the University of Texas and Texas A&M University Systems' other postemployment benefit (OPEB) plans are presented in the adjacent table.

The schedules of funding progress for the three most recent pension plan valuations are presented below.

Schedules of Funding Progress – OPEB

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll (c)	Excess/UAAL as a Percentage of Covered Payroll ((a-b)/c)
UT System Employee Group Insurance Program (UT Plan)						
12/31/07	$ 0	$5,014,217	$(5,014,217)	0.0%	$4,312,904	(116.3)%
A&M Care Health and Life Plan (A&M Plan)						
09/01/07	$ 0	$1,993,236	$(1,993,236)	0.0%	$1,140,126	(174.8)%

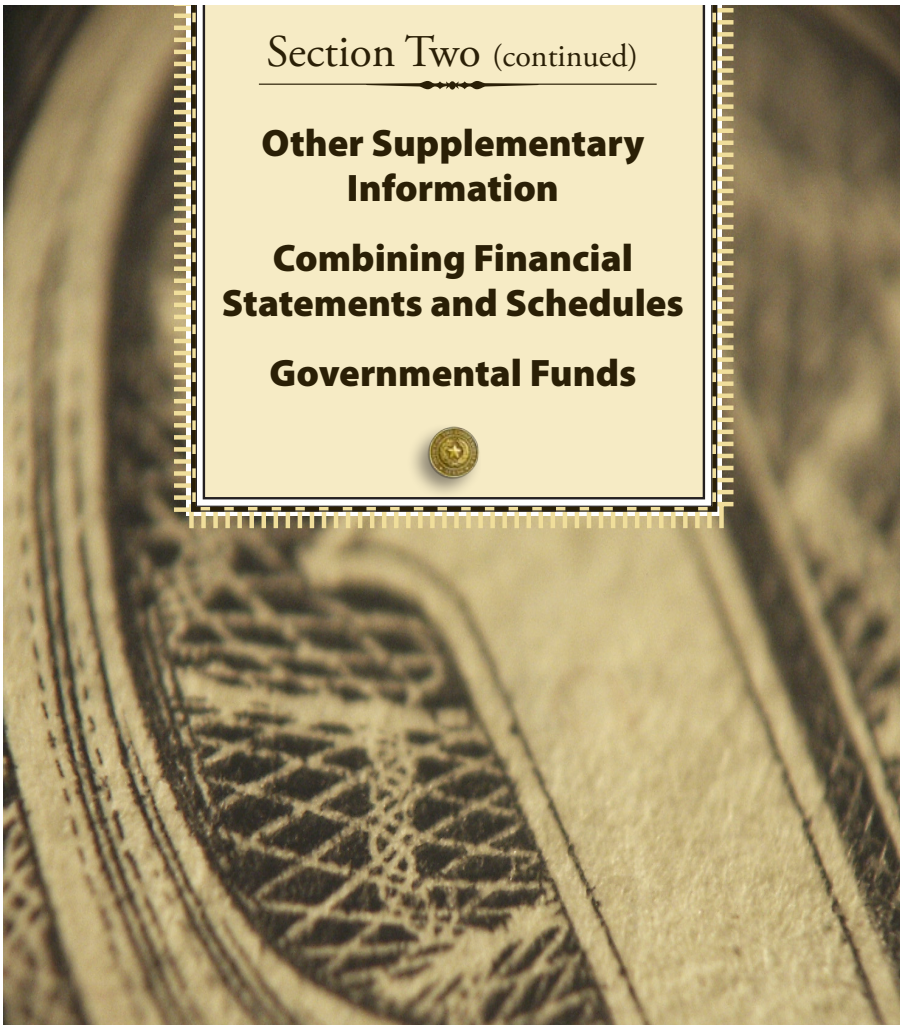
Schedules of Funding Progress – Pension

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll (c)	Excess/UAAL as a Percentage of Covered Payroll ((a-b)/c)
Employees Retirement System (ERS)						
08/31/08	$ 23,511,918	$ 25,403,280	$ (1,891,362)	92.6%	$ 5,379,527	(35.2)%
08/31/07	22,938,947	23,987,165	(1,048,218)	95.6%	5,253,723	(20.0)%
08/31/06	21,780,437	22,884,917	(1,104,480)	95.2%	5,051,330	(21.9)%
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)						
08/31/08	$ 774,509	$ 842,135	$ (67,626)	92.0%	$ 1,242,122	(5.4)%
08/31/07	747,765	762,666	(14,901)	98.0%	1,360,819	(1.1)%
08/31/06	720,307	708,437	11,870	101.7%	1,279,463	0.9%
Judicial Retirement System Plan One (JRS1)						
08/31/08	$ 0	$ 289,671	$ (289,671)	0.0%	$ 3,478	(8,328.7)%
08/31/07	0	312,852	(312,852)	0.0%	2,777	(11,265.8)%
08/31/06	0	325,977	(325,977)	0.0%	5,138	(6,344.4)%
Judicial Retirement System Plan Two (JRS2)						
08/31/08	$ 232,891	$ 239,098	$ (6,207)	97.4%	$ 66,110	(9.4)%
08/31/07	211,933	220,884	(8,951)	95.9%	64,654	(13.8)%
08/31/06	186,400	198,840	(12,440)	93.7%	62,306	(20.0)%
Teacher Retirement System of Texas (TRS)						
08/31/08	$110,233,420	$121,756,542	$(11,523,122)	90.5%	$33,237,904	(34.7)%
08/31/07	103,419,088	115,963,722	(12,544,634)	89.2%	31,114,096	(40.3)%
08/31/06	94,217,922	107,911,459	(13,693,537)	87.3%	28,397,283	(48.2)%

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Total Members Covered (not rounded)	Excess/UAAL Per Member Covered (not rounded)
Texas Emergency Services Retirement System (TESRS)						
08/31/08*	$ 60,987	$ 64,227	$ (3,240)	95.0%	8,254	$ (393)
08/31/06*	42,268	58,083	(15,815)	72.8%	8,061	(1,962)
08/31/04	38,141	51,567	(13,426)	74.0%	7,994	(1,680)

* Actuarial assumptions and methodology were changed for the Aug. 31, 2006 and Aug. 31, 2008 valuations.



Section Two (continued)

Other Supplementary Information

Combining Financial Statements and Schedules

Governmental Funds

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Governmental Funds

August 31, 2008 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
ASSETS					
Cash and Cash Equivalents	$4,795,772	$ 6,554	$ 244,943	$ 153	$5,047,422
Short-Term Investments	53,468			34,578	88,046
Securities Lending Collateral				16,808	16,808
Receivables:					
Accounts	4,255	191	670		5,116
Federal	1,524				1,524
Investment Trades				596	596
Interest and Dividends	12,258	902		1,414	14,574
Due From Other Funds	65,039		18,935		83,974
Due From Component Units	63				63
Inventories	437		82		519
Prepaid Items	5	4			9
Investments	12,315	54		1,105,291	1,117,660
Loans and Contracts	242,222				242,222
Other Assets	8,034				8,034
Restricted:					
Cash and Cash Equivalents	138,755	181,510			320,265
Loans and Contracts	650,730				650,730
Other Assets	86,908				86,908
Total Assets	$6,071,785	$ 189,215	$ 264,630	$1,158,840	$7,684,470
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 163,959	$ 12	$ 70,532	$ 577	$ 235,080
Investment Trades				1,246	1,246
Payroll	7,267		80		7,347
Federal	40				40
Due To Other Funds	73,654		52		73,706
Interfund Payable	147		2,377		2,524
Deferred Revenues	445				445
Obligations/Securities Lending				16,807	16,807
Other Liabilities	2,050		966		3,016
Total Liabilities	247,562	12	74,007	18,630	340,211
Fund Balances:					
Reserved (Note 13)	1,153,454	189,203	314,306	575,931	2,232,894
Unreserved (Note 13)	4,670,769		(123,683)	564,279	5,111,365
Total Fund Balances	5,824,223	189,203	190,623	1,140,210	7,344,259
Total Liabilities and Fund Balances	$6,071,785	$ 189,215	$ 264,630	$1,158,840	$7,684,470

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
REVENUES					
Taxes	$2,501,610	$	$	$	$2,501,610
Federal	26,656	(21)			26,635
Licenses, Fees and Permits	574,866				574,866
Interest and Other Investment Income	127,162	13,449	7,642	(76,264)	71,989
Land Income	15			23	38
Sales of Goods and Services	5,288		17,454		22,742
Other	76,175	65	73		76,313
Total Revenues	3,311,772	13,493	25,169	(76,241)	3,274,193
EXPENDITURES					
Current:					
General Government	193,188	236	21,653	4,823	219,900
Education	1,537,872		1,320		1,539,192
Employee Benefits	12,640				12,640
Health and Human Services	14,594		66,965		81,559
Public Safety and Corrections	72,638		10,868		83,506
Transportation	2,561		13,557		16,118
Natural Resources and Recreation	61,835		2,480		64,315
Regulatory Services	91,220				91,220
Capital Outlay	4,940		101,475		106,415
Debt Service:					
Principal	30,906	331,740			362,646
Interest	173,438	154,806	27		328,271
Other Financing Fees	6,041	2,472			8,513
Total Expenditures	2,201,873	489,254	218,345	4,823	2,914,295
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,109,899	(475,761)	(193,176)	(81,064)	359,898
OTHER FINANCING SOURCES (USES)					
Transfer In	4,912,110	528,124	2,824		5,443,058
Transfer Out	(4,862,223)	(90)	(24,505)	(28,187)	(4,915,005)
Bonds and Notes Issued	1,287,035		291,775		1,578,810
Bonds Issued for Advance Refunding		514,680	728		515,408
Premiums on Bonds Issued	65,683	35,660	5,774		107,117
Payment to Escrow for Advance Refunding		(558,623)			(558,623)
Insurance Recoveries			500		500
Total Other Financing Sources (Uses)	1,402,605	519,751	277,096	(28,187)	2,171,265
Net Change in Fund Balances	2,512,504	43,990	83,920	(109,251)	2,531,163
Fund Balances, September 1, 2007	3,242,576	145,165	98,415	1,249,461	4,735,617
Restatements	69,143	48	8,288		77,479
Fund Balances, September 1, 2007, as Restated	3,311,719	145,213	106,703	1,249,461	4,813,096
Fund Balances, August 31, 2008	$5,824,223	$ 189,203	$ 190,623	$1,140,210	$7,344,259

Nonmajor Special Revenue Funds

The **Property Tax Relief Fund** is outside the general revenue fund. The proceeds of the fund are from allocations of the computation of motor vehicle sales tax, collection of all tobacco products tax increase and calculated amounts from franchise taxes. The intent of the fund will be to reduce school district property taxes.

The **State Textbook Fund** holds money transferred from the Available School Fund to provide free textbooks for use of children attending public schools.

The **Water Development Funds** receive proceeds from the sale of Texas Water Development bonds for the purpose of aiding and making funds available to various political subdivisions for projects and other authorized purposes. The funds also receive gifts or grants for the purpose of assisting economically distressed areas. Monies in the funds are invested.

The **System Benefit Fund** receives funds from a non-bypassable fee in an amount not to exceed 65 cents per megawatt hour and interest earned. The funds are used to provide funding for programs to assist low-income electric customers, customer education and school funding loss mechanism.

The **Available School Fund** receives distributions from the permanent school fund based on total return of investment assets, allocations of motor fuel taxes and appropriations made by the Legislature. The fund is to be used for the support of public schools.

The **Texas Mobility Fund** accounts for the construction, reconstruction, acquisition and expansion of state highways, including costs of design and acquisition of right of way. It provides payment of a portion of the costs of construction, publicly owned toll roads and other public transportation projects. It is financed primarily from the sale of obligations of the state, appropriations made by the Legislature of revenue, including taxes, other money not otherwise dedicated by the construction and money received from a regional mobility authority that determines it has surplus revenue from turnpike projects and chooses to send the excess to this fund.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Special Revenue Funds

August 31, 2008 (Amounts in Thousands)

	Property Tax Relief Fund	State Textbook Fund*	Water Development Funds	System Benefit Fund	Available School Fund	Texas Mobility Fund	Other Nonmajor Special Revenue Funds**	Totals
ASSETS								
Cash and Cash Equivalents	$3,000,000	$ 15,470	$137,143	$503,218	$20,507	$955,909	$ 163,525	$4,795,772
Short-Term Investments			36,491				16,977	53,468
Receivables:								
Accounts		306	464			460	3,025	4,255
Federal							1,524	1,524
Interest and Dividends	1,916	47	969		276		9,050	12,258
Due From Other Funds			10		63,586		1,443	65,039
Due From Component Units							63	63
Inventories							437	437
Prepaid Items							5	5
Investments							12,315	12,315
Loans and Contracts			242,222					242,222
Other Assets							8,034	8,034
Restricted:								
Cash and Cash Equivalents							138,755	138,755
Loans and Contracts							650,730	650,730
Other Assets							86,908	86,908
Total Assets	$3,001,916	$ 15,823	$417,299	$503,218	$84,369	$956,369	$1,092,791	$6,071,785
LIABILITIES AND FUND BALANCES								
Liabilities:								
Payables:								
Accounts	$	$ 133,024	$ 937	$ 23,945	$	$ 18	$ 6,035	$ 163,959
Payroll							7,267	7,267
Federal							40	40
Due To Other Funds			389			73,091	174	73,654
Interfund Payable							147	147
Deferred Revenues							445	445
Other Liabilities							2,050	2,050
Total Liabilities	0	133,024	1,326	23,945	0	73,109	16,158	247,562
Fund Balances/(Deficits):								
Reserved for:								
Encumbrances			18,977	5,324			6,533	30,834
Inventories							437	437
Imprest Accounts							10	10
Loans and Contracts			239,343				882,830	1,122,173
Unreserved:								
Designated for:								
General Government	3,001,916						118,836	3,120,752
Regulatory Services				473,949			17,637	491,586
Health and Human Services							12,703	12,703
Natural Resources and Recreation			157,653				33,430	191,083
Education					84,369		3,679	88,048
Transportation						883,260	1,226	884,486
Public Safety and Corrections							6,825	6,825
Employee Benefits							90	90
Undesignated		(117,201)					(7,603)	(124,804)
Total Fund Balances	3,001,916	(117,201)	415,973	479,273	84,369	883,260	1,076,633	5,824,223
Total Liabilities and Fund Balances	$3,001,916	$ 15,823	$417,299	$503,218	$84,369	$956,369	$1,092,791	$6,071,785

* This is a new fund that is discretely presented.

** The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas and the student loan fund. These funds do not meet the materiality threshold for separate column presentation.

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Property Tax Relief Fund	State Textbook Fund*	Water Development Funds	System Benefit Fund	Available School Fund	Texas Mobility Fund	Other Nonmajor Special Revenue Funds**	Totals
REVENUES								
Taxes	$2,501,610	$	$	$	$	$	$	$2,501,610
Federal			20,803				5,853	26,656
Licenses, Fees and Permits		660		144,043		267,916	162,247	574,866
Interest and Other Investment Income	6,287	1,058	13,427	19,304	4,033	35,460	47,593	127,162
Land Income							15	15
Sales of Goods and Services		1,597	495				3,196	5,288
Other			3,717				72,458	76,175
Total Revenues	2,507,897	3,315	38,442	163,347	4,033	303,376	291,362	3,311,772
EXPENDITURES								
Current:								
General Government							193,188	193,188
Education		265,479			1,203,467		68,926	1,537,872
Employee Benefits							12,640	12,640
Health and Human Services							14,594	14,594
Public Safety and Corrections							72,638	72,638
Transportation						439	2,122	2,561
Natural Resources and Recreation			33,241				28,594	61,835
Regulatory Services				79,255			11,965	91,220
Capital Outlay		2	29				4,909	4,940
Debt Service:								
Principal						30,900	6	30,906
Interest						173,438		173,438
Other Financing Fees						4,700	1,341	6,041
Total Expenditures	0	265,481	33,270	79,255	1,203,467	209,477	410,923	2,201,873
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,507,897	(262,166)	5,172	84,092	(1,199,434)	93,899	(119,561)	1,109,899
OTHER FINANCING SOURCES (USES)								
Transfer In	3,000,000	269,301	9,680		1,477,754		155,375	4,912,110
Transfer Out	(3,239,142)		(13,247)		(270,442)	(1,212,608)	(126,784)	(4,862,223)
Bonds and Notes Issued			112,920			1,100,000	74,115	1,287,035
Premiums on Bonds Issued			3,691			61,109	883	65,683
Total Other Financing Sources (Uses)	(239,142)	269,301	113,044	0	1,207,312	(51,499)	103,589	1,402,605
Net Change in Fund Balances	2,268,755	7,135	118,216	84,092	7,878	42,400	(15,972)	2,512,504
Fund Balances, September 1, 2007	733,161	(124,336)	297,757	395,181	76,491	778,220	1,086,102	3,242,576
Restatements						62,640	6,503	69,143
Fund Balances, September 1, 2007, as Restated	733,161	(124,336)	297,757	395,181	76,491	840,860	1,092,605	3,311,719
Fund Balances, August 31, 2008	$3,001,916	$(117,201)	$415,973	$479,273	$ 84,369	$ 883,260	$1,076,633	$5,824,223

* This is a new fund that is discretely presented.

** The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas and the student loan fund. These funds do not meet the materiality threshold for separate column presentation.

STATE OF TEXAS

Budgetary Comparison Schedule
Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Property Tax Relief Fund				State Textbook Fund			
	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
	Original	Final			Original	Final		
REVENUES								
Taxes	$ 3,707,887	$3,703,751	$2,501,608	$(1,202,143)	$	$	$	$
Federal					300	300	354	54
Licenses, Fees and Permits								
Interest and Other Investment Income	11,392	11,392	6,610	(4,782)	257	257	1,040	783
Land Income								
Sales of Goods and Services					1,750	1,750	1,598	(152)
Other								
Total Revenues	3,719,279	3,715,143	2,508,218	(1,206,925)	2,307	2,307	2,992	685
EXPENDITURES								
General Government								
Education	4,231,466				499,329	500,793	263,820	236,973
Employee Benefits								
Health and Human Services								
Public Safety and Corrections								
Transportation								
Natural Resources and Recreation								
Regulatory Services								
Total Expenditures	4,231,466	0	0	0	499,329	500,793	263,820	236,973
Excess (Deficiency) of Revenues Over (Under) Expenditures	(512,187)	3,715,143	2,508,218	(1,206,925)	(497,022)	(498,486)	(260,828)	237,658
OTHER FINANCING SOURCES (USES)								
Transfer In		3,000,000	3,000,000		496,245	496,245	269,302	(226,943)
Transfer Out	(4,231,466)	(3,239,142)	(3,239,142)					
Bond Proceeds								
Available Beginning Balances	730,924	730,924	730,924		6,936	6,936	6,936	
Total Other Financing Sources (Uses)	(3,500,542)	491,782	491,782	0	503,181	503,181	276,238	(226,943)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$(4,012,729)	$4,206,925	$3,000,000	$(1,206,925)	$ 6,159	$ 4,695	$ 15,410	$ 10,715

Water Development Funds				System Benefit Fund				Available School Fund			
Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
Original	Final			Original	Final			Original	Final		
$	$	$	$	$	$	$	$	$	$	$	$
96	20,665	20,803	138								
				146,897	146,897	144,043	(2,854)				
16,581	16,597	12,374	(4,223)	14,278	14,278	19,303	5,025	10,684	5,258	4,448	(810)
150	295	622	327								
		3,717	3,717								
16,827	37,557	37,516	(41)	161,175	161,175	163,346	2,171	10,684	5,258	4,448	(810)
								977,100	977,100	1,203,467	(226,367)
8,309	30,398	33,660	(3,262)								
				97,107	97,211	64,440	32,771				
8,309	30,398	33,660	(3,262)	97,107	97,211	64,440	32,771	977,100	977,100	1,203,467	(226,367)
8,518	7,159	3,856	(3,303)	64,068	63,964	98,906	34,942	(966,416)	(971,842)	(1,199,019)	(227,177)
								1,472,664	1,473,850	1,477,752	3,902
		(1,317)	(1,317)					(496,425)	(496,425)	(270,441)	225,984
89,497	89,497	89,497		404,311	404,311	404,311		12,351	12,351	12,351	
89,497	89,497	88,180	(1,317)	404,311	404,311	404,311	0	988,590	989,776	1,219,662	229,886
$98,015	$96,656	$92,036	$(4,620)	$468,379	$468,275	$503,217	$34,942	$ 22,174	$ 17,934	$ 20,643	$ 2,709

Concluded on the following page

STATE OF TEXAS

Budgetary Comparison Schedule
Nonmajor Special Revenue Funds (concluded)

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Texas Mobility Fund				Other Nonmajor Special Revenue Funds			
	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
	Original	Final			Original	Final		
REVENUES								
Taxes	$	$	$	$	$	$	$	$
Federal					14,583	14,583	240,655	226,072
Licenses, Fees and Permits	267,088	263,105	267,456	4,351	71,216	82,691	92,869	10,178
Interest and Other Investment Income	5,676	6,000	35,460	29,460	21,379	21,470	27,304	5,834
Land Income							3	3
Sales of Goods and Services						49,298	2,478	(46,820)
Other					48	59	16,151	16,092
Total Revenues	272,764	269,105	302,916	33,811	107,226	168,101	379,460	211,359
EXPENDITURES								
General Government					430,351	177,566	95,314	82,252
Education					5,066	45,565	1,264	44,301
Employee Benefits					505,953	12,479	12,600	(121)
Health and Human Services					27,861	28,176	17,294	10,882
Public Safety and Corrections					29,043	29,043	725	28,318
Transportation	1,394,837	2,003,919	3,149	2,000,770				
Natural Resources and Recreation					23,007	26,510	23,439	3,071
Regulatory Services						7,833	11,213	(3,380)
Total Expenditures	1,394,837	2,003,919	3,149	2,000,770	1,021,281	327,172	161,849	165,323
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,122,073)	(1,734,814)	299,767	2,034,581	(914,055)	(159,071)	217,611	376,682
OTHER FINANCING SOURCES (USES)								
Transfer In					7,300	7,310	114,382	107,072
Transfer Out			(1,212,608)	(1,212,608)			(26,960)	(26,960)
Bond Proceeds*	1,100,000	1,100,000	1,100,000					
Available Beginning Balances	1,125,545	1,125,545	1,125,545		132,064	132,064	132,064	
Total Other Financing Sources (Uses)	2,225,545	2,225,545	1,012,937	(1,212,608)	139,364	139,374	219,486	80,112
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$1,103,472	$ 490,731	$1,312,704	$ 821,973	$(774,691)	$ (19,697)	$437,097	$456,794

* The Texas mobility fund received $1.1 billion in bond proceeds. These are authorized by Article 3, Section 49-p of the Texas Constitution.

Nonmajor Debt Service Funds

The **Texas College Student Loan Bonds Interest and Sinking Fund** receives deposits from the Texas Opportunity Plan fund for payment of current interest and principal and establishment of a reserve.

The **Texas Public Finance Authority Revenue Bond Funds** receive proceeds and accrued interest from the sale of revenue bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority G. O. Bond Funds** receive proceeds and accrued interest from the sale of general obligation bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority Commercial Paper Funds** receive deposits of any accrued interest on sale of notes and pledged revenues necessary to make debt service payments.

The **Texas Water Development Board Bond Funds** receive proceeds to pay debt service on the bonds issued for the purpose of providing financial assistance for the construction of water and wastewater related projects, water supply and sewer services.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Debt Service Funds

August 31, 2008 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Public Finance Authority Revenue Bond Funds	Texas Public Finance Authority G.O. Bond Funds	Texas Public Finance Authority Commercial Paper Funds	Texas Water Development Board Bond Funds	Other Nonmajor Debt Service Funds*	Totals
ASSETS							
Cash and Cash Equivalents	$	$ 1,357	$ 251	$ 4,841	$ 27	$ 78	$ 6,554
Receivables:							
Accounts	191						191
Interest and Dividends	902						902
Prepaid Items						4	4
Investments		54					54
Restricted:							
Cash and Cash Equivalents	181,507					3	181,510
Total Assets	$ 182,600	$ 1,411	$ 251	$ 4,841	$ 27	$ 85	$189,215
LIABILITIES AND FUND BALANCES							
Liabilities:							
Payables:							
Accounts	$ 6	$	$ 6	$	$	$	$ 12
Total Liabilities	6	0	6	0	0	0	12
Fund Balances:							
Reserved for Debt Service	182,594	1,411	245	4,841	27	85	189,203
Total Fund Balances	182,594	1,411	245	4,841	27	85	189,203
Total Liabilities and Fund Balances	$ 182,600	$ 1,411	$ 251	$ 4,841	$ 27	$ 85	$189,215

* The student loan revenue bond fund, Texas military facilities commission refund and improvement bond fund and the Texas park development bond interest and sinking fund are now being reported in this column.

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Debt Service Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Public Finance Authority Revenue Bond Funds	Texas Public Finance Authority G.O. Bond Funds	Texas Public Finance Authority Commercial Paper Funds	Texas Water Development Board Bond Funds	Other Nonmajor Debt Service Funds*	Totals
REVENUES							
Federal	$ (22)	$	$	$	$	$ 1	$ (21)
Interest and Other Investment Income	11,730	1,292	211	156	42	18	13,449
Other			65				65
Total Revenues	11,708	1,292	276	156	42	19	13,493
EXPENDITURES							
Current:							
General Government			236				236
Debt Service:							
Principal	18,000	57,905	209,950	20,360	17,105	8,420	331,740
Interest	27,765	17,030	81,722	3,118	17,529	7,642	154,806
Other Payments for Refunding	547	390	1,535				2,472
Total Expenditures	46,312	75,325	293,443	23,478	34,634	16,062	489,254
Deficiency of Revenues Under Expenditures	(34,604)	(74,033)	(293,167)	(23,322)	(34,592)	(16,043)	(475,761)
OTHER FINANCING SOURCES (USES)							
Transfer In	79,651	73,583	299,388	24,921	34,588	15,993	528,124
Transfer Out		(1)				(89)	(90)
Bond Proceeds for Advance Refunding	72,600	60,645	381,435				514,680
Premiums on Bonds Issued	3,125	1,624	30,911				35,660
Payment to Escrow for Advance Refunding	(77,739)	(61,911)	(418,973)				(558,623)
Total Other Financing Sources (Uses)	77,637	73,940	292,761	24,921	34,588	15,904	519,751
Net Change in Fund Balances	43,033	(93)	(406)	1,599	(4)	(139)	43,990
Fund Balances, September 1, 2007	139,513	1,504	651	3,242	31	224	145,165
Restatements	48						48
Fund Balances, September 1, 2007, as Restated	139,561	1,504	651	3,242	31	224	145,213
Fund Balances, August 31, 2008	$ 182,594	$ 1,411	$ 245	$ 4,841	$ 27	$ 85	$ 189,203

* The student loan revenue bond fund, Texas military facilities commission refund and improvement bond fund and the Texas park development bond interest and sinking fund are now being reported in this column.

Nonmajor Capital Projects Funds

The **Texas Public Finance Authority Administration Project Funds** utilize long-term financing for various state construction, repair or renovation projects. Funds are also used to refinance purchases of equipment by various state agencies.

The **Texas Parks and Wildlife Department Project Funds** are used for the acquisition and development of state park sites. Revenues from park entrance fees are used for the repayments of long-term debt incurred.

The **Texas Facilities Commission Project Funds** are used to administer the state's major and minor building construction programs.

The **Texas Department of Criminal Justice Prison Project Funds** are used for construction of regional centers and for repairs and minor construction of correctional facilities.

The **Texas Youth Commission Project Funds** are used to pay for minor construction and repairs of the Texas Youth Commission.

The **Texas Health Agencies Project Funds** are used to pay for the cost of construction, repair and remodeling for certain mental health facilities and other health related projects.

The **Texas Department of Public Safety Project Funds** are used to finance construction of new DPS buildings and Crime Lab facilities in various state locations.

The **Texas Department of Transportation Project Funds** are used to provide financial assistance to counties for roadway projects serving border colonias.

The **Texas Historical Commission Project Funds** are used to provide financial assistance to counties for the repair and renovation of court houses.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Capital Projects Funds

August 31, 2008 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Facilities Commission Project Funds*	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds
ASSETS					
Cash and Cash Equivalents	$ 5,691	$ 26,714	$ 61,914	$ 64,696	$ 8,489
Accounts Receivable			632		
Due From Other Funds			18,237		179
Inventories	3				
Total Assets	$ 5,694	$ 26,714	$ 80,783	$ 64,696	$ 8,668
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 183	$ 1,544	$ 3,029	$ 3,311	$ 940
Payroll	80				
Due To Other Funds		52			
Interfund Payable					
Other Liabilities				966	
Total Liabilities	263	1,596	3,029	4,277	940
Fund Balances/(Deficits):					
Reserved for:					
Encumbrances		17,201	54,521	13,224	12,908
Inventories	3				
Capital Projects	5,174	7,911	22,288	47,195	6,263
Unreserved:					
Designated for:					
Public Safety and Corrections					
Undesignated	254	6	945		(11,443)
Total Fund Balances	5,431	25,118	77,754	60,419	7,728
Total Liabilities and Fund Balances	$ 5,694	$ 26,714	$ 80,783	$ 64,696	$ 8,668

* The Building and Procurement Project Funds have been renamed as the Texas Facilities Project funds.

** The Texas Department of Public Safety Project Funds are now discretely presented.

*** The Texas military facilities commission project fund is now being reported in this column.

Texas Health Agencies Project Funds	Texas Department of Public Safety Project Funds**	Texas Department of Transportation Project Funds	Texas Historical Commission Project Funds	Other Nonmajor Capital Projects Funds***	Totals
$ 23,811	$ 26,076	$ 5,642	$ 12,058	$ 9,852	$ 244,943
				38	670
519					18,935
				79	82
$ 24,330	$ 26,076	$ 5,642	$ 12,058	$ 9,969	$ 264,630
$ 60,202	$ 820	$ 502	$	$ 1	$ 70,532
					80
					52
2,350			27		2,377
					966
62,552	820	502	27	1	74,007
5,263	3,849		9,689	34	116,689
				79	82
67,258	25,256	5,140	1,723	9,327	197,535
				563	563
(110,743)	(3,849)		619	(35)	(124,246)
(38,222)	25,256	5,140	12,031	9,968	190,623
$ 24,330	$ 26,076	$ 5,642	$ 12,058	$ 9,969	$ 264,630

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Projects Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Facilities Commission Project Funds*	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds
REVENUES					
Interest and Other Investment Income	$ 293	$ 867	$ 2,043	$ 1,500	$ 219
Sales of Goods and Services			17,452		
Other	60			13	
Total Revenues	353	867	19,495	1,513	219
EXPENDITURES					
Current:					
General Government	10,434		3,445	292	
Education					
Health and Human Services					
Public Safety and Corrections				10,676	
Transportation					
Natural Resources and Recreation		2,480			
Capital Outlay		4,922	15,874	40,279	8,657
Debt Service:					
Interest					
Total Expenditures	10,434	7,402	19,319	51,247	8,657
Excess (Deficiency) of Revenues Over (Under) Expenditures	(10,081)	(6,535)	176	(49,734)	(8,438)
OTHER FINANCING SOURCES (USES)					
Transfer In	783				
Transfer Out	(23,406)	(175)	(90)	(80)	(134)
Bonds and Notes Issued	32,200	11,500	58,854	90,621	15,200
Bond Proceeds for Advance Refunding	580			148	
Premiums on Bonds Issued			5,774		
Insurance Recoveries	500				
Total Other Financing Sources (Uses)	10,657	11,325	64,538	90,689	15,066
Net Change in Fund Balances	576	4,790	64,714	40,955	6,628
Fund Balances, September 1, 2007	4,855	20,328	13,040	19,464	1,100
Restatements					
Fund Balances, September 1, 2007, as Restated	4,855	20,328	13,040	19,464	1,100
Fund Balances, August 31, 2008	$ 5,431	$ 25,118	$ 77,754	$ 60,419	$ 7,728

* The Building and Procurement Project Funds have been renamed as the Texas Facilities Project funds.

** The Texas Department of Public Safety Project Funds are now discretely presented.

*** The Texas military facilities commission project fund is now being reported in this column.

Texas Health Agencies Project Funds	Texas Department of Public Safety Project Funds**	Texas Department of Transportation Project Funds	Texas Historical Commission Project Funds	Other Nonmajor Capital Projects Funds***	Totals
$ 828	$ 278	$ 419	$ 742	$ 453	$ 7,642
2					17,454
					73
830	278	419	742	453	25,169
			7,482		21,653
				1,320	1,320
66,965					66,965
	23			169	10,868
		13,557			13,557
					2,480
6,498	16,974		403	7,868	101,475
27					27
73,490	16,997	13,557	7,885	9,357	218,345
(72,660)	(16,719)	(13,138)	(7,143)	(8,904)	(193,176)
1,881				160	2,824
(378)	(87)		(154)	(1)	(24,505)
21,500	38,400	15,000		8,500	291,775
					728
					5,774
					500
23,003	38,313	15,000	(154)	8,659	277,096
(49,657)	21,594	1,862	(7,297)	(245)	83,920
3,147	3,662	3,278	19,328	10,213	98,415
8,288					8,288
11,435	3,662	3,278	19,328	10,213	106,703
$ (38,222)	$ 25,256	$ 5,140	$ 12,031	$ 9,968	$ 190,623

Nonmajor Permanent Funds

The **Permanent Health Fund for Higher Education** is a permanent fund established by the Legislature from a portion of the money received in the settlement of The State of Texas v. The American Tobacco Co., et.al. The corpus of the account has been designated by the Legislature to be preserved. Distributions of earnings on the account are to be transferred to other accounts and used for health care costs, tobacco education and enforcement.

The **Permanent Higher Education Fund** is established by legislation to dedicate portions of the state's revenues. The principal shall never be expended. At the beginning of the fiscal year after the fund reaches $2 billion and each year thereafter, 10 percent of the interest, dividends and other income accruing from investments during the previous fiscal year shall be deposited and become part of the principal of the fund. Out of the remainder of the annual income, there shall be appropriated an annual sum sufficient to pay the principal and interest due on the bonds and notes issued and the balance shall be allocated for appropriations made in Article VII, sec. 17(a) of the Texas Constitution.

The **Texas Commission on the Arts Trust Fund** consists of the Texas cultural endowment fund account held outside the treasury used for initial seed money for the endowment and deposits toward the endowment. This fund is to provide a stable funding source for the enhancement of art education, encourage economic development and advance the well being of communities.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Permanent Funds

August 31, 2008 (Amounts in Thousands)

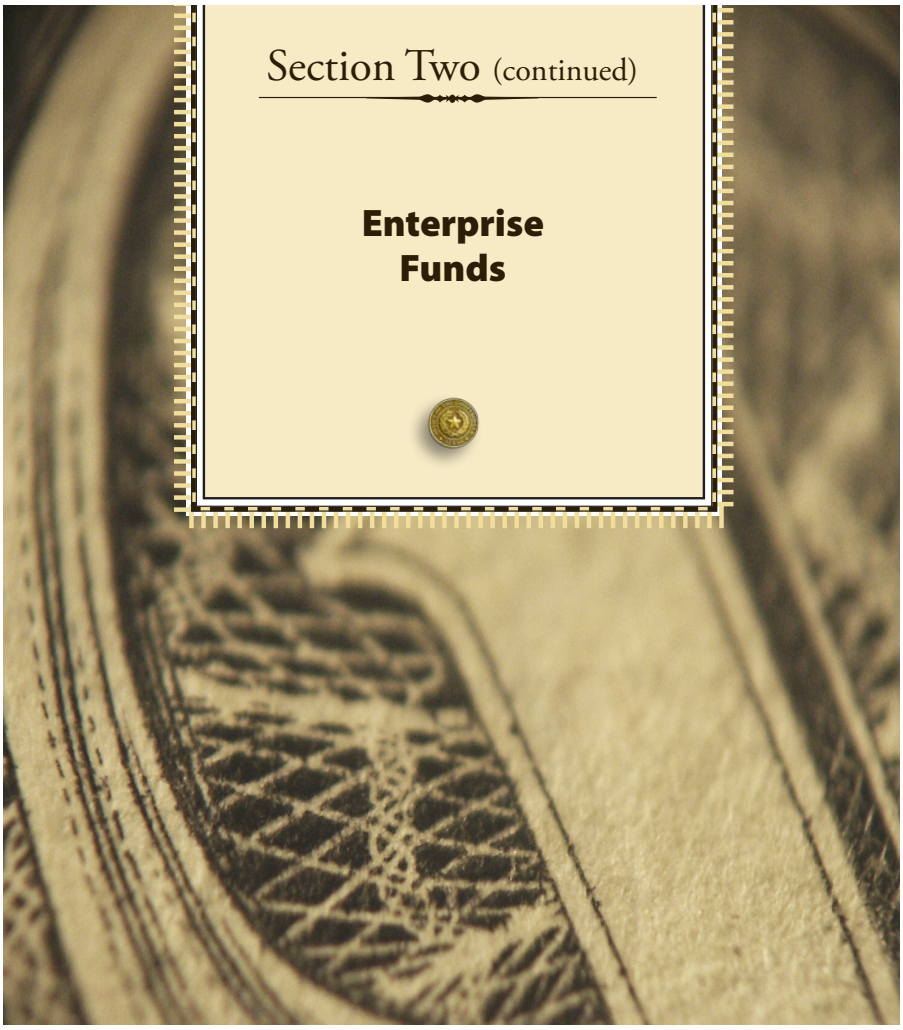
	Permanent Health Fund for Higher Education	Permanent Higher Education Fund	Texas Commission on the Arts Trust Fund	Other Nonmajor Permanent Funds	Totals
ASSETS					
Cash and Cash Equivalents	$	$	$ 94	$ 59	$ 153
Short-Term Investments	17,076	17,502			34,578
Securities Lending Collateral	8,010	8,798			16,808
Receivables:					
Investment Trades	295	301			596
Interest and Dividends	677	737			1,414
Investments	534,790	558,315	9,677	2,509	1,105,291
Total Assets	$ 560,848	$ 585,653	$ 9,771	$ 2,568	$1,158,840
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 283	$ 294	$	$	$ 577
Investment Trades	615	631			1,246
Obligations/Securities Lending	8,009	8,798			16,807
Total Liabilities	8,907	9,723	0	0	18,630
Fund Balances:					
Reserved for:					
Education		575,930		1	575,931
Unreserved:					
Designated for:					
Permanent Health Fund	558,020			2,500	560,520
Undesignated	(6,079)		9,771	67	3,759
Total Fund Balances	551,941	575,930	9,771	2,568	1,140,210
Total Liabilities and Fund Balances	$ 560,848	$ 585,653	$ 9,771	$ 2,568	$1,158,840

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Permanent Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	Permanent Higher Education Fund	Texas Commission on the Arts Trust Fund	Other Nonmajor Permanent Funds	Totals
REVENUES					
Interest and Other Investment Income (Loss)	$ (36,913)	$ (39,152)	$ (299)	$ 100	$ (76,264)
Land Income				23	23
Total Revenues	(36,913)	(39,152)	(299)	123	(76,241)
EXPENDITURES					
Current:					
General Government	2,280	2,345	98	100	4,823
Total Expenditures	2,280	2,345	98	100	4,823
Excess (Deficiency) of Revenues Over (Under) Expenditures	(39,193)	(41,497)	(397)	23	(81,064)
OTHER FINANCING USES					
Transfer Out	(22,905)		(5,009)	(273)	(28,187)
Total Other Financing Uses	(22,905)	0	(5,009)	(273)	(28,187)
Net Change in Fund Balances	(62,098)	(41,497)	(5,406)	(250)	(109,251)
Fund Balances, September 1, 2007	614,039	617,427	15,177	2,818	1,249,461
Fund Balances, August 31, 2008	$ 551,941	$ 575,930	$ 9,771	$ 2,568	$1,140,210



Section Two (continued)

Enterprise Funds

Nonmajor Enterprise Funds

The **Texas Workforce Commission Unemployment Trust Fund Accounts** are funds collected under the Old Age and Survivors Insurance Act on deposit with the treasurer of the United States of America to the credit of this state. It also serves as a clearance fund for the Unemployment Compensation fund held by the United States Treasury and as a holding account for paying benefits under the Unemployment Compensation Act.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes or the construction of rental housing for families with low to moderate incomes. Loan payments and rentals provide the revenue for debt service payments.

The **Texas Lottery Commission** accounts for the operation of lottery games for the state. This fund includes both the net proceeds from the lottery and accounts for future installment obligations to prize winners.

The **Veterans Land Board Loan Program Funds** receive proceeds from the sale of bonds that are used to administer, originate and service loans from land, housing and home improvement for those qualifying veterans.

The **Texas Department of Criminal Justice Institutional Division** accounts for the proceeds of the institutional division's commissary operations and other miscellaneous revenue.

The **Teacher Retirement System** (TRS) includes the TRS-ActiveCare fund, which provides health care coverage to employees (and their dependents) of participating public education entities. TRS is now considered a discrete component unit of the state.

The **Texas Prepaid Higher Education Tuition Board** offers a program that allows Texas families to lock in the cost of tomorrow's college tuition and required fees at today's prices.

STATE OF TEXAS

Combining Statement of Net Assets – Nonmajor Enterprise Funds

August 31, 2008 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 593	$ 41,524	$ 169,881	$
Securities Lending Collateral				89,818
Restricted:				
Cash and Cash Equivalents	1,775,261	163,616		121,937
Short-Term Investments		159,097	190,269	32,246
Loans and Contracts		12,656		70,526
Receivables:				
Federal	6,642			3,751
Accounts	115,312	1,549	33,531	59,454
Interest and Dividends	14,877	14,898		10,839
Investment Trades				
Other		75		
Due From Other Funds	2,875		79	1
Interfund Receivable		56		
Inventories		12	7,326	
Prepaid Items			4,667	
Loans and Contracts		1,608		
Other Current Assets		253		
Total Current Assets	1,915,560	395,344	405,753	388,572
Noncurrent Assets:				
Restricted:				
Cash and Cash Equivalents				
Investments		1,346,771	1,111,265	218,378
Receivables				
Loans and Contracts		1,246,109		2,024,449
Other				2,399
Loans and Contracts		32,067		
Capital Assets:				
Nondepreciable				3,500
Depreciable		1,158	5,861	78,821
Accumulated Depreciation		(1,010)	(5,072)	(18,614)
Assets Held in Trust				
Other Noncurrent Assets		12,570		
Total Noncurrent Assets	0	2,637,665	1,112,054	2,308,933
Total Assets	1,915,560	3,033,009	1,517,807	2,697,505

* This fund has activity on the combining statement of revenues, expenses and changes in fund net assets - nonmajor enterprise funds and the combining statement of cash flows - nonmajor enterprise funds.

Texas Department of Criminal Justice Institutional Division	Teacher Retirement System*	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$	$	$ 2,855	$ 22,758	$ 237,611
		307,192		397,010
		135,594		2,196,408
				381,612
				83,182
				10,393
535			346	210,727
		14,978	47	55,639
		49,589		49,589
			2,775	2,850
23,708				26,663
				56
6,770			888	14,996
			164	4,831
		43,041	10,100	54,749
				253
31,013	0	553,249	37,078	3,726,569
			5,484	5,484
		1,604,129	52	4,280,595
		131,826		131,826
				3,270,558
				2,399
				32,067
283			376	4,159
4,250		2,285	6,081	98,456
(3,780)		(2,266)	(3,835)	(34,577)
			1,006	1,006
				12,570
753	0	1,735,974	9,164	7,804,543
31,766	0	2,289,223	46,242	11,531,112

Concluded on the following page

STATE OF TEXAS

Combining Statement of Net Assets – Nonmajor Enterprise Funds (concluded)

August 31, 2008 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	$ 38,565	$ 1,105	$ 15,971	$ 11,567
Payroll			1,633	
Investment Trades				
Interest		38,307		7,475
Annuities			12,174	
Due To Other Funds			15,828	266
Unearned Revenue	88,559	39,988		139
Obligations/Securities Lending				90,946
Capital Lease Obligations				
Employees' Compensable Leave		718	1,244	
Notes and Loans Payable		71,431		
General Obligation Bonds Payable				67,090
Revenue Bonds Payable		41,276		350
Liabilities Payable From Restricted Assets			285,334	
Other Current Liabilities		9,011	1,611	197
Total Current Liabilities	127,124	201,836	333,795	178,030
Noncurrent Liabilities:				
Capital Lease Obligations				
Employees' Compensable Leave		237	842	
Liabilities Payable From Restricted Assets			1,062,675	
Notes and Loans Payable				
General Obligation Bonds Payable				1,785,685
Revenue Bonds Payable		2,629,814		23,637
Assets Held for Others				
Other Noncurrent Liabilities		139,808		
Total Noncurrent Liabilities	0	2,769,859	1,063,517	1,809,322
Total Liabilities	127,124	2,971,695	1,397,312	1,987,352
NET ASSETS				
Invested in Capital Assets, Net of Related Debt		191	789	40,362
Restricted for:				
Debt Retirement		11,350		
Veterans Land Board Housing Programs				669,684
Unemployment Trust Funds	1,788,436			
Other			13,739	
Unrestricted		49,773	105,967	107
Total Net Assets	$ 1,788,436	$ 61,314	$ 120,495	$ 710,153

Texas Department of Criminal Justice Institutional Division	Teacher Retirement System	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$ 4,601	$	$ 1,974	$ 2,268	$ 76,051
1,383			1,480	4,496
		61,348		61,348
				45,782
				12,174
32		100		16,226
			68	128,754
		307,192		398,138
			126	126
1,002		60	526	3,550
				71,431
				67,090
				41,626
		212,668		498,002
				10,819
7,018	0	583,342	4,468	1,435,613
			200	200
372		22	323	1,796
		1,912,179		2,974,854
			5,907	5,907
				1,785,685
				2,653,451
			1,006	1,006
				139,808
372	0	1,912,201	7,436	7,562,707
7,390	0	2,495,543	11,904	8,998,320
752		19	1,255	43,368
				11,350
				669,684
				1,788,436
			611	14,350
23,624		(206,339)	32,472	5,604
$ 24,376	$ 0	$ (206,320)	$ 34,338	$ 2,532,792

STATE OF TEXAS

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
OPERATING REVENUES				
Lottery Collections	$	$	$ 3,671,884	$
Auxiliary Enterprises - Pledged				
Unemployment Taxes	1,058,134			
Other Sales of Goods and Services				8,032
Other Sales of Goods and Services - Pledged				30,825
Interest and Investment Income		152,104	2	100,360
Federal Revenue	135,165			19,804
Other Revenues	92,013	12,154	44,625	20
Other Revenues - Pledged				
Total Operating Revenues	1,285,312	164,258	3,716,511	159,041
OPERATING EXPENSES				
Cost of Goods Sold				
Salaries and Wages		7,649	15,950	
Payroll Related Costs		1,281	3,819	
Professional Fees and Services		2,075	4,074	54,128
Travel		289	301	8
Materials and Supplies		227	1,964	2,491
Communication and Utilities		112	612	
Repairs and Maintenance		189	366	365
Rentals and Leases		51	5,685	
Printing and Reproduction		17	11,610	3
Depreciation and Amortization		945	282	3,704
Unemployment Benefit Payments	1,464,794			
Bad Debt Expense		390	470	
Interest Expense		136,893	2	65,908
Lottery Fees and Other Costs			280,918	
Lottery Prize Payments			2,281,125	
Employee/Participant Benefit Payments				
Other Expenses		102	27,169	4,149
Total Operating Expenses	1,464,794	150,220	2,634,347	130,756
Operating Income (Loss)	(179,482)	14,038	1,082,164	28,285

Texas Department of Criminal Justice Institutional Division	Teacher Retirement System	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$	$	$	$	$ 3,671,884
86,605				86,605
				1,058,134
		(791)	8,334	15,575
				30,825
			382	252,848
				154,969
759		1,566	23,163	174,300
			10	10
87,364	0	775	31,889	5,445,150
61,846			1,575	63,421
13,053		777	9,284	46,713
3,900		170	1,971	11,141
		7,233	7,926	75,436
40		4	108	750
604		111	416	5,813
1		50	506	1,281
188		348	284	1,740
762		23	1,460	7,981
69		44	99	11,842
95		10	618	5,654
				1,464,794
30			6	896
1				202,804
				280,918
				2,281,125
		(26,992)		(26,992)
18		10,020	2,255	43,713
80,607	0	(8,202)	26,508	4,479,030
6,757	0	8,977	5,381	966,120

Concluded on the following page

STATE OF TEXAS

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
NONOPERATING REVENUES (EXPENSES)				
Federal Revenue	$	$	$	$ 109
Gifts				11
Interest and Investment Income (Loss)	95,136		36,620	19,495
Loan Premium and Fees on Securities Lending				
Investing Activities Expense				
Interest Expense	(1,708)			(1,478)
Borrower Rebates and Agent Fees				(1,922)
Gain on Sale of Capital Assets			9	
Settlement of Claims			5	
Claims and Judgments			(99)	
Other Revenues		(11,755)		
Other Expenses	(684)			
Total Nonoperating Revenues (Expenses)	92,744	(11,755)	36,535	16,215
Income (Loss) Before Transfers	(86,738)	2,283	1,118,699	44,500
CAPITAL CONTRIBUTIONS, SPECIAL ITEMS AND TRANSFERS				
Capital Contributions - Other				
Special Items	(150,026)			
Transfer In	1,646	5,325		2,990
Transfer Out			(1,034,879)	(24,612)
Total Capital Contributions, Special Items and Transfers	(148,380)	5,325	(1,034,879)	(21,622)
Change in Net Assets	(235,118)	7,608	83,820	22,878
Net Assets, September 1, 2007	2,023,554	53,706	36,675	687,194
Restatements				81
Net Assets, September 1, 2007, as Restated	2,023,554	53,706	36,675	687,275
Net Assets, August 31, 2008	$ 1,788,436	$ 61,314	$ 120,495	$ 710,153

Texas Department of Criminal Justice Institutional Division	Teacher Retirement System	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$	$	$	$ 281	$ 390
				11
		(55,320)	722	96,653
		13,642		13,642
		(18)		(18)
			(276)	(3,462)
		(9,005)		(10,927)
				9
1				6
			(8)	(107)
1			12	(11,742)
				(684)
2	0	(50,701)	731	83,771
6,759	0	(41,724)	6,112	1,049,891
			(110)	(110)
				(150,026)
4,331			2,829	17,121
(21,883)			(1,783)	(1,083,157)
(17,552)	0	0	936	(1,216,172)
(10,793)	0	(41,724)	7,048	(166,281)
35,169	435,295	(164,596)	27,290	3,134,287
	(435,295)			(435,214)
35,169	0	(164,596)	27,290	2,699,073
$ 24,376	$ 0	$ (206,320)	$ 34,338	$ 2,532,792

STATE OF TEXAS

Combining Statement of Cash Flows – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	$ 1,032,088	$	$ 3,778,421	$ 57,862
Proceeds from Research Grants and Contracts	131,114			
Proceeds from Loan Programs		69,571		726,156
Proceeds from Other Revenues	93,292	9,548		254
Payments to Suppliers for Goods and Services		(8,405)	(342,307)	(58,024)
Payments to Employees		(8,732)	(19,480)	
Payments for Loans Provided		(63,176)		(657,678)
Payments for Other Expenses	(1,476,036)		(2,310,052)	(164)
Net Cash Provided by Operating Activities	(219,542)	(1,194)	1,106,582	68,406
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from Debt Issuance		254,674		98,144
Proceeds from Transfers from Other Funds	4,459,100	17,080		84,136
Proceeds from Other Financing Activities			147,827	190,826
Payments of Principal on Debt Issuance	(401,684)	(126,342)		(122,963)
Payments of Interest	(4,339)	(139,304)		(67,349)
Payments of Other Costs on Debt Issuance		(1,646)		
Payments for Transfers to Other Funds	(4,480,971)	(11,979)	(1,036,776)	(288,394)
Payments for Other Uses	(109)		(169,230)	(2,251)
Net Cash Provided by Noncapital Financing Activities	(428,003)	(7,517)	(1,058,179)	(107,851)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Other Financing Activities				517
Payments for Additions to Capital Assets		(19)	(411)	(311)
Payments of Principal on Debt Issuance				(330)
Payments of Interest on Debt Issuance				(1,480)
Payments of Other Costs on Debt Issuance				(286)
Net Cash Provided by Capital and Related Financing Activities	0	(19)	(411)	(1,890)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale of Investments		620,189	173,393	332,137
Proceeds from Interest and Investment Income	98,430	83,539	6	18,245
Payments to Acquire Investments		(654,573)	(152,121)	(282,948)
Payments for Nonprogram Loans Provided				
Net Cash Provided by Investing Activities	98,430	49,155	21,278	67,434
Net Increase (Decrease) in Cash and Cash Equivalents	(549,115)	40,425	69,270	26,099
Cash and Cash Equivalents, September 1, 2007	2,324,969	164,715	100,611	95,838
Restatements				
Cash and Cash Equivalents, September 1, 2007, as Restated	2,324,969	164,715	100,611	95,838
Cash and Cash Equivalents, August 31, 2008	$ 1,775,854	$ 205,140	$ 169,881	$ 121,937

Texas Department of Criminal Justice Institutional Division	Teacher Retirement System	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$ 87,161	$	$ 43,385	$ 28,353	$ 5,027,270
				131,114
			2,669	798,396
759		462	3,033	107,348
(60,869)		(17,830)	(1,851)	(489,286)
(16,952)		(900)	(10,385)	(56,449)
			(629)	(721,483)
(1,715)		(108,631)	(13,295)	(3,909,893)
8,384	0	(83,514)	7,895	887,017
				352,818
4,331			5,575	4,570,222
			269	338,922
			(2,325)	(653,314)
			(223)	(211,215)
			(23)	(1,669)
(12,712)			(4,527)	(5,835,359)
				(171,590)
(8,381)	0	0	(1,254)	(1,611,185)
				517
(5)			(1,288)	(2,034)
				(330)
				(1,480)
				(286)
(5)	0	0	(1,288)	(3,613)
32,131		2,076,455		3,234,305
659		60,647	727	262,253
(32,788)		(1,974,811)		(3,097,241)
			(6)	(6)
2	0	162,291	721	399,311
0	0	78,777	6,074	(328,470)
	497,369	59,672	22,168	3,265,342
	(497,369)			(497,369)
0	0	59,672	22,168	2,767,973
$ 0	$ 0	$ 138,449	$ 28,242	$ 2,439,503

Concluded on the following page

STATE OF TEXAS

Combining Statement of Cash Flows – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	$ (179,482)	$ 14,038	$ 1,082,164	$ 28,285
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization		945	282	3,704
Bad Debt Expense		389	470	
Operating Income (Loss) and Cash Flow Categories Classification Differences		38,068		66,104
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	68,934	4,950	61,910	(18,040)
(Increase) Decrease in Inventories			(471)	
(Increase) Decrease in Loans and Contracts		(6,629)		(15,083)
(Increase) Decrease in Other Assets		(659)		31,233
(Increase) Decrease in Prepaid Expenses				
Increase (Decrease) in Payables	(148,092)	(1,514)	(39,328)	3,710
Increase (Decrease) in Due To Other Funds				
Increase (Decrease) in Unearned Revenue	39,098	4,884	1,555	
Increase (Decrease) in Compensated Absence Liability				
Increase (Decrease) in Other Liabilities		(55,666)		(31,507)
Total Adjustments	(40,060)	(15,232)	24,418	40,121
Net Cash Provided by Operating Activities	$ (219,542)	$ (1,194)	$ 1,106,582	$ 68,406
NONCASH TRANSACTIONS				
Net Change in Fair Value of Investments	$	$ 6,488	$ 36,614	$ 957
Other	$	$	$	$ (2,197)

Texas Department of Criminal Justice Institutional Division	Teacher Retirement System	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$ 6,757	$	$ 8,977	$ 5,381	$ 966,120
95		10	618	5,654
			6	865
			(24)	104,148
556		43,092	(147)	161,255
(13)			(26)	(510)
			1,724	(19,988)
				30,574
			(43)	(43)
989		1	434	(183,800)
		27		27
			(81)	45,456
		29	6	35
		(135,650)	47	(222,776)
1,627	0	(92,491)	2,514	(79,103)
$ 8,384	$ 0	$ (83,514)	$ 7,895	$ 887,017
$	$	$ (115,613)	$	$ (71,554)
$	$	$	$	$ (2,197)

Colleges and Universities – Major Enterprise Fund

There are six university systems and five independent universities in Texas' primary government presented in a single-column as a major fund on the basic financial statements. Schedules have been prepared to report the breakdown of the following universities.

University of Texas System
Texas A&M University System
Texas Tech University System
University of Houston System
Texas State University System
University of North Texas System
Texas Woman's University
Stephen F. Austin State University
Texas Southern University
Midwestern State University
Texas State Technical College

STATE OF TEXAS

Schedule of Net Assets
Colleges and Universities – Major Enterprise Fund

August 31, 2008 (Amounts in Thousands)

	University of Texas System*	Texas A & M University System*	Texas Tech University System	University of Houston System	Texas State University System
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 1,709,952	$ 294,008	$ 393,128	$ 166,138	$ 506,091
Short-Term Investments		197,072		131,751	
Securities Lending Collateral	984,424	184,823			
Restricted:					
Cash and Cash Equivalents	234,744	(8,930)	143,012	11,695	78,838
Short-Term Investments		190,297			198
Loans and Contracts					
Receivables:					
Federal	233,277	94,954	9,234	20,873	29,687
Other Intergovernmental	34,341	23,446			
Accounts	210,476	17,766	8,081	17,544	67,511
Interest and Dividends	44,301	6,188	2,078		283
Gifts	45,217	11,539	33,239	15,691	7,582
Investment Trades	224,651	70,751			
Other	1,016,487	84,577	48,652	1,742	1,467
Due From Other Funds	115,473	138,397	107,869	77,132	71,097
Due From Component Units			18		
Interfund Receivable		14,685			
Inventories	69,817	25,865	4,355	2,330	4,652
Prepaid Items		635	42,629	39,439	8,200
Loans and Contracts	42,506	24,255	2,817	6,641	4,649
Other Current Assets	147,291	53,686	311		26,540
Total Current Assets	5,112,957	1,424,014	795,423	490,976	806,795
Noncurrent Assets:					
Restricted:					
Cash and Cash Equivalents	181		27,143	43,672	31,331
Short-Term Investments					
Investments	21,834,829	673,977	159,826		69,130
Receivables					4,856
Loans and Contracts	94,876	5,286		14,175	1,021
Other					7,493
Loans and Contracts		26,412	3,242		388
Investments	3,293,072	1,373,889	779,759	716,313	33,692
Interfund Receivable		367,945			
Gifts Receivable	152,141	47,747	42,772	16,392	
Capital Assets:					
Nondepreciable	1,792,984	535,997	213,568	170,065	185,490
Depreciable	13,308,241	3,910,534	1,695,666	1,169,404	1,474,825
Accumulated Depreciation	(5,803,304)	(2,222,236)	(834,845)	(713,212)	(767,842)
Assets Held in Trust		362			
Other Noncurrent Assets	36,958	1,186			
Total Noncurrent Assets	34,709,978	4,721,099	2,087,131	1,416,809	1,040,384
Total Assets	39,822,935	6,145,113	2,882,554	1,907,785	1,847,179

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 227,299	$ 11,118	$ 60,131	$ 37,340	$ 4,628	$ 22,153	$ 3,431,986
	32,050			16,409	8,390	385,672
393						1,169,640
34,610	2,418	9,794	259	(564)	1,554	507,430
100	57,006	9,707	46,648	556	4,485	308,997
				15		15
17,432	4,577	1,222	8,710	156	6,310	426,432
367		996	4,582			63,732
39,801	11,156	7,212	19,974	3,740	8,817	412,078
1,752	762	253		182	47	55,846
2,475		253		2,377		118,373
						295,402
	3,114	2,290	1,391	440		1,160,160
69,769	14,344	5,036	27,827	1,891	10,561	639,396
						18
						14,685
2,075	881	544	373	312	2,203	113,407
	993	14,740				106,636
8,387	4,826	1,913				95,994
16,154			10,139	5,600		259,721
420,614	143,245	114,091	157,243	35,742	64,520	9,565,620
		291			148	102,766
		9,181		36,123	244	45,548
68,846	80,503					22,887,111
			20			4,876
5,723		6,078	2,049	98		129,306
				881		8,374
		2,242				32,284
102,974		24,196		14,911		6,338,806
						367,945
902				601		260,555
100,295	10,555	18,994	19,649	23,697	8,415	3,079,709
820,952	288,612	338,111	360,550	160,979	165,561	23,693,435
(408,654)	(128,310)	(180,913)	(191,791)	(77,137)	(102,338)	(11,430,582)
						362
332						38,476
691,370	251,360	218,180	190,477	160,153	72,030	45,558,971
1,111,984	394,605	332,271	347,720	195,895	136,550	55,124,591

Concluded on the following page

STATE OF TEXAS

Schedule of Net Assets
Colleges and Universities – Major Enterprise Fund (concluded)

August 31, 2008 (Amounts in Thousands)

	University of Texas System*	Texas A & M University System*	Texas Tech University System	University of Houston System	Texas State University System
LIABILITIES					
Current Liabilities:					
Payables:					
Accounts	$ 802,620	$ 124,018	$ 50,268	$ 34,932	$ 21,794
Payroll	291,638	104,132	57,648	32,703	32,047
Other Intergovernmental	27				10,164
Federal	28,655			1,736	
Investment Trades	1,060,391	64,987			
Interest					
Due To Other Funds	10,712	306		91	7
Interfund Payable	15,614	1,357	344		
Unearned Revenue	945,648	363,771	130,725	151,769	220,805
Obligations/Securities Lending	984,343	184,823			
Claims and Judgments	81,061	12,438	1,863	272	
Capital Lease Obligations	1,389	295			116
Employees' Compensable Leave	270,920	6,132	8,214	10,080	8,919
Notes and Loans Payable	1,169,624	55,375	74,268		
General Obligation Bonds Payable					
Revenue Bonds Payable	1,209,149	82,574	19,600	22,591	38,866
Funds Held for Others	16,017	20,767	23,512	12,498	5,267
Other Current Liabilities	370,109	29,670	17,609	2,847	4,017
Total Current Liabilities	7,257,917	1,050,645	384,051	269,519	342,002
Noncurrent Liabilities:					
Interfund Payable	372,404	5,687	260		
Claims and Judgments	35,071	6,971	16,765	15	
Capital Lease Obligations	3,683	1,266			305
Employees' Compensable Leave	139,643	85,040	29,944	11,689	9,416
Notes and Loans Payable	30,288	107,412			
General Obligation Bonds Payable					
Revenue Bonds Payable	3,198,905	1,178,022	369,445	442,139	633,021
Assets Held for Others	720,032	362			
Net OPEB Obligation	422,678	140,309			
Other Noncurrent Liabilities	24,654	89,773	1,597		1,990
Total Noncurrent Liabilities	4,947,358	1,614,842	418,011	453,843	644,732
Total Liabilities	12,205,275	2,665,487	802,062	723,362	986,734
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	4,492,553	928,495	612,776	283,561	220,200
Restricted for:					
Education	1,519,475	216,526	204,190	115,471	44,156
Debt Retirement	11,202	(12,726)	19,113	5,790	4,239
Capital Projects	(18,981)	17,392	35,248	4,141	155,586
Funds Held as Permanent Investments:					
Nonexpendable	9,366,310	464,722	609,107	350,554	97,572
Expendable	8,473,938	75,450		145,963	16,202
Unrestricted	3,773,163	1,789,767	600,058	278,943	322,490
Total Net Assets	$27,617,660	$ 3,479,626	$ 2,080,492	$ 1,184,423	$ 860,445

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 16,992	$ 2,992	$ 2,990	$ 9,750	$ 2,930	$ 5,616	$ 1,074,902
31,926	4,880	7,377	6,169	3,198	6,726	578,444
			3			10,194
					371	30,762
						1,125,378
		2,205	1,413		82	3,700
3	464	75				11,658
						17,315
118,545	33,788	50,544	35,967	18,815	12,280	2,082,657
393						1,169,559
						95,634
	180	18			543	2,541
1,985	2,071	398	3,045	125	611	312,500
22,071			312			1,321,650
			4,270	1,215	1,445	6,930
11,090	4,508	5,475	6,005	2,520	585	1,402,963
16,566		10,610		112	1,675	107,024
3,615	4,406	3,293	17,781	1,339	479	455,165
223,186	53,289	82,985	84,715	30,254	30,413	9,808,976
						378,351
					335	59,157
	1,993	28			4,151	11,426
14,384	1,411	2,797	339	1,147	5,039	300,849
			579			138,279
			27,909	6,769	9,995	44,673
246,925	60,667	127,760	90,640	82,845	10,660	6,441,029
474	166					721,034
						562,987
2,168	128	1,031	14,604	224	21	136,190
263,951	64,365	131,616	134,071	90,985	30,201	8,793,975
487,137	117,654	214,601	218,786	121,239	60,614	18,602,951
232,720	103,597	51,007	58,692	47,954	47,340	7,078,895
54,147	1,647	13,829	10,887		1,088	2,181,416
425			143		14	28,200
24,203		2,621	5,939	3,484	1,092	230,725
44,039	9,157	6,434	30,012	3,625	393	10,981,925
4,526	80,317	2,720		4,534		8,803,650
264,787	82,233	41,059	23,261	15,059	26,009	7,216,829
$ 624,847	$ 276,951	$ 117,670	$ 128,934	$ 74,656	$ 75,936	$ 36,521,640

STATE OF TEXAS

Schedule of Revenues, Expenses and Changes in Fund Net Assets
Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	University of Texas System*	Texas A & M University System*	Texas Tech University System	University of Houston System	Texas State University System
OPERATING REVENUES					
Tuition Revenue	$	$	$ 58,138	$ 365,350	$
Tuition Revenue - Pledged	1,290,956	687,515	210,040		361,950
Discounts and Allowances	(266,947)	(130,426)	(33,293)	(56,859)	(57,071)
Hospital Revenue - Pledged	6,185,545				
Discounts and Allowances	(3,168,917)				
Professional Fees	3,126,151		213,465		
Professional Fees - Pledged	4,500	9,245			
Discounts and Allowances	(2,147,973)				
Auxiliary Enterprises				46,478	
Auxiliary Enterprises - Pledged	350,927	217,652	89,440		95,204
Discounts and Allowances	(8,863)				(8,008)
Other Sales of Goods and Services			5,074	20,155	14,546
Other Sales of Goods and Services - Pledged	294,038	151,590	14,381		
Discounts and Allowances	(329)	(16,626)			
Interest and Investment Income		1,394			40
Interest and Investment Income - Pledged					578
Federal Revenue	1,276,162	386,876	38,748	58,850	31,424
State Grant Revenue	51,245	70,562	9,772	14,176	7,078
Other Operating Grant Revenue	296,550	893	121,118	14,698	6,587
Other Operating Grant Revenue - Pledged	399,478	154,489	4,074		
Other Revenues	6,860			1,172	13,569
Other Revenues - Pledged	88,604	59,837			
Total Operating Revenues	7,777,987	1,593,001	730,957	464,020	465,897
OPERATING EXPENSES					
Cost of Goods Sold	96,351	18,686		3,038	6,878
Salaries and Wages	5,333,038	1,331,437	597,981	437,261	376,308
Payroll Related Costs	1,261,852	309,152	134,532	92,028	81,351
Professional Fees and Services	383,069	222,228	63,237	40,597	35,976
Travel	129,998	70,505	14,875	14,401	13,109
Materials and Supplies	1,091,055	209,496	87,304	41,581	68,847
Communication and Utilities	343,731	124,497	48,944	50,299	37,493
Repairs and Maintenance	186,490	80,429	25,660	9,603	16,369
Rentals and Leases	109,638	43,453	11,248	12,707	8,880
Printing and Reproduction	20,865	14,525	7,801	5,338	4,470
Depreciation and Amortization	679,831	137,311	61,087	41,232	47,864
Bad Debt Expense	3,940	734	36		262
Interest Expense		252		72	37
Scholarships	276,044	121,896	46,754	56,621	56,748
Claims and Judgments	11,838	(14,061)	566	951	81
Net Change in Pension/OPEB Obligations	422,678	140,309			
Other Expenses	721,183	174,037	67,481	33,045	27,900
Total Operating Expenses	11,071,601	2,984,886	1,167,506	838,774	782,573
Operating Loss	(3,293,614)	(1,391,885)	(436,549)	(374,754)	(316,676)

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 84,578	$ 59,964	$ 3,437	$	$	$ 2,597	$ 574,064
142,086	441	67,239	56,403	24,711	25,618	2,866,959
(27,678)	(9,350)	(13,393)	(14,162)		(9,043)	(618,222)
						6,185,545
						(3,168,917)
79,625						3,419,241
						13,745
						(2,147,973)
1,162	9,091	1,152			1,101	58,984
40,525	10,216	30,791	8,796	5,541	12,384	861,476
(116)	(2,841)	(5,421)			(2,929)	(28,178)
23,054		1,029				63,858
		4,428	40	969	6,767	472,213
						(16,955)
		190				1,624
					588	1,166
38,999	3,836	6,208	19,687	1,732	6,556	1,869,078
2,857	673	838	1,410		994	159,605
7,059		866	2,172		145	450,088
	265			10		558,316
199	1,189		4,970			27,959
		4		1,296		149,741
392,350	73,484	97,368	79,316	34,259	44,778	11,753,417
1,595	224	7,793			4,478	139,043
307,485	76,075	75,960	70,068	33,222	67,110	8,705,945
66,158	17,183	18,332	16,799	8,096	19,932	2,025,415
27,046	1,725	1,625	14,236	3,111	1,452	794,302
7,924	1,704	2,279	1,825	1,538	1,262	259,420
45,846	11,306	15,038	9,183	5,072	12,440	1,597,168
18,227	7,431	11,789	5,708	3,761	7,713	659,593
13,725	3,929	3,896	4,242	1,817	2,885	349,045
6,168	1,149	2,110	3,749	440	1,153	200,695
3,984	552	698	573	319	152	59,277
31,415	10,991	9,940	12,445	6,024	5,280	1,043,420
5,984	607	317	1,290	224		13,394
					2	363
39,308	7,599	13,152	19,581	5,810	14,935	658,448
			49		2	(574)
						562,987
36,036	5,946	5,682	4,210	555	10,649	1,086,724
610,901	146,421	168,611	163,958	69,989	149,445	18,154,665
(218,551)	(72,937)	(71,243)	(84,642)	(35,730)	(104,667)	(6,401,248)

Concluded on the following page

STATE OF TEXAS

Schedule of Revenues, Expenses and Changes in Fund Net Assets
Colleges and Universities – Major Enterprise Fund (concluded)

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	University of Texas System*	Texas A & M University System*	Texas Tech University System	University of Houston System	Texas State University System
NONOPERATING REVENUES (EXPENSES)					
Federal Revenue	$ 158,309	$ 112,801	$ 22,552	$ 43,362	$ 52,303
Gifts	352,374		94,668	66,128	24,724
Gifts - Pledged	16,412	95,330	3,727		
Land Income		5,469			
Interest and Investment Income (Loss)	(471,463)		(18,368)	79,449	8,726
Interest and Investment Income - Pledged	341,026	(47,290)	21,622		
Investing Activities Expense	(101,755)	(9,777)			(1,611)
Interest Expense	(161,687)	(56,631)	(18,635)	(13,718)	(14,153)
Borrower Rebates and Agent Fees		(703)			
Gain on Sale of Capital Assets		261			
Claims and Judgments		(2,178)			(256)
Other Revenues	132,795		5,969	(36,163)	3,494
Other Revenues - Pledged	1,174	22,931	7,628		
Other Expenses	(30,029)	(12,892)	(3,115)		(275)
Total Nonoperating Revenues (Expenses)	237,156	107,321	116,048	139,058	72,952
Loss Before Capital Contributions, Endowments and Transfers	(3,056,458)	(1,284,564)	(320,501)	(235,696)	(243,724)
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS					
Capital Contributions - Federal	27,412				
Capital Contributions (Distributions) - Other	166,833	37,711	9,651	(2)	49
Contributions to Permanent and Term Endowments	143,566	9,070	2,719	11,827	(647)
Transfer In	2,191,733	1,247,847	668,518	352,099	338,342
Transfer Out	(192,897)	(38,084)	(14,103)	(6,293)	(221,240)
Total Capital Contributions, Endowments and Transfers	2,336,647	1,256,544	666,785	357,631	116,504
Change in Net Assets	(719,811)	(28,020)	346,284	121,935	(127,220)
Net Assets, September 1, 2007	28,349,488	3,511,915	1,734,208	1,063,187	987,687
Restatements	(12,017)	(4,269)		(699)	(22)
Net Assets, September 1, 2007, as Restated	28,337,471	3,507,646	1,734,208	1,062,488	987,665
Net Assets, August 31, 2008	$ 27,617,660	$ 3,479,626	$ 2,080,492	$ 1,184,423	$ 860,445

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 19,920	$ 7,698	$ 11,224	$ 17,995	$ 4,501	$ 16,931	$ 467,596
7,704		2,432		3,587	51	551,668
	3,976	36	495			119,976
		3				5,472
13,466	6,461	(322)	1,420	97		(380,534)
	66	2,731	(3,078)	1,645	921	317,643
		(80)	(208)			(113,431)
(12,701)	(2,058)	(5,217)	(6,472)	(1,863)	(1,137)	(294,272)
						(703)
						261
(967)		(12)			(63)	(3,476)
31		3			185	106,314
	1,890	34	983			34,640
(426)	(904)	(122)		(152)	(4,434)	(52,349)
27,027	17,129	10,710	11,135	7,815	12,454	758,805
(191,524)	(55,808)	(60,533)	(73,507)	(27,915)	(92,213)	(5,642,443)
						27,412
5,626		372		1,962	595	222,797
177		137	659	184		167,692
250,224	75,918	67,066	102,502	28,318	92,209	5,414,776
(2,847)	(1,979)	(1,757)	(121)	(439)	(702)	(480,462)
253,180	73,939	65,818	103,040	30,025	92,102	5,352,215
61,656	18,131	5,285	29,533	2,110	(111)	(290,228)
563,191	258,986	113,092	104,692	72,546	76,177	36,835,169
	(166)	(707)	(5,291)		(130)	(23,301)
563,191	258,820	112,385	99,401	72,546	76,047	36,811,868
$ 624,847	$ 276,951	$ 117,670	$ 128,934	$ 74,656	$ 75,936	$36,521,640

STATE OF TEXAS

Schedule of Cash Flows
Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	$ 3,930,897	$ 135,673	$ 215,815	$ 20,498	$ 22,630
Proceeds from Tuition and Fees	1,013,056	604,303	230,611	335,477	300,183
Proceeds from Research Grants and Contracts	2,064,993	723,851	169,764	77,483	29,439
Proceeds from Gifts					12,364
Proceeds from Loan Programs	89,313	5,614	3,435	63,696	5,198
Proceeds from Auxiliaries	370,259	197,886	94,075	47,947	86,451
Proceeds from Other Revenues	391,878	58,249	14,239	24,130	18,502
Payments to Suppliers for Goods and Services	(2,757,066)	(999,722)	(265,305)	(171,911)	(220,581)
Payments to Employees	(6,605,333)	(1,624,840)	(591,921)	(525,739)	(456,999)
Payments for Loans Provided	(98,072)	(6,850)	(1,435)	(68,822)	(10,772)
Payments for Other Expenses	(5,619)	(169,165)	(260,440)	(117,172)	(54,549)
Net Cash Provided by Operating Activities	(1,605,694)	(1,075,001)	(391,162)	(314,413)	(268,134)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Proceeds from State Appropriations	1,918,133	942,913	347,185	262,475	270,234
Proceeds from Gifts	323,347	101,125	87,928	35,055	18,131
Proceeds from Endowments	176,847	9,071		20,290	10,731
Proceeds from Transfers from Other Funds	227,023	254,089	78,339	46,779	33,516
Proceeds from Grant Receipts	158,309	108,041	22,552	43,361	52,620
Proceeds from Other Financing Activities	12,304	52,603	4,285		897
Payments of Principal on Debt Issuance					
Payments of Interest					
Payments of Other Costs on Debt Issuance					
Payments for Transfers to Other Funds	(416,880)	(28,656)	(15,375)	(35,535)	(72,908)
Payments for Grant Disbursements					(76)
Payments for Advances to Other Funds					(21)
Payments for Other Uses	(428,100)	(60,596)	(19)	(17,514)	(10,553)
Net Cash Provided by Noncapital Financing Activities	1,970,983	1,378,590	524,895	354,911	302,571
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Sale of Capital Assets	1,042	1,902			
Proceeds from Debt Issuance	2,004,395	391,165	45,858		216,156
Proceeds from State Grants and Contracts		22,092			
Proceeds from Federal Grants and Contracts		2,735			
Proceeds from Gifts			9,594		
Proceeds from Other Financing Activities					2,439
Proceeds from Capital Contributions	132,468		43,890	53,188	216
Proceeds of Advances from Other Funds					57,145
Payments for Additions to Capital Assets	(1,563,029)	(359,469)	(124,768)	(23,147)	(99,617)
Payments of Principal on Debt Issuance	(1,142,479)	(293,801)	(32,503)	(64,649)	(63,621)
Payments for Capital Leases		(39)			(143)
Payments of Interest on Debt Issuance	(160,046)	(56,602)	(20,033)	(13,597)	(24,955)
Payments of Other Costs on Debt Issuance	(30,367)	(2,153)	(54)	(909)	(21,401)
Net Cash Provided by Capital and Related Financing Activities	(758,016)	(294,170)	(78,016)	(49,114)	66,219

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 104,833	$	$	$	$	$ 6,645	$ 4,436,991
197,548	51,054	58,219	35,776	27,028	28,444	2,881,699
46,305	4,774	8,052	20,980			3,145,641
						12,364
8,120				40		175,416
42,804		28,045	8,796	5,712	10,429	892,404
827	17,656	5,926	7,367	3,184		541,958
(147,264)	(34,173)	(52,577)	(49,925)	(14,638)	(40,133)	(4,753,295)
(372,776)	(93,257)	(93,648)	(85,783)	(40,158)	(85,583)	(10,576,037)
(8,711)		(692)				(195,354)
(56,082)	(13,544)	(13,797)		(6,783)	(18,871)	(716,022)
(184,396)	(67,490)	(60,472)	(62,789)	(25,615)	(99,069)	(4,154,235)
198,250	75,034	56,076	82,533	23,912	81,657	4,258,402
7,526		2,468	1,845	3,587	51	581,063
177		708		109		217,933
15,832	3,906	7,397	3,888	1,941	10,426	683,136
19,920	7,697	11,224	17,995	4,501	16,931	463,151
2,646	5,866				26	78,627
(218)						(218)
(118)						(118)
(10)						(10)
(7,199)	(1,059)	(2,997)	(1,357)	(1,476)	(1,645)	(585,087)
						(76)
						(21)
(3,156)	(3,942)	(14)		(2)	(4,081)	(527,977)
233,650	87,502	74,862	104,904	32,572	103,365	5,168,805
		43				2,987
8,885	21,670	20,183		38,300	3,196	2,749,808
						22,092
						2,735
				2,366		11,960
		40	156	731		3,366
20,406		569		3,434	383	254,554
		7,026				64,171
(44,878)	(11,578)	(18,995)	(7,589)	(31,195)	(10,284)	(2,294,549)
(18,151)	(3,495)	(7,169)	(13,010)	(2,575)	(4,558)	(1,646,011)
	(171)					(353)
(12,774)		(5,008)	(6,559)	(1,557)	(1,131)	(302,262)
(3)	(2,058)	(171)		(240)	(55)	(57,411)
(46,515)	4,368	(3,482)	(27,002)	9,264	(12,449)	(1,188,913)

Concluded on the following page

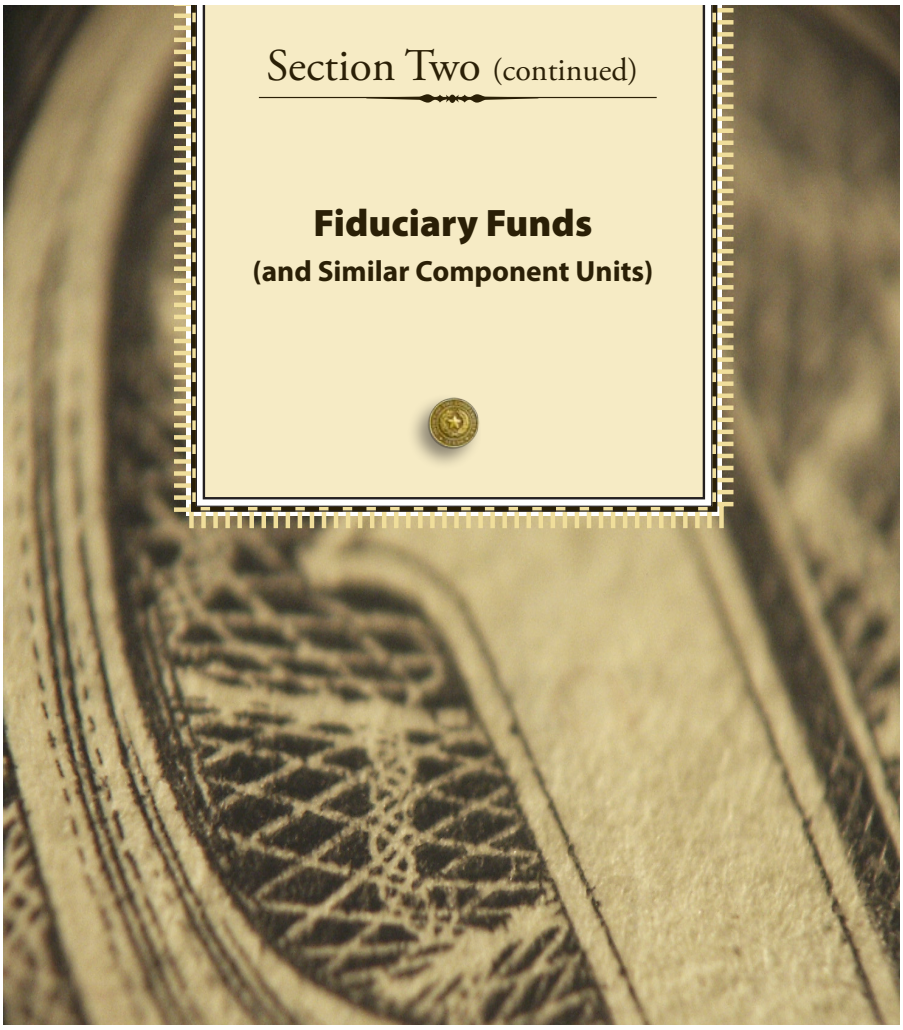
STATE OF TEXAS

Schedule of Cash Flows
Colleges and Universities – Major Enterprise Fund (concluded)

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Investments	$ 29,760,191	$ 3,571,130	$ 196,716	$ 730,805	$ 4,892
Proceeds from Interest and Investment Income	1,104,269	67,647	33,187	215,932	17,428
Proceeds from Principal Payments on Loans					
Payments to Acquire Investments	(30,408,493)	(3,621,249)	(127,532)	(925,099)	(5,847)
Net Cash Provided by Investing Activities	455,967	17,528	102,371	21,638	16,473
Net Increase (Decrease) in Cash and Cash Equivalents	63,240	26,947	158,088	13,022	117,129
Cash and Cash Equivalents, September 1, 2007	1,881,637	259,167	405,195	208,483	499,131
Restatements		(1,036)			
Cash and Cash Equivalents, September 1, 2007, as Restated	1,881,637	258,131	405,195	208,483	499,131
Cash and Cash Equivalents, August 31, 2008	$ 1,944,877	$ 285,078	$ 563,283	$ 221,505	$ 616,260
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Loss	$ (3,293,614)	$ (1,391,885)	$ (436,549)	$ (374,754)	$ (316,676)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:					
Depreciation and Amortization	679,831	137,311	61,087	41,232	47,864
Bad Debt Expense	240,458	3,622	36	162	262
Operating Loss and Cash Flow Categories Classification Differences		127		(8,565)	4,517
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables	(382,108)	(42,103)	(11,799)	7,113	(26,417)
(Increase) Decrease in Due From Other Funds		(2,278)	(430)		435
(Increase) Decrease in Inventories	(2,927)	(429)	(503)	703	(593)
(Increase) Decrease in Notes Receivable			384		109
(Increase) Decrease in Loans and Contracts	(8,760)	(2,226)		(977)	1,154
(Increase) Decrease in Other Assets	(14,451)	1,320	1,003	66	1,320
(Increase) Decrease in Prepaid Expenses		(25,323)	(8,563)	(15,589)	(3,182)
(Increase) Decrease in State Appropriations					(4,150)
Increase (Decrease) in Payables	540,635	56,317	(91)	(52)	5,536
Increase (Decrease) in Deposits	2,491	(182)			119
Increase (Decrease) in Due To Other Funds			(41)		323
Increase (Decrease) in Unearned Revenue	64,359	50,477	957	29,297	19,083
Increase (Decrease) in Compensated Absence Liability	25,482	3,281	3,089	1,901	260
Increase (Decrease) in Benefits Payable	422,678	137,412		425	
Increase (Decrease) in Other Liabilities	120,232	(442)	258	4,625	1,902
Total Adjustments	1,687,920	316,884	45,387	60,341	48,542
Net Cash Provided by Operating Activities	$ (1,605,694)	$ (1,075,001)	$ (391,162)	$ (314,413)	$ (268,134)
NONCASH TRANSACTIONS					
Net Change in Fair Value of Investments	$ (1,880,541)	$ (124,556)	$ (44,858)	$ 20,888	$ (4,969)
Donation of Capital Assets	$ 72,490	$ 21,926	$	$	$ (503)
Borrowing Under Capital Lease Purchase	$ 3,480	$	$	$	$ 385
Other	$ (23,912)	$ (10,648)	$	$	$ 6,844

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 49,537	$ 71,656			$ 22,085	$ 8,333	$ 34,415,345
16,516	6,461	2,530	2,164	1,180	1,555	1,468,869
			53			53
(17,940)	(106,239)	(10,861)	(3,082)	(38,158)	(3,923)	(35,268,423)
48,113	(28,122)	(8,331)	(865)	(14,893)	5,965	615,844
50,852	(3,742)	2,577	14,248	1,328	(2,188)	441,501
210,986	17,278	67,639	23,670	2,736	26,043	3,601,965
71			(319)			(1,284)
211,057	17,278	67,639	23,351	2,736	26,043	3,600,681
$ 261,909	$ 13,536	$ 70,216	$ 37,599	$ 4,064	$ 23,855	$ 4,042,182
$ (218,551)	$ (72,937)	$ (71,243)	$ (84,642)	$ (35,730)	$ (104,667)	$ (6,401,248)
31,415	10,991	9,940	12,445	6,024	5,280	1,043,420
5,984	607			224		251,355
					(588)	(4,509)
(7,877)	(361)	(913)	(4,379)	800	394	(467,650)
	(157)	(1,353)	(3,508)		(9)	(7,300)
600	(36)	(46)	173	(5)	287	(2,776)
						493
(835)		(692)		40		(12,296)
(1,016)		(1,200)				(12,958)
(2,596)	91		1,507	(1,157)		(54,812)
	(4,497)					(8,647)
1,457	(3,708)	294	3,453	2,547	1,513	607,901
					483	2,911
	136	75	(29)			464
6,981	2,639	3,629	1,423	1,089	605	180,539
	129	266	(103)		510	34,815
						560,515
42	(387)	771	10,871	553	(2,877)	135,548
34,155	5,447	10,771	21,853	10,115	5,598	2,247,013
$ (184,396)	$ (67,490)	$ (60,472)	$ (62,789)	$ (25,615)	$ (99,069)	$ (4,154,235)
$ (2,828)	$ 66	$ (171)	$ (3,078)	$ (245)	$	$ (2,040,292)
$	$	$	$	$ 9	$ (47)	$ 93,875
$	$	$	$	$	$	$ 3,865
$ (99)	$	$	$	$ (57)	$ (42)	$ (27,914)



Section Two (continued)

Fiduciary Funds

(and Similar Component Units)

Pension and Other Employee Benefit Trust Funds

The **Teacher Retirement System Trust Account** is for the accumulation of resources for pension benefit payments for qualified employees of public education in Texas.

The **S.E.R.S. Trust Account** is for the accumulation of resources for pension benefit payments to qualified state employees or beneficiaries.

The **Law Enforcement and Custodial Officer Supplement Retirement Fund** provides supplemental retirement and death benefits for members of the Employees Retirement System of Texas who have completed 20 or more years of service or have become occupationally disabled or died while serving as commissioned law enforcement officers of a state agency.

The **Judicial Retirement System – Plan Two Trust Fund** accounts for receipt of monies for retirement and death benefits for certain state-paid judges and judicial officers.

The **Fire Fighters' Relief and Retirement Fund** accounts for the accumulation of resources for pension, death and disability benefits for fire fighters who serve without monetary reward.

The **Judicial Retirement System – Plan One Fund** accounts for appropriations received from the state's general revenue fund for annuity and refund payments to eligible judicial employees.

The **Retired School Employees Group Insurance Trust** receives contributions and other funds authorized to be deposited in the fund to pay insurance premiums, to reimburse for claims paid by a non-state entity and to pay administrative expenses. The Teacher Retirement System of Texas, as trustee, administers the fund for public school retirees and their dependents. The public school entities are not considered part of the reporting entity for the state of Texas.

The **State Retiree Health Plan Trust** accounts for the receipt of monies for postemployment health care, life and dental insurance benefits provided under the Group Benefits Program. The Employees Retirement System of Texas, as trustee, administers the fund for retired employees of the state and other non-state entities as specified by the Legislature.

The **Deferred Compensation Trust Fund** receives employee deferrals in accordance with Internal Revenue Code 457, appropriations by the state for the administration of the deferred compensation plan, trust income and fees. The state of Texas is the only employer participating in the plan.

The **State Employee Cafeteria Plan Trust Fund** receives salary reduction payments and makes disbursements for benefits included in a cafeteria plan, other than Employees Uniform Group Insurance Program coverages. The fund also receives appropriations by the state for the administration of the cafeteria plan.

The **Texa$aver Administrative Trust Fund** receives deferrals, purchases qualified investments and pays expenses associated with administration of the deferred compensation plan.

STATE OF TEXAS

Combining Statement of Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds

August 31, 2008 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Fire Fighters' Relief and Retirement Fund
ASSETS					
Cash and Cash Equivalents	$ 14,859,732	$ 48,509	$ 1,661	$ 771	$ 562
Securities Lending Collateral	19,347,275	6,020,855	199,475	50,235	
Investments:					
U.S. Government	10,846,463	5,597,755	185,458	46,704	
Corporate Equity	32,698,144	9,241,436	306,176	77,104	25,772
Corporate Obligations	4,649,425	2,514,372	83,303	20,978	
Repurchase Agreements	880,995				
Foreign Securities	23,359,880	3,840,210	127,229	32,040	13,185
Other	17,730,046	140,303	4,680	1,019	16,018
Receivables:					
Interest and Dividends	319,128	123,892	3,838	2,192	37
Accounts	113,553	53,450	5	1,249	754
Investment Trades	63,134	64,661	2,141	539	
Other	384				
Due From Other Funds	107,152	5,977		33,614	
Properties, at Cost, Net of Accumulated Depreciation	27,956	7,521			
Other Assets					
Total Assets	125,003,267	27,658,941	913,966	266,445	56,328
LIABILITIES					
Payables:					
Accounts	$ 5,637	$ 21,344	$ 252	$ 77	$ 143
Investment Trades	182,710	120,986	4,007	1,008	
Payroll	105				
Annuities	520,210	82	1		
Due To Other Funds	4,532	29,387	5,291	85	
Unearned Revenue	28,152				206
Employees' Compensable Leave	4,149	2,022			
Obligations/Securities Lending	19,699,519	6,053,723	200,564	50,509	
Total Liabilities	20,445,014	6,227,544	210,115	51,679	349
NET ASSETS					
Held in Trust for Pension Benefits and Other Purposes	$104,558,253	$ 21,431,397	$ 703,851	$ 214,766	$ 55,979

Judicial Retirement System - Plan One Fund	Retired School Employees Group Insurance Trust	State Retiree Health Plan Trust	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	Texa$aver Administrative Trust Fund	Totals
$	$ 256,966	$ 12,431	$ 1,212	$ 3,607	$ 1,383	$ 15,186,834
						25,617,840
						16,676,380
						42,348,632
						7,268,078
						880,995
						27,372,544
	514,884	39				18,406,989
	1,837	16	2	11	4	450,957
27	54,694	9,034	3	6,008		238,777
						130,475
						384
324	24,318	76,325		5		247,715
						35,477
				250		250
351	852,699	97,845	1,217	9,881	1,387	154,862,327
$ 324	$ 123,718	$ 96,627	$ 55	$ 8,908		$ 257,085
						308,711
						105
						520,293
		707	43	35	48	40,128
		511	3			28,872
	142					6,313
						26,004,315
324	123,860	97,845	101	8,943	48	27,165,822
$ 27	$ 728,839	$ 0	$ 1,116	$ 938	$ 1,339	$127,696,505

STATE OF TEXAS

Combining Statement of Changes in Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Fire Fighters' Relief and Retirement Fund
ADDITIONS					
Contributions:					
Member Contributions	$ 2,085,349	$ 337,040	$	$ 3,964	$ 2,889
State Contributions	1,542,386	342,092	20,192	11,138	
Premium Contributions					
Federal Contributions					
Other Contributions	515,175				
Total Contributions	4,142,910	679,132	20,192	15,102	2,889
Investment Income:					
From Investing Activities:					
Net Depreciation in					
Fair Value of Investments	(8,344,716)	(2,153,723)	(71,354)	(17,970)	(6,978)
Interest and Investment Income	3,203,523	827,918	27,426	6,917	3,605
Total Investing Income (Loss)	(5,141,193)	(1,325,805)	(43,928)	(11,053)	(3,373)
Less Investing Activities Expense	27,957	34,095	1,170	262	
Net Income (Loss) from Investing Activities	(5,169,150)	(1,359,900)	(45,098)	(11,315)	(3,373)
From Securities Lending Activities:					
Securities Lending Income	929,696	249,049	8,251	2,078	
Less Securities Lending Expense:					
Borrower Rebates	682,746	210,287	6,967	1,754	
Management Fees	33,643	5,793	192	48	
Net Income from Securities Lending	213,307	32,969	1,092	276	0
Total Net Investment Income (Loss)	(4,955,843)	(1,326,931)	(44,006)	(11,039)	(3,373)
Other Additions:					
Settlement of Claims					25
Other Revenue		167			
Loss on Sale of Properties		(10)			
Transfer In	8,950	53,011			8,800
Total Other Additions	8,950	53,168	0	0	8,825
Total Additions	(803,983)	(594,631)	(23,814)	4,063	8,341
DEDUCTIONS					
Benefits	6,410,562	1,353,583	34,908	6,644	2,732
Refunds of Contributions	275,482	74,504		74	
Transfer Out	53,011	9,308			
Administrative Expenses	26,632	14,830	348	232	592
Depreciation Expense	446	660			
Interest Expense					
Other Expenses	431	758	18	12	2
Total Deductions	6,766,564	1,453,643	35,274	6,962	3,326
INCREASE (DECREASE) IN NET ASSETS	(7,570,547)	(2,048,274)	(59,088)	(2,899)	5,015
NET ASSETS					
Net Assets, September 1, 2007	112,128,800	23,479,671	762,939	217,665	50,964
Net Assets, August 31, 2008	$104,558,253	$ 21,431,397	$ 703,851	$ 214,766	$ 55,979

Judicial Retirement System - Plan One Fund	Retired School Employees Group Insurance Trust	State Retiree Health Plan Trust	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	Texa$aver Administrative Trust Fund	Totals
$	$	$	$	$ 75,807	$	$ 2,505,049
	238,372	417,106				2,571,286
	652,098	109,447				761,545
	59,486	32,964				92,450
				973		516,148
0	949,956	559,517	0	76,780	0	6,446,478
						(10,594,741)
	29,252	1,363	52	73	119	4,100,248
0	29,252	1,363	52	73	119	(6,494,493)
		1	2		3	63,490
0	29,252	1,362	50	73	116	(6,557,983)
						1,189,074
						901,754
						39,676
0	0	0	0	0	0	247,644
0	29,252	1,362	50	73	116	(6,310,339)
						25
	92		234	95	464	1,052
						(10)
28,684			358			99,803
28,684	92	0	592	95	464	100,870
28,684	979,300	560,879	642	76,948	580	237,009
28,657	870,257	558,228		75,043		9,340,614
						350,060
						62,319
	2,997	2,535	529	399	565	49,659
						1,106
				140		140
	4	116	18	1,619	16	2,994
28,657	873,258	560,879	547	77,201	581	9,806,892
27	106,042	0	95	(253)	(1)	(9,569,883)
	622,797		1,021	1,191	1,340	137,266,388
$ 27	$ 728,839	$ 0	$ 1,116	$ 938	$ 1,339	$127,696,505

Private-Purpose Trust Funds

The **Tobacco Settlement Permanent Trust (Political Subdivisions)** holds the portion of the tobacco settlement money designated for the exclusive benefit of other political subdivisions. Other political subdivisions include cities, counties and/or local hospital districts that are responsible for indigent health care. The fund is administered by the Comptroller's office - Treasury Fiscal.

The **Texas Insurance Companies Assets Account – Reserve and Custodial Fund** holds assets in trust for claims associated with insurance company liquidations. Most balances are normally held outside the Treasury. The Department of Insurance administers the fund.

The **Catastrophe Reserve Trust Fund** is a state fund that was created to provide relief to insurance companies within the state in the event of certain catastrophic losses. Certain property insurers authorized to transact property insurance in Texas make payments to the fund.

The **Inmate Trust and Employee Service Option Fund** accounts for offender commissary and medical accounts along with the Texas Department of Criminal Justice employee commissary, laundry and/or barber contributions.

The **Texas Tomorrow Trust Fund** receives money contributed by college saving plan account holders, money acquired from private sources and income from investment of deposits. The fund may be used only to pay costs of program administration and operations, make payments to institutions of higher education or private or independent institutions and make refunds to college saving plan account holders.

STATE OF TEXAS

Combining Statement of Fiduciary Net Assets – Private-Purpose Trust Funds

August 31, 2008 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Inmate Trust and Employee Service Option Fund	Texas Tomorrow Trust Fund	Other Private-Purpose Trust Funds	Totals
ASSETS							
Cash and Cash Equivalents	$	$ 623	$	$ 6,485	$ 231	$ 37,073	$ 44,412
Restricted Cash and Cash Equivalents						789	789
Securities Lending Collateral	32,763						32,763
Investments:							
U.S. Government		2,795		16,228		2,183	21,206
Corporate Equity	723,376					15,231	738,607
Corporate Obligations	78,158					4,161	82,319
Repurchase Agreements		197,628	368,908			1,710	568,246
Other	1,358,567				232,636	10,132	1,601,335
Receivables:							
Interest and Dividends	2,749				360	39	3,148
Accounts					39	295	334
Investment Trades	1,181				393		1,574
Other						1,708	1,708
Due From Other Funds				32			32
Inventories						1	1
Properties, at Cost, Net of Accumulated Depreciation						997	997
Other Assets		76,470					76,470
Total Assets	2,196,794	277,516	368,908	22,745	233,659	74,319	3,173,941
LIABILITIES							
Payables:							
Accounts	$ 1,103	$	$	$ 505	$ 105	$ 13,261	$ 14,974
Investment Trades	2,423				349		2,772
Interest						44	44
Unearned Revenue					174	2	176
Obligations/Securities Lending	32,763						32,763
Funds Held for Others		76,469					76,469
Other Liabilities					39		39
Total Liabilities	36,289	76,469	0	505	667	13,307	127,237
NET ASSETS							
Net Assets Held in Trust for Individuals, Organizations and Other Governments	2,160,505	201,047	368,908	22,240	232,992	61,012	3,046,704
Total Net Assets	$ 2,160,505	$ 201,047	$ 368,908	$ 22,240	$ 232,992	$ 61,012	$ 3,046,704

STATE OF TEXAS

Combining Statement of Changes in Fiduciary Net Assets – Private-Purpose Trust Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Inmate Trust and Employee Service Option Fund	Texas Tomorrow Trust Fund	Other Private-Purpose Trust Funds	Totals
ADDITIONS							
Contributions:							
Federal Contributions	$	$	$	$	$	$ 13,760	$ 13,760
Other Contributions					84,029		84,029
Total Contributions	0	0	0	0	84,029	13,760	97,789
Investment Income:							
From Investing Activities:							
Net Depreciation in Fair Value of Investments	(167,841)				(22,937)	(3,459)	(194,237)
Interest and Investment Income	24,866	6,289	13,075		5,037	3,395	52,662
Total Investing Income (Loss)	(142,975)	6,289	13,075	0	(17,900)	(64)	(141,575)
Less Investing Activities Expense					1,021		1,021
Net Income (Loss) from Investing Activities	(142,975)	6,289	13,075	0	(18,921)	(64)	(142,596)
From Securities Lending Activities:							
Securities Lending Income	2,155						2,155
Less Securities Lending Expense:							
Borrower Rebates	2,000						2,000
Net Income from Securities Lending	155	0	0	0	0	0	155
Total Net Investment Income (Loss)	(142,820)	6,289	13,075	0	(18,921)	(64)	(142,441)
Other Additions:							
Settlement of Claims						3,403	3,403
Other Revenue		63,401	74,336	118,702	63	2,483	258,985
Transfer In						10	10
Total Other Additions	0	63,401	74,336	118,702	63	5,896	262,398
Total Additions	(142,820)	69,690	87,411	118,702	65,171	19,592	217,746
DEDUCTIONS							
Benefits					55,879	548	56,427
Transfer Out			1,000			754	1,754
Intergovernmental Payments	92,304					4,345	96,649
Administrative Expenses	6,989				66	197	7,252
Depreciation Expense						39	39
Settlement of Claims		53,624				3,816	57,440
Interest Expense						21	21
Other Expenses		5,264	100,075	116,691		12,035	234,065
Total Deductions	99,293	58,888	101,075	116,691	55,945	21,755	453,647
INCREASE (DECREASE) IN NET ASSETS	(242,113)	10,802	(13,664)	2,011	9,226	(2,163)	(235,901)
NET ASSETS							
Net Assets, September 1, 2007	2,402,618	190,245	382,572	20,229	223,766	63,175	3,282,605
Net Assets, August 31, 2008	$ 2,160,505	$ 201,047	$368,908	$ 22,240	$ 232,992	$ 61,012	$3,046,704

Agency Funds

The **Texas Public Finance Authority Bond Escrow Account** is used to hold funds for various defeased or refunded bonds.

The **Life, Health, Accident and Casualty Insurance Companies Trust Account** holds cash or securities deposited with the state by insurance companies as required by law.

The **Texas Workers' Compensation Self-Insurance Fund** is used to deposit certified self-insurer security deposits. These deposits may be applied to the self-insurer's incurred liabilities for compensation.

The **City, County, Metropolitan Transit Authority (MTA) and Special Purpose District (SPD) Sales Tax Trust Account** is used to record the receipt of local sales and use tax collected by the Comptroller for each city, county, metropolitan transit authority and special purpose district authorizing the collection.

STATE OF TEXAS

Combining Statement of Fiduciary Net Assets – Agency Funds

August 31, 2008 (Amounts in Thousands)

	Texas Public Finance Authority Bond Escrow Account	Life, Health, Accident and Casualty Insurance Companies Trust Account	Texas Workers' Compensation Self Insurance Fund	City, County, MTA and SPD Sales Tax Trust Account	Other Agency Funds	Totals
ASSETS						
Cash and Cash Equivalents	$ 4	$ 271	$ 4,067	$ 782,224	$ 368,164	$1,154,730
Investments:						
U.S. Government	324,257				205	324,462
Corporate Equity					160,239	160,239
Corporate Obligations					125	125
Repurchase Agreements					47,676	47,676
Other					26,212	26,212
Receivables:						
Other Intergovernmental					1,338	1,338
Interest and Dividends	1,154				5	1,159
Accounts					8,525	8,525
Other					8	8
Due From Other Funds					1,332	1,332
Other Assets		1,058,431	714,044		102,989	1,875,464
Total Assets	$ 325,415	$1,058,702	$ 718,111	$ 782,224	$ 716,818	$3,601,270
LIABILITIES						
Payables:						
Accounts	$	$	$	$	$ 22	$ 22
Other Intergovernmental				782,224	9,496	791,720
Due To Other Funds					414	414
Funds Held for Others	325,415	1,058,702	718,111		706,886	2,809,114
Total Liabilities	$ 325,415	$1,058,702	$ 718,111	$ 782,224	$ 716,818	$3,601,270

STATE OF TEXAS

Combining Statement of Changes in Assets and Liabilities – Agency Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Beginning Balance September 1, 2007	Additions	Deductions	Ending Balance August 31, 2008
Texas Public Finance Authority Bond Escrow Account				
ASSETS				
Cash and Cash Equivalents	$ 38	$	$ 34	$ 4
Investments	235,832	88,479	54	324,257
Interest and Dividends Receivable	1,263		109	1,154
Total Assets	$ 237,133	$ 88,479	$ 197	$ 325,415
LIABILITIES				
Funds Held for Others	$ 237,133	$ 88,336	$ 54	$ 325,415
Total Liabilities	$ 237,133	$ 88,336	$ 54	$ 325,415
Life, Health, Accident and Casualty Insurance Companies Trust Account				
ASSETS				
Cash and Cash Equivalents	$ 215	$ 271	$ 215	$ 271
Other Assets	883,987	234,777	60,333	1,058,431
Total Assets	$ 884,202	$ 235,048	$ 60,548	$ 1,058,702
LIABILITIES				
Funds Held for Others	$ 884,202	$ 235,048	$ 60,548	$ 1,058,702
Total Liabilities	$ 884,202	$ 235,048	$ 60,548	$ 1,058,702
Texas Workers' Compensation Self Insurance Fund				
ASSETS				
Cash and Cash Equivalents	$ 15,750	$ 33,111	$ 44,794	$ 4,067
Other Assets	687,184	26,860		714,044
Total Assets	$ 702,934	$ 59,971	$ 44,794	$ 718,111
LIABILITIES				
Accounts Payable	$	$ 12,568	$ 12,568	$
Funds Held for Others	702,934	44,063	28,886	718,111
Total Liabilities	$ 702,934	$ 56,631	$ 41,454	$ 718,111
City, County, MTA and SPD Sales Tax Trust Account				
ASSETS				
Cash and Cash Equivalents	$ 709,588	$ 7,222,477	$ 7,149,841	$ 782,224
Total Assets	$ 709,588	$ 7,222,477	$ 7,149,841	$ 782,224
LIABILITIES				
Payables:				
Accounts	$	$ 6,030,681	$ 6,030,681	$
Other Intergovernmental	709,588	782,224	709,588	782,224
Funds Held for Others		7,932,065	7,932,065	
Total Liabilities	$ 709,588	$ 14,744,970	$ 14,672,334	$ 782,224

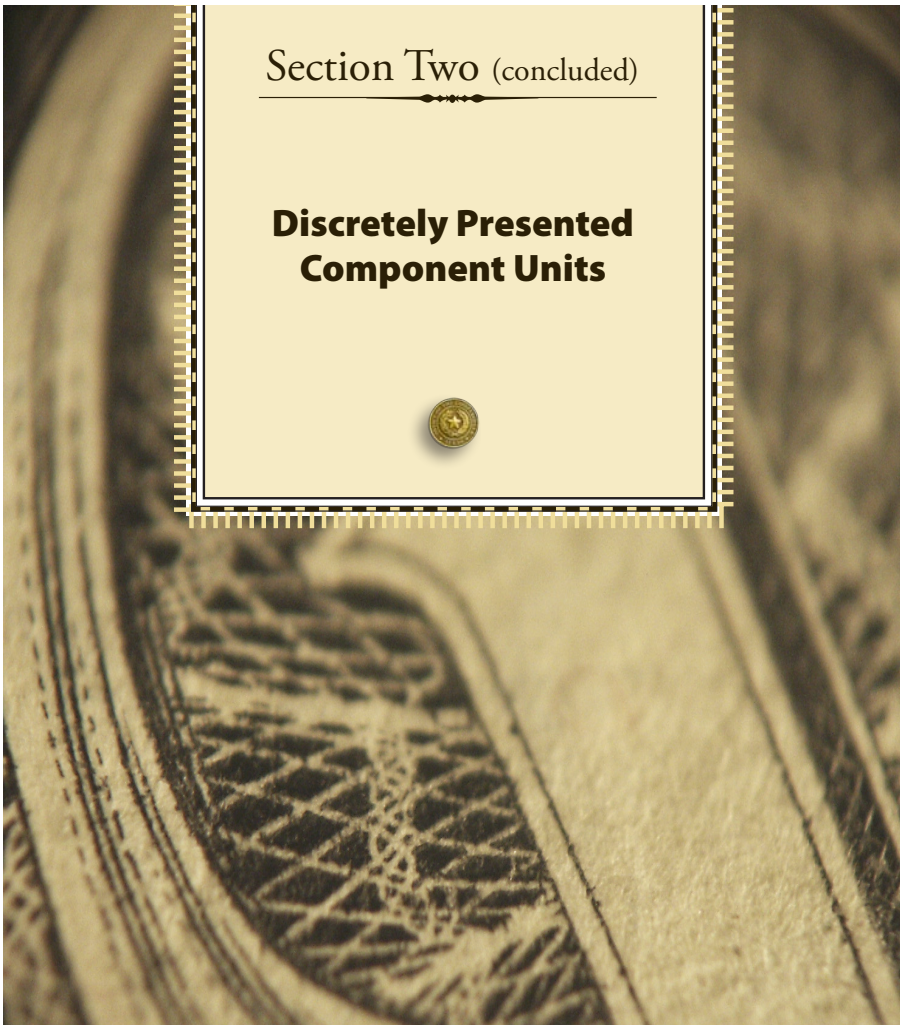
Concluded on the following page

STATE OF TEXAS

Combining Statement of Changes in Assets and Liabilities – Agency Funds (concluded)

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Beginning Balance September 1, 2007	Additions	Deductions	Ending Balance August 31, 2008
Other Agency Funds				
ASSETS				
Cash and Cash Equivalents	$ 230,886	$ 7,931,122	$ 7,793,844	$ 368,164
Investments	206,547	193,052	165,142	234,457
Receivables:				
Other Intergovernmental	1,492	478	632	1,338
Interest and Dividends	6	1	2	5
Accounts	21,241	150,709	163,425	8,525
Other	15		7	8
Due From Other Funds	255	1,354	277	1,332
Interfund Receivable		3,527	3,527	
Other Assets	92,265	11,809	1,085	102,989
Total Assets	$ 552,707	$ 8,292,052	$ 8,127,941	$ 716,818
LIABILITIES				
Payables:				
Accounts	$ 14,878	$ 1,025,854	$ 1,040,710	$ 22
Other Intergovernmental	6,537	2,959		9,496
Due To Other Funds	479	613	678	414
Interfund Payable		3,495	3,495	
Funds Held for Others	530,813	8,097,354	7,921,281	706,886
Total Liabilities	$ 552,707	$ 9,130,275	$ 8,966,164	$ 716,818
Totals – All Agency Funds				
ASSETS				
Cash and Cash Equivalents	$ 956,477	$ 15,186,981	$ 14,988,728	$ 1,154,730
Investments	442,379	281,531	165,196	558,714
Receivables:				
Other Intergovernmental	1,492	478	632	1,338
Interest and Dividends	1,269	1	111	1,159
Accounts	21,241	150,709	163,425	8,525
Other	15		7	8
Due From Other Funds	255	1,354	277	1,332
Interfund Receivable		3,527	3,527	
Other Assets	1,663,436	273,446	61,418	1,875,464
Total Assets	$ 3,086,564	$ 15,898,027	$ 15,383,321	$ 3,601,270
LIABILITIES				
Payables:				
Accounts	$ 14,878	$ 7,069,103	$ 7,083,959	$ 22
Other Intergovernmental	716,125	785,183	709,588	791,720
Due To Other Funds	479	613	678	414
Interfund Payable		3,495	3,495	
Funds Held for Others	2,355,082	16,396,866	15,942,834	2,809,114
Total Liabilities	$ 3,086,564	$ 24,255,260	$ 23,740,554	$ 3,601,270



Section Two (concluded)

Discretely Presented Component Units

Discretely Presented Component Units

There are 17 entities that are considered discretely presented component units of the state. Details regarding each component unit are included in Note 19. A statement of net assets and a statement of activities have been prepared to report the breakdown of the following discretely presented component units.

Teacher Retirement System
State Bar of Texas
Texas Agricultural Finance Authority
Texas On-Site Wastewater Treatment Research Council
Texas Appraiser Licensing and Certification Board
Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.
Texas Guaranteed Student Loan Corporation
Texas Boll Weevil Eradication Foundation, Inc.
Texas Water Resources Finance Authority
Texas Small Business Industrial Development Corporation
Texas Economic Development Corporation
Texas Disaster Relief Fund
Surplus Lines Stamping Office of Texas
Texas Health Reinsurance System
Texas Health Insurance Risk Pool
Texas State Affordable Housing Corporation

STATE OF TEXAS

Combining Statement of Net Assets – Component Units

August 31, 2008 (Amounts in Thousands)*

	Teacher Retirement System	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 544,540	$ 9,628	$ 21,009	$	$	$ 3
Short-Term Investments		24,514				
Restricted:						
Cash and Cash Equivalents						
Short-Term Investments						
Loans and Contracts						
Receivables:						
Federal						
Other Intergovernmental Accounts	49,963	1,075				
Interest and Dividends	1,265		183			
Other						
Due From Primary Government				183	243	
Inventories		727			3	
Prepaid Items		741	33			
Loans and Contracts			6,472			
Other Current Assets			6			
Total Current Assets	595,768	36,685	27,703	183	246	3
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents						
Investments						
Loans and Contracts						
Loans and Contracts						
Investments						
Other Receivables						
Capital Assets:						
Nondepreciable		2,710				
Depreciable		15,365			9	
Accumulated Depreciation		(11,220)			(9)	
Other Noncurrent Assets						
Total Noncurrent Assets	0	6,855	0	0	0	0
Total Assets	595,768	43,540	27,703	183	246	3

Continued on the following page

Combining Statement of Net Assets – Component Units (continued)

August 31, 2008 (Amounts in Thousands)*

	Teacher Retirement System	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	$ 118,760	$ 3,577	$ 91	$	$ 9	$
Payroll				1	59	
Federal						
Interest						
Due To Primary Government		392		18		
Unearned Revenue		7,553				
Capital Lease Obligations		93				
Employees' Compensable Leave	118	430	3		24	
Notes and Loans Payable		93	24,996			
Revenue Bonds Payable						
Funds Held for Others						
Other Current Liabilities						
Total Current Liabilities	118,878	12,138	25,090	19	92	0
Noncurrent Liabilities:						
Capital Lease Obligations		72				
Employees' Compensable Leave		739	4		5	
Notes and Loans Payable						
Liabilities Payable From Restricted Assets						
Revenue Bonds Payable						
Other Noncurrent Liabilities						
Total Noncurrent Liabilities	0	811	4	0	5	0
Total Liabilities	118,878	12,949	25,094	19	97	0
NET ASSETS						
Invested in Capital Assets, Net of Related Debt		172				
Restricted for:						
Education						
Unrestricted	476,890	30,419	2,609	164	149	3
Total Net Assets	$ 476,890	$ 30,591	$ 2,609	$ 164	$ 149	$ 3

Continued on the following page

* Amounts reported as of Aug. 31, 2008, unless otherwise indicated in Note 19.

Combining Statement of Net Assets – Component Units (continued)

August 31, 2008 (Amounts in Thousands)*

	Texas Guaranteed Student Loan Corporation	Texas Boll Weevil Eradication Foundation, Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	Texas Disaster Relief Fund
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 23,293	$ 1,012	$ 2,381	$ 51,028	$ 1	$ 712
Short-Term Investments	650,966	70,847	18,724		1,961	
Restricted:						
Cash and Cash Equivalents						
Short-Term Investments						
Loans and Contracts						
Receivables:						
Federal	55,157	2,815				
Other Intergovernmental		3,290				
Accounts		4,686				
Interest and Dividends	6,097		361	202		1
Other		121				
Due From Primary Government						
Inventories		121				
Prepaid Items		334		4		
Loans and Contracts			3,304			
Other Current Assets	1,513					
Total Current Assets	737,026	83,226	24,770	51,234	1,962	713
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents						
Investments						
Loans and Contracts						
Loans and Contracts			24,262	49,411		622
Investments			12,768			
Other Receivables		4,214				
Capital Assets:						
Nondepreciable	3,315					
Depreciable	54,096	24,829				
Accumulated Depreciation	(16,623)	(18,706)				
Other Noncurrent Assets	94					
Total Noncurrent Assets	40,882	10,337	37,030	49,411	0	622
Total Assets	777,908	93,563	61,800	100,645	1,962	1,335

Continued on the following page

Combining Statement of Net Assets – Component Units (continued)

August 31, 2008 (Amounts in Thousands)*

	Texas Guaranteed Student Loan Corporation	Texas Boll Weevil Eradication Foundation, Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	Texas Disaster Relief Fund
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	$ 9,595	$ 34	$	$ 73	$ 56	$
Payroll		166				
Federal	24,449					
Interest			31	125		
Due To Primary Government			3			
Unearned Revenue						
Capital Lease Obligations						
Employees' Compensable Leave	1,677	1,177				
Notes and Loans Payable	1,702	11,536				
Revenue Bonds Payable			5,545			
Funds Held for Others				25		
Other Current Liabilities		1,558				
Total Current Liabilities	37,423	14,471	5,579	223	56	0
Noncurrent Liabilities:						
Capital Lease Obligations						
Employees' Compensable Leave	822					
Notes and Loans Payable	6,291	94,985				
Liabilities Payable From Restricted Assets	87,301					
Revenue Bonds Payable			5,195	99,335		
Other Noncurrent Liabilities	250,410					
Total Noncurrent Liabilities	344,824	94,985	5,195	99,335	0	0
Total Liabilities	382,247	109,456	10,774	99,558	56	0
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	32,795	942				
Restricted for:						
Education	4,651					
Unrestricted	358,215	(16,835)	51,026	1,087	1,906	1,335
Total Net Assets	$ 395,661	$ (15,893)	$ 51,026	$ 1,087	$ 1,906	$ 1,335

Continued on the following page

* Amounts reported as of Aug. 31, 2008, unless otherwise indicated in Note 19.

Combining Statement of Net Assets – Component Units (continued)

August 31, 2008 (Amounts in Thousands)*

	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Totals
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 10,670	$ 2,986	$ 1,975	$ 4,514	$ 673,752
Short-Term Investments			87,515	1,652	856,179
Restricted:					
Cash and Cash Equivalents				2,742	2,742
Short-Term Investments				19,210	19,210
Loans and Contracts				111	111
Receivables:					
Federal					57,972
Other Intergovernmental					3,290
Accounts	369		1,361	411	57,865
Interest and Dividends				648	8,757
Other	35	5			161
Due From Primary Government					426
Inventories					851
Prepaid Items				50	1,162
Loans and Contracts					9,776
Other Current Assets					1,519
Total Current Assets	11,074	2,991	90,851	29,338	1,693,773
Noncurrent Assets:					
Restricted:					
Cash and Cash Equivalents				191	191
Investments				271,063	271,063
Loans and Contracts				4,200	4,200
Loans and Contracts					74,295
Investments					12,768
Other Receivables					4,214
Capital Assets:					
Nondepreciable					6,025
Depreciable	3,257		39	252	97,847
Accumulated Depreciation	(2,875)		(30)	(217)	(49,680)
Other Noncurrent Assets	18		5	5,888	6,005
Total Noncurrent Assets	400	0	14	281,377	426,928
Total Assets	11,474	2,991	90,865	310,715	2,120,701

Concluded on the following page

STATE OF TEXAS

Combining Statement of Net Assets – Component Units (concluded)

August 31, 2008 (Amounts in Thousands)*

	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Totals
LIABILITIES					
Current Liabilities:					
Payables:					
Accounts	$ 153	$ 64	$ 4,363	$ 144	$ 136,919
Payroll					226
Federal					24,449
Interest				1,705	1,861
Due To Primary Government					413
Unearned Revenue			51,741		59,294
Capital Lease Obligations					93
Employees' Compensable Leave					3,429
Notes and Loans Payable				17	38,344
Revenue Bonds Payable				11,313	16,858
Funds Held for Others					25
Other Current Liabilities	173	2,927	11,511	788	16,957
Total Current Liabilities	326	2,991	67,615	13,967	298,868
Noncurrent Liabilities:					
Capital Lease Obligations					72
Employees' Compensable Leave					1,570
Notes and Loans Payable				2,038	103,314
Liabilities Payable From Restricted Assets					87,301
Revenue Bonds Payable				291,646	396,176
Other Noncurrent Liabilities			23,250	723	274,383
Total Noncurrent Liabilities	0	0	23,250	294,407	862,816
Total Liabilities	326	2,991	90,865	308,374	1,161,684
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	382			34	34,325
Restricted for:					
Education					4,651
Unrestricted	10,766			2,307	920,041
Total Net Assets	$ 11,148	$ 0	$ 0	$ 2,341	$ 959,017

* Amounts reported as of Aug. 31, 2008, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Activities – Component Units

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)*

	Teacher Retirement System	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board
EXPENSES					
Salaries and Wages	$ 1,006	$ 14,244	$ 90	$ 6	$ 426
Payroll Related Costs	289	3,701	41		150
Professional Fees and Services	628	2,456	105	102	2
Travel	5	2,506	3	13	9
Materials and Supplies	7	2,008	2	4	38
Communications and Utilities	1	565			7
Repairs and Maintenance		696		1	18
Rentals and Leases	80	1,278			41
Printing and Reproduction	2	2,417		7	2
Claims and Judgments		429			
Bad Debt Expense			50		
Cost of Goods Sold		432			
Depreciation and Amortization		824			
Other Financing Fees			32		
Public Assistance Payments				229	
Employee/Participant Benefit Payments	1,074,945				
Direct Interest Expense			918		
Interest Expense - Other		15			
Other Expenses	13,124	9,265	186	46	36
Total Expenses	1,090,087	40,836	1,427	408	729
PROGRAM REVENUES					
Charges for Services	1,096,934	35,809	2,701		23
Operating Grants and Contributions	62	1,682			
Total Program Revenues	1,096,996	37,491	2,701	0	23
Net Program Revenues (Expenses)	6,909	(3,345)	1,274	(408)	(706)
GENERAL REVENUES					
Unrestricted Investment Earnings (Loss)	21,184		1,224		
Other Revenues	13,120	5,437	1	324	836
Gain on Sale of Capital Assets					
Total General Revenues	34,304	5,437	1,225	324	836
Change in Net Assets	41,213	2,092	2,499	(84)	130
Net Assets, September 1, 2007		28,499	110	248	19
Restatements	435,677				
Net Assets, September 1, 2007, as Restated	435,677	28,499	110	248	19
Net Assets, August 31, 2008	$ 476,890	$ 30,591	$ 2,609	$ 164	$ 149

* Amounts for the fiscal year ended Aug. 31, 2008, unless otherwise indicated in Note 19.

Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.	Texas Guaranteed Student Loan Corporation	Texas Boll Weevil Eradication Foundation, Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	Texas Disaster Relief Fund
$	$ 44,397	$ 21,665	$ 65	$	$ 23	$
	11,673		9		2	
	13,050	680	1	9	540	3
	2,102	265			337	
	1,662	11,873	3		306	
	1,767	830				
	2,175	1,125				
	620	976			73	
	714				103	
	2,901	2,445				
	53,834	6				
	7,892		4,941			
			1,025			
	423	4,781		2,571		
	144,121	16,654	12	453	438	
0	287,331	61,300	6,056	3,033	1,822	3
	1,930	40,925			140	
	220,557	34,880	4,139	625	1,878	
0	222,487	75,805	4,139	625	2,018	0
0	(64,844)	14,505	(1,917)	(2,408)	196	(3)
	8,640	2,425	(4)	2,493	57	15
					3	
	31	781				
0	8,671	3,206	(4)	2,493	60	15
0	(56,173)	17,711	(1,921)	85	256	12
3	451,713	(33,650)	52,947	1,093	1,650	1,323
	121	46		(91)		
3	451,834	(33,604)	52,947	1,002	1,650	1,323
$ 3	$ 395,661	$ (15,893)	$ 51,026	$ 1,087	$ 1,906	$ 1,335

Concluded on the following page

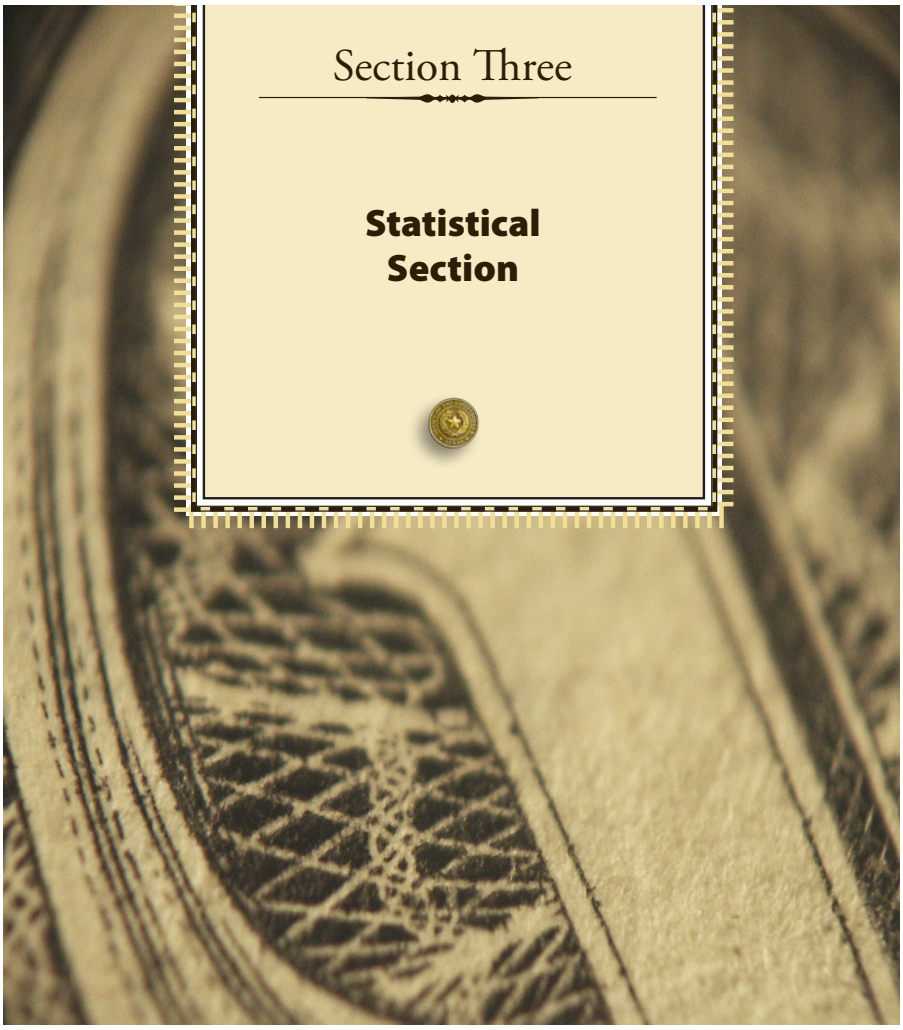
STATE OF TEXAS

Combining Statement of Activities – Component Units (concluded)

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)*

	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Totals
EXPENSES					
Salaries and Wages	$ 1,206	$	$ 278	$ 1,104	$ 84,510
Payroll Related Costs	435				16,300
Professional Fees and Services	411		13,185	359	31,531
Travel	8		3	66	5,317
Materials and Supplies	27		30		15,960
Communication and Utilities	31				3,201
Repairs and Maintenance	86				4,101
Rentals and Leases	209		66	142	3,485
Printing and Reproduction	11				3,256
Claims and Judgments					429
Bad Debt Expense					50
Cost of Goods Sold					432
Depreciation and Amortization	261		5	407	6,843
Other Financing Fees					53,872
Public Assistance Payments					13,062
Employee/Participant Benefit Payments					1,074,945
Direct Interest Expense					1,943
Interest Expense - Other				14,407	22,197
Other Expenses	267	366	240,012	6,088	431,068
Total Expenses	2,952	366	253,579	22,573	1,772,502
PROGRAM REVENUES					
Charges for Services	3,299	273	245,228	3,875	1,431,137
Operating Grants and Contributions	397	93	8,351	18,290	290,954
Total Program Revenues	3,696	366	253,579	22,165	1,722,091
Net Program Revenues (Expenses)	744	0	0	(408)	(50,411)
GENERAL REVENUES					
Unrestricted Investment Earnings					36,034
Other Revenues				561	20,282
Gain on Sale of Capital Assets					812
Total General Revenues	0	0	0	561	57,128
Change in Net Assets	744	0	0	153	6,717
Net Assets, September 1, 2007	10,404			2,188	516,547
Restatements					435,753
Net Assets, September 1, 2007, as Restated	10,404	0	0	2,188	952,300
Net Assets, August 31, 2008	$ 11,148	$ 0	$ 0	$ 2,341	$ 959,017

* Amounts for the fiscal year ended Aug. 31, 2008, unless otherwise indicated in Note 19.



Section Three

Statistical Section

State of Texas
Index for Statistical Section

This section presents detailed information as a context for understanding what the information in the financial statements, note disclosures, required supplementary information and supplementary information says about the state's overall financial health.

Contents **Pages**

Financial Trends Information . . . . . 239 – 243
These schedules contain trend information intended to help the reader understand how the state's financial position has changed over time.

Revenue Capacity Information . . . . . 244 – 246
These schedules contain information intended to help the reader assess the state's most significant revenue source, state tax collections.

Debt Capacity Information . . . . . 247 – 250
These schedules present information intended to assist users in understanding and assessing the state's current levels of outstanding debt and the ability to issue additional debt.

Demographic and Economic Information . . . . . 251 – 252
These schedules provide demographic and economic indicators intended to help the reader understand the socioeconomic environment within which the state's financial activities take place.

Operating Information . . . . . 253 – 255
These schedules provide contextual information about the state's operations and resources intended to assist readers in using financial statement information to understand and assess the state's economic condition.

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Report databases for the relevant years. GASB 34 and 35 were implemented in 2002; schedules presenting government-wide information include information beginning in that year.

STATE OF TEXAS

Statistical Section – Financial Trends

Net Assets by Component

Last Seven Fiscal Years*

(Amounts in Millions)

	2002	2003	2004
GOVERNMENTAL ACTIVITIES			
Invested in Capital Assets, Net of Related Debt	$ 47,322	$ 49,254	$ 51,407
Restricted	20,089	20,846	22,213
Unrestricted	2,065	(28)	541
Total Governmental Activities Net Assets	69,476	70,072	74,161
BUSINESS-TYPE ACTIVITIES			
Invested in Capital Assets, Net of Related Debt	5,142	5,737	6,464
Restricted	14,413	15,168	17,628
Unrestricted	5,841	6,167	5,805
Total Business-Type Activities Net Assets	25,396	27,072	29,897
PRIMARY GOVERNMENT			
Invested in Capital Assets, Net of Related Debt	52,464	54,991	57,871
Restricted	34,502	36,014	39,841
Unrestricted	7,906	6,139	6,346
Total Primary Government Net Assets	$ 94,872	$ 97,144	$ 104,058

	2005	2006	2007	2008
GOVERNMENTAL ACTIVITIES				
Invested in Capital Assets, Net of Related Debt	$ 53,815	$ 55,473	$ 56,438	$ 58,208
Restricted	24,110	25,993	29,347	31,358
Unrestricted	3,753	8,696	12,565	11,105
Total Governmental Activities Net Assets	81,678	90,162	98,350	100,671
BUSINESS-TYPE ACTIVITIES				
Invested in Capital Assets, Net of Related Debt	6,253	6,871	7,343	7,385
Restricted	20,581	22,812	25,815	24,882
Unrestricted	7,076	8,056	9,741	9,885
Total Business-Type Activities Net Assets	33,910	37,739	42,899	42,152
PRIMARY GOVERNMENT				
Invested in Capital Assets, Net of Related Debt	60,068	62,344	63,781	65,593
Restricted	44,691	48,805	55,162	56,240
Unrestricted	10,829	16,752	22,306	20,990
Total Primary Government Net Assets	$ 115,588	$ 127,901	$ 141,249	$ 142,823

* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the net assets information is available only from 2002.

Source: state of Texas financial statements 2002-08.

Statistical Section – Financial Trends

Changes in Net Assets

Last Seven Fiscal Years*

(Amounts in Thousands)

	2002	2003	2004	2005	2006	2007	2008
GOVERNMENTAL ACTIVITIES:							
Expenses							
General Government	$ 1,947,049	$ 2,026,241	$ 2,234,369	$ 2,206,793	$ 2,681,117	$ 2,555,309	$ 2,659,822
Education	15,831,226	15,935,961	16,250,938	16,293,851	18,025,550	21,313,526	24,986,076
Employee Benefits	14,757	22,644	60,536	50,544	56,718	61,171	86,195
Teacher Retirement Benefits	1,201,886	2,435,727	2,269,667	2,083,530	1,932,325	2,017,000	1,761,759
Health and Human Services	22,817,118	24,742,714	25,060,588	27,302,426	28,808,315	30,886,484	32,426,046
Public Safety and Corrections	4,170,817	4,207,856	4,030,120	4,086,450	5,084,923	5,035,761	5,020,897
Transportation	3,576,274	3,562,159	3,476,342	3,766,301	4,452,154	4,252,129	4,478,109
Natural Resources and Recreation	736,111	835,139	864,508	1,070,481	961,178	1,217,201	1,451,450
Regulatory Services	273,023	324,567	375,951	349,420	282,067	314,266	398,885
Indirect Interest on Long-Term Debt	403,784	366,847	338,693	417,854	54,121	229,354	578,059
Total Expenses	50,972,045	54,459,855	54,961,712	57,627,650	62,338,468	67,882,201	73,847,298
Program Revenues							
Charges for Services:							
General Government	1,378,004	1,378,735	1,695,987	802,588	1,199,924	1,141,278	1,171,997
Education	236,776	485,676	520,621	594,702	626,224	584,971	821,291
Employee Benefits	383	112	171	97	120	116	107
Teacher Retirement Benefits				10	93,694	26,661	
Health and Human Services	710,167	821,773	838,377	1,124,402	1,177,825	2,059,789	1,832,315
Public Safety and Corrections	144,120	148,420	164,959	463,097	441,803	823,602	331,101
Transportation	988,612	974,627	1,016,809	1,342,073	1,373,339	1,530,669	1,785,835
Natural Resources and Recreation	453,990	437,834	473,608	716,981	570,872	714,687	661,657
Regulatory Services	63,986	92,875	212,919	534,469	596,705	604,199	635,089
Operating Grants and Contributions	17,563,832	22,801,211	24,501,850	26,667,982	28,979,226	29,995,409	25,900,072
Capital Grants and Contributions	2,191,470	2,570,634	2,773,764	3,253,051	2,803,006	1,823,686	2,585,507
Total Program Revenues	23,731,340	29,711,897	32,199,065	35,499,452	37,862,738	39,305,067	35,724,971
Total Governmental Activities Net Program Expense	(27,240,705)	(24,747,958)	(22,762,647)	(22,128,198)	(24,475,730)	(28,577,134)	(38,122,327)
General Revenues							
Taxes:							
Sales and Use	14,249,422	14,349,758	15,564,085	16,260,689	18,475,176	20,230,164	21,640,855
Motor Vehicle and Manufactured Housing	2,891,742	2,795,211	2,665,258	2,897,031	3,046,856	3,338,498	3,384,597
Motor Fuels	2,687,798	2,790,936	2,931,753	2,915,680	3,053,476	3,149,043	3,000,148
Franchise	1,999,005	1,532,820	1,657,141	2,203,578	2,632,780	3,273,050	4,712,183
Oil and Natural Gas Production	640,615	1,531,275	1,918,989	2,409,276	3,441,638	2,692,032	4,036,033
Insurance Occupation	973,279	1,179,553	1,192,829	1,213,627	1,238,846	1,368,340	1,446,828
Cigarette and Tobacco	536,464	583,159	540,404	596,569	547,000	1,325,712	1,454,187
Other	1,454,357	1,405,325	1,426,026	1,435,701	1,558,073	1,694,750	1,744,400
Unrestricted Investment Earnings	383,608	239,198	211,239	327,516	760,207	941,938	1,041,840
Federal Jobs and Growth Tax Relief Funds		354,535	354,535				
Settlement of Claims	512,579	563,196	523,518	885,975	583,787	538,836	555,476
Gain on Sale of Capital Assets		6,359	31,189	8,461	2,762	3,942	
Other General Revenues	618,981	787,866	723,157	822,652	1,071,679	1,627,330	1,392,565
Capital Contributions		600	944	107	1,449	309	8,653
Transfers	(3,171,399)	(3,069,447)	(2,867,137)	(2,966,197)	(3,513,639)	(3,383,910)	(3,909,529)
Total General Revenues, Contributions and Transfers	23,776,451	25,050,344	26,873,930	29,010,665	32,900,090	36,800,034	40,508,236
Change in Net Assets – Governmental Activities	(3,464,254)	302,386	4,111,283	6,882,467	8,424,360	8,222,900	2,385,909

Concluded on the following page

* The state did not begin reporting government-wide financial statements until it implemented GASB Statements No. 34 and No. 35 in 2002.

Source: state of Texas financial statements 2002-08.

Statistical Section – Financial Trends

Changes in Net Assets (concluded)

Last Seven Fiscal Years*

(Amounts in Thousands)

	2002	2003	2004	2005	2006	2007	2008
BUSINESS-TYPE ACTIVITIES:							
Expenses							
General Government	$ 246,183	$ 235,098	$ 187,064	$ 142,142	$ 162,499	$ 186,628	$ 177,012
Education	12,584,976	13,340,397	13,538,233	14,716,405	15,982,582	17,165,602	18,619,716
Employee Benefits		517,912	615,692				
Teacher Retirement Benefits				761,240	813,133	909,845	
Health and Human Services	2,712,361	2,964,169	2,203,096	1,540,459	1,253,431	1,204,609	1,467,185
Public Safety and Corrections	69,235	68,419	68,828	71,308	73,775	75,305	80,607
Transportation	13,011	16,937	22,725	346	16,339	125,910	164,280
Natural Resources and Recreation	149,767	157,902	146,815	264,707	284,241	283,653	247,018
Regulatory Services	2,096						
Lottery	2,034,639	2,163,670	2,426,019	2,594,241	2,687,084	2,691,210	2,634,446
Total Expenses	17,812,268	19,464,504	19,208,472	20,090,848	21,273,084	22,642,762	23,390,264
Program Revenues							
Charges for Services:							
General Government	32,475	50,669	44,166	27,947	37,245	42,713	43,106
Education	5,108,647	5,549,390	5,845,956	6,662,679	7,284,371	8,268,639	8,705,756
Employee Benefits		584,709	758,255				
Teacher Retirement Benefits				823,910	861,648	939,879	
Health and Human Services	1,129,885	1,603,241	1,783,807	1,963,403	1,862,804	1,665,242	1,058,134
Public Safety and Corrections	67,809	71,694	75,094	77,521	79,032	82,779	87,365
Transportation			39,162	14	13	16,757	48,958
Natural Resources and Recreation	2,377	3,002	3,911	22,106	33,716	41,034	42,964
Lottery	2,967,271	3,131,532	3,488,941	3,663,414	3,775,491	3,774,948	3,672,423
Operating Grants and Contributions	3,299,297	6,244,537	6,356,243	8,086,139	7,200,099	9,001,427	4,808,580
Capital Grants and Contributions	51,930	162,991	272,997	211,726	155,541	197,731	245,962
Total Program Revenues	12,659,691	17,401,765	18,668,532	21,538,859	21,289,960	24,031,149	18,713,248
Total Business-Type Activities Net Program Revenue (Expense)	(5,152,577)	(2,062,739)	(539,940)	1,448,011	16,876	1,388,387	(4,677,016)
General Revenues							
Unrestricted Investment Earnings	108,831	28,020	193,347	68,423	55,150	245,977	190,974
Settlement of Claims	2,579	5	4	20	94	283	6
Gain on Sale of Capital Assets	750			6,431	276	13,363	269
Other General Revenue	301,020	329,235	194,474	126,957	91,017	266,722	270,787
Capital Contributions	112,088	1,318	2,715	133	3,874	1,364	
Contributions to Permanent and Term Endowment	101,473	235,997	235,182	145,919	123,939	184,193	167,692
Special Items					(38,898)	(318,813)	(150,026)
Extraordinary Items	603,679	36,532	(13,401)				
Transfers	3,171,399	3,069,447	2,867,137	2,966,197	3,513,639	3,383,910	3,909,529
Total General Revenues, Contributions, Special Items, Extraordinary Items and Transfers	4,401,819	3,700,554	3,479,458	3,314,080	3,749,091	3,776,999	4,389,231
Change in Net Assets – Business-Type Activities	(750,758)	1,637,815	2,939,518	4,762,091	3,765,967	5,165,386	(287,785)
Change in Net Assets – Primary Government	$ (4,215,012)	$ 1,940,201	$ 7,050,801	$ 11,644,558	$ 12,190,327	$ 13,388,286	$ 2,098,124

Fund Balances – Governmental Funds

Last Seven Fiscal Years*

(Amounts in Millions)

	2002	2003	2004	2005	2006	2007	2008
GENERAL FUND							
Reserved	$ 1,430	$ 1,042	$ 1,185	$ 1,752	$ 1,648	$ 2,138	$ 2,471
Unreserved	(369)	(2,326)	(1,562)	286	5,673	8,698	8,184
Total General Fund	$ 1,061	$ (1,284)	$ (377)	$ 2,038	$ 7,321	$ 10,836	$ 10,655
ALL OTHER GOVERNMENTAL FUNDS							
Reserved	$ 19,187	$ 20,485	$ 21,850	$ 24,275	$ 25,999	$ 29,054	$ 27,957
Unreserved							
Special Revenue	1,669	1,256	1,309	1,460	910	1,847	4,953
Capital Projects	13	14	15		7	(11)	(124)
Permanent	429	458	492	546	575	632	564
Total All Other Governmental Funds	$ 21,298	$ 22,213	$ 23,666	$ 26,281	$ 27,491	$ 31,522	$ 33,350

* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, information for fund balances is available only for the line-items presented beginning in 2002.

Source: state of Texas financial statements 2002-08.

Statistical Section – Financial Trends

Changes in Fund Balances – Governmental Funds

Last Ten Fiscal Years*

(Amounts in Millions)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
REVENUES BY SOURCE										
Tax Collections	$23,499	$25,226	$27,045	$25,123	$25,939	$27,976	$29,830	$33,867	$36,670	$41,256
Federal Funds	15,316	16,170	17,319	20,307	23,017	24,382	25,851	28,212	26,967	28,656
Licenses, Fees and Permits	2,826	2,915	2,960	2,815	2,921	3,332	3,590	4,011	4,324	4,522
Interest and Other Investment Income	1,328	1,578	1,705	(815)	2,118	2,435	3,317	3,218	4,574	(368)
Land Income	10	11	46	179	298	482	544	462	422	650
Settlement of Claims	1,118	324	403	513	563	523	883	583	539	555
Sales of Goods and Services	664	578	689	962	1,131	1,109	1,445	1,503	2,697	2,063
Other Revenues	1,374	1,227	1,451	1,273	1,464	1,754	1,918	2,159	2,730	2,590
Total Revenues	46,135	48,029	51,618	50,357	57,451	61,993	67,378	74,015	78,923	79,924
EXPENDITURES BY FUNCTION										
General Government	1,673	1,798	1,902	1,846	1,961	2,191	2,151	2,530	2,415	2,628
Education	12,640	14,743	15,057	15,739	15,927	16,220	16,204	18,025	21,317	24,976
Employee Benefits	7	8	8	15	12	12	12	13	14	14
Teacher Retirement Benefits										1,781
Health and Human Services	17,082	17,878	19,036	22,394	24,690	25,039	27,192	28,761	30,855	32,355
Public Safety and Corrections	3,332	3,554	3,812	4,037	4,067	3,887	3,952	4,939	4,897	4,864
Transportation	3,922	4,612	4,720	3,096	3,065	2,970	3,246	3,909	3,702	3,895
Natural Resources and Recreation	712	672	704	713	787	844	1,039	930	1,172	1,420
Regulatory Services	235	243	260	270	311	371	345	294	317	393
Debt Service:										
Principal	344	372	346	287	367	211	306	393	437	415
Interest	531	599	761	339	360	335	375	238	370	428
Other Financing Fees								2	14	15
Capital Outlay	548	517	389	2,274	2,654	2,830	3,735	3,938	4,368	4,404
Total Expenditures	41,026	44,996	46,995	51,010	54,201	54,910	58,557	63,972	69,878	77,588
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,109	3,033	4,623	(653)	3,250	7,083	8,821	10,043	9,045	2,336
OTHER FINANCING SOURCES (USES)										
Transfer In	5,140	4,838	4,988	6,093	5,793	6,984	7,488	7,343	7,765	13,832
Transfer Out	(9,975)	(8,802)	(9,070)	(10,870)	(10,937)	(11,842)	(12,248)	(12,433)	(12,887)	(17,777)
Bonds and Notes Issued	534	919	464	232	383	87	1,242	1,440	3,471	2,988
Bonds Issued for Advance Refunding	241			8	164	58	208	72	249	515
Payment to Escrow for Advance Refunding	(241)			(8)	(164)	(69)	(208)	(72)	(263)	(559)
Premiums on Bonds Issued **									126	180
Sale of Capital Assets	20	16	19	80	21	50	37	17	29	22
Increases in Obligations Under Capital Leases	24	4	1		4			3		1
Insurance Recoveries								7	2	15
Total Other Financing Sources (Uses)	(4,257)	(3,025)	(3,598)	(4,465)	(4,736)	(4,732)	(3,481)	(3,623)	(1,508)	(783)
NET CHANGE IN FUND BALANCES	$ 852	$ 8	$ 1,025	$ (5,118)	$ (1,486)	$ 2,351	$ 5,340	$ 6,420	$ 7,537	$ 1,553
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	2.2%	2.2%	2.4%	1.3%	1.4%	1.0%	1.2%	1.1%	1.3%	1.2%

* This table is comprised of the following funds: general, special revenue, debt service, capital projects and permanent.

** Premiums on bonds issued were combined with bonds and notes issued in years prior to 2008.

Source: state of Texas financial statements 1999-2008.

Taxable Sales by Industry

For the Fiscal Years 1998 through 2007* (Amounts in Millions)

NAICS** Industry	2002	2003	2004	2005	2006	2007
Agriculture, Forestry, Fishing, Hunting	$ 127	$ 108	$ 105	$ 137	$ 149	$ 147
Mining, Quarrying, Oil & Gas Extraction	2,862	3,342	3,897	5,329	8,143	11,351
Utilities	4,801	5,282	5,485	7,543	9,022	9,305
Construction	6,857	7,003	8,071	9,271	11,583	13,144
Manufacturing	17,653	16,319	17,543	20,733	24,336	27,021
Wholesale Trade	14,919	17,324	19,000	21,634	25,044	26,663
Retail Trade	99,690	102,215	108,078	116,307	127,389	135,050
Transportation, Warehousing	830	1,208	1,390	1,317	1,805	1,832
Information	23,884	23,900	24,804	26,579	29,538	30,933
Finance, Insurance	1,955	1,894	1,819	1,913	2,099	2,183
Real Estate, Rental, Leasing	5,766	5,569	5,820	6,832	8,102	9,062
Professional, Scientific, Technical Serv.	5,147	4,812	5,181	6,282	7,069	7,657
Management of Companies, Enterprises	1,649	1,930	1,972	2,008	802	525
Admin Supt Waste Mgmt Remediation Serv.	6,827	7,050	7,554	7,995	8,692	9,434
Educational Services	281	294	341	379	406	428
Health Care, Social Assistance	422	513	547	600	623	743
Arts, Entertainment, Recreation	2,316	2,710	2,885	2,875	3,019	3,215
Accomodation, Food Services	22,931	23,653	25,438	27,313	29,750	31,962
Other Services (except Public Admin)	5,892	6,083	6,295	6,824	7,452	7,889
Public Administration	1,881	1,692	2,072	1,565	1,474	1,468
Nonclassifiable	5	9	8	8	6	4
Other	3,263	1,655	648	221	98	57
Total Taxable Sales	$229,958	$234,565	$248,953	$273,665	$306,601	$330,073
Direct Sales Tax Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

SIC*** Industry	1998	1999	2000	2001
Agriculture, Forestry, Fishing	$ 1,020	$ 1,182	$ 1,294	$ 1,367
Mining, Natural Resources	1,754	1,475	2,030	2,815
Construction	6,184	6,506	7,370	7,422
Manufacturing	16,413	15,975	17,356	16,141
Transportation, Communications, Utilities	23,284	25,083	27,652	28,415
Wholesale Trade	18,017	18,585	19,609	19,172
Retail Trade	108,661	116,118	122,849	127,145
Finance, Insurance, Real Estate	849	925	1,062	1,226
Services	25,184	27,263	29,773	29,742
Public Administration	450	455	500	513
Nonclassifiable Establishments	60	59	48	35
Other	603	476	497	838
Total Taxable Sales	$202,479	$214,102	$230,040	$234,831
Direct Sales Tax Rate	6.25%	6.25%	6.25%	6.25%

* Fiscal 2008 data is not available until mid-year of the the following fiscal year.

** North American Industry Classification System -available only from 2002-07.

*** Standard Industrial Classification System

Note: The amount of sales tax revenue should not be calculated from the table as there are numerous adjustments, allocations and refunds to arrive at actual taxable revenue.

Source: Texas Comptroller of Public Accounts, “Quarterly Sales Tax Reports.”

State Tax Collections and Retail Sales

Last Ten Years

(Amounts in Millions, Except Per Capita State Tax Collections and Percentage Data)

State Tax Collections Per Capita, 1999-2008*

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Tax Collections	$ 23,499	$ 25,226	$ 27,045	$ 25,123	$ 25,939	$ 27,976	$ 29,830	$ 33,867	$ 36,670	$ 41,256
Percentage Tax Collection Change From Prior Year	4.0%	7.3%	7.2%	(7.1)%	3.2%	7.9%	6.6%	13.5%	8.3%	12.5%
Resident Population	20.6	21.0	21.4	21.8	22.1	22.5	22.8	23.4	23.9	24.3
Percentage Population Change From Prior Year	2.0%	1.9%	1.9%	1.9%	1.4%	1.8%	1.8%	2.6%	1.7%	1.7%
State Tax Collections Per Capita	$ 1,143	$ 1,204	$ 1,266	$ 1,155	$ 1,172	$ 1,242	$ 1,308	$ 1,447	$ 1,534	$ 1,698

* This table is comprised of the following funds: general, special revenue, debt service and capital projects.

Source: Tax collections figures taken from the 1999-2008 state of Texas financial statements.
Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and have been revised from prior years due to changes in methodology, inflation factors, price indicators and revisions to interim census figures.

Total Retail Sales 1999–2008

(Amounts in Millions)

Year	Retail Sales	Percent Change
1999	$265,073	8.2%
2000	$298,614	12.7%
2001	$307,070	2.8%
2002*	$289,652	(3.6)%
2003	$305,441	5.5%
2004	$331,077	8.4%
2005	$361,242	9.1%
2006	$375,564	4.0%
2007	$401,883	7.0%
2008**	$ 96,048	7.6%

* Retail sales are classified on the basis of the North American Industrial Classification System (NAICS) for 2002-08, as opposed to Standard Industrial Codes (SICs) before that. The percentage change in 2002 is based on SIC data for both 2001-02.

** First quarter of 2008 and the percentage change over the first quarter of 2007.

Source: Texas Comptroller of Public Accounts. Some revisions were made from 2002 onward, based on changes in retailer classifications in the Comptroller's database.

Due to confidentiality issues, the names of the ten largest revenue payers are not available. This table provides alternative information regarding the source of the state's major tax revenue.

Statistical Section – Revenue Capacity

Texas Gross State Product by Industry

Last Ten Years

(Amounts in Millions of Dollars)

NAICS* Industry	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Agriculture, Forestry and Fishing	$ 6,752	$ 6,470	$ 6,394	$ 7,457	$ 8,094	$ 9,878	$ 8,707	$ 7,807	$ 9,651	$ 10,596
% Change	11.6	(4.2)	(1.2)	16.6	8.5	21.0	(11.9)	(10.3)	23.6	9.8
Mining and Natural Resources	27,652	45,182	44,072	39,219	57,913	68,248	91,549	104,167	110,336	121,108
% Change	19.0	63.4	(2.5)	(11.0)	47.7	19.1	34.1	13.8	5.9	9.8
Construction	32,836	36,882	40,259	41,871	43,474	45,648	50,577	55,324	52,203	52,283
% Change	11.1	12.3	9.2	4.0	3.8	3.7	10.8	9.4	(5.6)	0.2
Manufacturing	91,601	92,981	92,273	94,462	93,158	119,028	126,490	142,846	153,180	160,783
% Change	(6.5)	1.5	(0.8)	2.4	(1.4)	27.6	6.3	12.9	7.2	5.0
Trade, Transportation and Utilities	146,595	155,785	160,789	164,723	170,756	181,596	191,652	206,664	222,262	235,138
% Change	8.2	6.3	3.2	2.4	3.7	5.3	5.5	7.8	7.5	5.8
Information	33,295	35,865	36,992	36,531	36,040	38,545	41,122	43,829	48,069	51,109
% Change	8.8	7.7	3.1	(1.2)	(1.3)	7.7	6.7	6.6	9.7	6.3
Financial Activities	107,929	117,200	125,928	128,219	133,437	137,454	145,274	157,743	167,219	177,303
% Change	8.7	8.6	7.4	1.8	4.1	4.7	5.7	8.6	6.0	6.0
Professional and Business Services	69,387	73,208	82,195	83,937	88,718	93,307	104,248	114,443	128,415	140,082
% Change	10.3	5.5	12.3	2.1	5.7	7.7	11.7	9.8	12.2	9.1
Educational and Health Services	39,357	42,359	46,797	51,380	54,760	59,440	61,674	65,744	70,939	75,821
% Change	5.8	7.6	10.5	9.8	6.6	7.8	3.8	6.6	7.9	6.9
Leisure and Hospitality Services	21,764	23,106	23,993	25,492	26,479	27,877	29,551	32,109	34,011	36,167
% Change	9.0	6.2	3.8	6.2	3.9	4.6	6.0	8.7	5.9	6.3
Other Private Services	16,576	17,603	18,106	18,679	19,644	19,889	21,143	22,458	23,805	25,150
% Change	4.1	6.2	2.9	3.2	5.2	1.4	6.3	6.2	6.0	5.7
Government, including Schools	75,249	80,590	84,448	91,512	96,325	100,759	107,343	114,970	121,866	128,635
% Change	5.9	7.1	4.8	8.4	5.3	5.0	5.9	5.5	4.4	4.4
TOTAL	$668,993	$727,231	$762,246	$783,482	$828,798	$901,669	$979,330	$1,068,104	$1,141,956	$1,215,175
% Change	6.3	8.7	4.8	2.8	5.8	9.1	9.4	9.1	6.9	6.4
TOTAL (In 2000 Chained Dollars)	$699,101	$727,229	$745,325	$760,588	$770,975	$806,055	$825,217	$ 867,791	$ 903,383	$ 940,334
% Change	4.9	4.0	2.5	2.0	1.4	4.8	2.4	5.2	4.1	4.1

* North American Industry Classification System.

BEA periodically revises its personal income and gross product data for periods up to five years.

Source: U. S. Bureau of Economic Analysis (BEA). BEA numbers for gross product and real gross product are subject to revision.

Statistical Section – Debt Capacity

Legal Debt Margin Information

Last Ten Fiscal Years

(Amounts in Thousands, Except Percentage Data)

	1999	2000	2001	2002	2003
Debt Service Limit*	$1,162,163	$1,213,667	$1,265,625	$1,308,045	$ 1,318,449
Total Net Debt Service Applicable to Limit	511,259	492,915	484,448	580,012	626,185
Legal Debt Service Margin	$ 650,904	$ 720,752	$ 781,177	$ 728,033	$ 692,264
Total Net Debt Service Applicable to Limit as a Percentage of Debt Service Limit	44.0%	40.6%	38.3%	44.3%	47.5%

	2004	2005	2006	2007	2008
Debt Service Limit*	$1,344,627	$1,405,937	$1,518,628	$1,664,884	$ 1,773,089
Total Net Debt Service Applicable to Limit	622,433	620,989	545,725	605,518	1,450,498
Legal Debt Service Margin	$ 722,194	$ 784,948	$ 972,903	$1,059,366	$ 322,591
Total Net Debt Service Applicable to the Limit as a Percentage of Debt Service Limit	46.3%	44.2%	35.9%	36.4%	81.8%

Legal Debt Service Margin Calculation for Fiscal 2008

Unrestricted General Revenue fiscal 2006	$33,389,324
Unrestricted General Revenue fiscal 2007	36,129,759
Unrestricted General Revenue fiscal 2008	36,866,229
Debt Service Limit*	1,773,089
Debt Service Applicable to Limit:	
Debt Service on Outstanding Debt Payable from GR	459,972
Plus: Estimated Debt Service on Authorized but Unissued Debt Payable From GR	990,526
Total Net Debt Service Applicable to Limit	1,450,498
Legal Debt Service Margin	$ 322,591

* Debt service limit – Under state law, the maximum annual debt service in any fiscal year on state debt payable from the general revenue fund may not exceed 5 percent of an amount equal to the average of the unrestricted general revenue fund revenues for the three preceding fiscal years.

Source: Texas Bond Review Board.

Statistical Section – Debt Capacity

Ratio of Outstanding Debt by Type

Last Seven Fiscal Years*

(Amounts in Millions, Except Percentage Data and Per Capita)

	Governmental Activities			Business-Type Activities					
Fiscal Year	General Obligation Bonds	Revenue Bonds	Notes and Loans	General Obligation Bonds	Revenue Bonds	Notes and Loans	Total Primary Government	Percentage of Personal Income	Per Capita
2002	$3,081	$ 809	$98	$2,671	$8,264	$1,607	$16,530	2.6%	760
2003	3,185	739	103	2,599	9,277	1,889	17,792	2.7%	804
2004	3,116	679	116	2,719	10,844	1,920	19,394	2.8%	861
2005	3,972	632	262	2,815	11,749	1,614	21,044	2.8%	918
2006	4,479	1,152	331	2,739	12,378	1,741	22,820	2.8%	971
2007	6,757	2,031	216	2,775	12,304	2,029	26,112	2.9%	1,094
2008	8,061	3,445	340	2,708	13,370	2,437	30,361	3.2%	1,247

* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the outstanding debt information is available only beginning in 2002.

Source: 2002-08 state of Texas financial statements.

Statistical Section – Debt Capacity

Ratios of General Bonded Debt Outstanding

Last Ten Fiscal Years*

(Amounts in Millions, Except Percentage Data and General Bonded Debt Per Capita)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Bonded Debt (General Obligation Bonds Only)	$4,920	$5,143	$5,271	$5,756	$5,784	$5,835	$6,787	$7,218	$9,532	$10,768
Percentage Bonded Debt Change From Prior Year	(1.6)%	4.5%	2.5%	9.2%	0.5%	0.9%	16.3%	6.4%	32.1%	13.0%
Tax Collections	23,499	25,226	27,045	25,123	25,939	27,976	29,830	33,867	36,670	41,256
Percentage Bonded Debt to Tax Collections	20.9%	20.4%	19.5%	22.9%	22.3%	20.9%	22.8%	21.3%	26.0%	26.1%
Resident Population	20.6	21.0	21.4	21.8	22.1	22.5	22.8	23.4	23.9	24.3
General Bonded Debt Per Capita	$ 239	$ 245	$ 247	$ 265	$ 262	$ 259	$ 298	$ 308	$ 399	$ 443

* Historical data may reflect a variety of changes in methodology, inflation factors, price indicators and revisions to interim census figures made by the U.S. Bureau of Economic Analysis.

Source: Bonded debt and tax collections amounts are taken from the 1999-2008 state of Texas financial statements. Tax Collections from 1999-2008 state of Texas financial statements. Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis.

Pledged Revenue Bond Coverage

Last Seven Fiscal Years*

(Amounts in Thousands, Except Ratio Data)

	2002	2003	2004	2005	2006	2007	2008
GOVERNMENTAL ACTIVITIES							
Pledged Revenue Bond Amount	$ 93,796	$ 93,942	$ 101,178	$ 150,119	$ 81,011	$ 5,765,826	$ 6,748,490
Operating Expenditures	2,257	11,772	2,525	15,540	1,452	6,881,279	7,447,496
Net Available Revenue	$ 91,539	$ 82,170	$ 98,653	$ 134,579	$ 79,559	$ (1,115,453)	$ (699,006)
Debt Service –							
Principal	$ 70,230	$ 74,106	$ 77,058	$ 84,087	$ 86,056	$ 104,077	$ 112,250
Interest	41,996	37,478	33,314	26,115	25,764	66,822	118,203
Total Debt Service	$ 112,226	$ 111,584	$ 110,372	$ 110,202	$ 111,820	$ 170,899	$ 230,453
Coverage Ratio	0.8	0.7	0.9	1.2	0.7	(6.5)	(3.0)
BUSINESS-TYPE ACTIVITIES							
Pledged Revenue Bond Amount	$7,236,922	$6,401,630	$7,049,189	$8,369,686	$9,088,841	$ 9,869,477	$10,225,735
Operating Expenditures	207,852	536,191	885,294	839,699	364,043	1,457,567	11,698,563
Net Available Revenue	$7,029,070	$5,865,439	$6,163,895	$7,529,987	$8,724,798	$ 8,411,910	$ (1,472,828)
Debt Service –							
Principal	$ 242,174	$ 490,032	$ 440,036	$ 532,128	$ 623,346	$ 683,150	$ 420,487
Interest	355,997	371,983	492,366	503,958	537,104	560,359	558,666
Total Debt Service	$ 598,171	$ 862,015	$ 932,402	$1,036,086	$1,160,450	$ 1,243,509	$ 979,153
Coverage Ratio	11.8	6.8	6.6	7.3	7.5	6.8	(1.5)
COMPONENT UNITS**							
Pledged Revenue Bond Amount	$ 25,863	$ 16,215	$ 11,781	$ 13,524	$ 13,704	$ 13,034	$ 10,971
Operating Expenditures	625		349	225	264	91	552
Net Available Revenue	$ 25,238	$ 16,215	$ 11,432	$ 13,299	$ 13,440	$ 12,943	$ 10,419
Debt Service –							
Principal	$ 13,000	$ 12,130	$ 11,050	$	$ 5,840	$ 5,485	$ 5,090
Interest	6,875	5,463	2,937	3,628	4,940	5,051	3,610
Total Debt Service	$ 19,875	$ 17,593	$ 13,987	$ 3,628	$ 10,780	$ 10,536	$ 8,700
Coverage Ratio	1.3	0.9	0.8	3.7	1.2	1.2	1.2
Total Combined Coverage Ratio	9.8	6.0	5.9	6.7	6.9	5.1	(1.8)

* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the pledged revenue bond information is available only beginning in 2002.

** Component Units have been revised from 2003 to 2007 to reflect revised reporting of debt coverage in 2008.

Note: This bond data includes operating revenues, interest earned on investments, other pledged revenues and other sources. Operating expenditures include capital outlay expenditures.

Source: 2002-08 state of Texas annual financial statements and bond reporting system.

Top 10 Private Employers in Texas*

Last Eight Years**

2000	2001	2002
Administaff Companies, Inc.	Administaff Companies, Inc.	Administaff Companies II LP
Albertsons, Inc.	Albertsons, Inc.	American Airlines, Inc.
American Airlines, Inc.	American Airlines, Inc.	Continental Airlines, Inc.
Continental Airlines, Inc.	HEB Grocery Company LP	HEB Grocery Company LP
HEB Grocery Company LP	Kroger Texas LP	Home Depot USA, Inc.
Kroger Texas LP	Sears Roebuck & Company	Kroger Texas LP
Sears Roebuck & Company	Southwestern Bell	Southwestern Bell Telephone LP
Southwestern Bell	Target Stores Division	Target Stores Division
United Parcel Service, Inc.	United Parcel Service, Inc.	United Parcel Service, Inc.
Wal-Mart Associates, Inc.	Wal-Mart Associates, Inc.	Wal-Mart Associates, Inc.

2003	2004	2005
Administaff Companies II LP	Administaff Companies II LP	Administaff Companies II LP
American Airlines, Inc.	American Airlines, Inc.	American Airlines, Inc.
HEB Grocery Company LP	Continental Airlines, Inc.	Continental Airlines, Inc.
Home Depot USA, Inc.	HEB Grocery Company LP	HEB Grocery Company LP
Kroger Texas LP	Home Depot USA, Inc.	Home Depot USA, Inc.
Lockheed Martin Corp	Kroger Texas LP	Kroger Texas LP
Southwestern Bell Telephone LP	Southwestern Bell Telephone LP	Southwestern Bell Telephone LP
Target Stores Division	Target Stores Division	Target Stores Division
United Parcel Service, Inc.	United Parcel Service, Inc.	United Parcel Service, Inc.
Wal-Mart Associates, Inc.	Wal-Mart Associates, Inc.	Wal-Mart Associates, Inc.

2006	2007
Administaff Companies II LP	Administaff Companies II LP
American Airlines, Inc.	American Airlines, Inc.
Continental Airlines, Inc.	Brinker International
HEB Grocery Company LP	Continental Airlines Inc
Home Depot USA, Inc.	HEB Grocery Company LP
Kroger Texas LP	Home Depot USA, Inc.
Southwestern Bell Telephone LP	Kroger Texas LP
Target Stores Division	Target Stores Division
United Parcel Service, Inc.	United Parcel Service, Inc.
Wal-Mart Associates, Inc.	Wal-Mart Associates, Inc.

* Employers are listed alphabetically, with no ranking intended. The number of employees is not disclosed due to confidentiality.

** The year 2008 and years prior to 2000 are not available.

Source: Labor Market and Career Information Department of the Texas Workforce Commission.

Texas and U.S. Selected Statistics

Last Ten Years

Texas and U.S. Population, Total Personal Income and Per Capita Income
Last Ten Years

	Population (Thousands)				Total Personal Income (Millions)				Per Capita Income			
Year	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change
1999	20,558	2.0%	279,040	1.2%	539,661	6.3%	7,796,137	5.1%	26,251	4.2%	27,939	3.9%
2000	20,952	1.9%	282,217	1.1%	593,139	9.9%	8,422,074	8.0%	28,309	7.8%	29,843	6.8%
2001	21,358	1.9%	285,226	1.1%	619,642	4.5%	8,716,992	3.5%	29,012	2.5%	30,562	2.4%
2002	21,731	1.7%	287,884	0.9%	626,604	1.1%	8,872,871	1.8%	28,835	(0.6)%	30,821	0.8%
2003	22,086	1.6%	290,449	0.9%	649,419	3.6%	9,150,320	3.1%	29,404	2.0%	31,504	2.2%
2004	22,455	1.7%	293,191	0.9%	694,925	7.0%	9,711,363	6.1%	30,948	5.3%	33,123	5.1%
2005	22,844	1.7%	295,898	0.9%	758,435	9.1%	10,252,849	5.6%	33,201	7.3%	34,650	4.6%
2006	23,408	2.5%	298,751	1.0%	821,639	8.3%	10,977,312	7.1%	35,101	5.7%	36,744	6.0%
2007	23,904	2.1%	301,617	1.0%	884,601	7.7%	11,631,571	6.0%	37,006	5.4%	38,564	5.0%
2008*	24,349	1.9%	304,566	1.0%	943,995	6.7%	12,122,110	4.2%	38,769	4.8%	39,801	3.2%

* Recent years are subject to revisions. 2008 numbers include some forecast model quarterly estimates for the second half of the year.

The Bureau revises historical data due to more complete information, revised census figures, and changes in methodology.

Source: U.S. Bureau of Economic Analysis, U.S. Bureau of the Census and Texas Comptroller of Public Accounts.

Texas and U.S. Employment and Unemployment Rates

Last 10 Years

(Thousands of Jobs and Percent)

	Nonfarm Employment				Unemployment Percentage Rate	
Year	Texas	Percent Change	U.S.	Percent Change	Texas	U.S.
1999	9,160	2.4%	128,992	2.4%	4.6%	4.2%
2000	9,432	3.0%	131,791	2.2%	4.2%	4.0%
2001	9,514	0.9%	131,832	0.0%	4.8%	4.7%
2002	9,416	(1.0)%	130,347	(1.1)%	6.3%	5.8%
2003	9,370	(0.5)%	129,990	(0.3)%	6.7%	6.0%
2004	9,497	1.4%	131,423	1.1%	6.0%	5.5%
2005	9,740	2.6%	133,696	1.7%	5.3%	5.1%
2006	10,066	3.3%	136,092	1.8%	4.9%	4.6%
2007*	10,360	2.9%	137,618	1.1%	4.3%	4.6%
2008*	10,577	2.1%	137,479	(0.1)%	4.7%	5.7%

* 2007 and 2008 numbers are subject to benchmark revisions. 2008 numbers include estimates for the last quarter.

Source: Texas Workforce Commission, Texas Comptroller of Public Accounts and U.S. Bureau of Labor Statistics. Historical data have been revised.

Full-Time Equivalent Employees by Function

Last Ten Fiscal Years

FUNCTION	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Government	12,950	12,981	13,472	13,362	13,607	13,034	13,435	12,999	13,438	13,155
Education	119,286	122,009	124,871	129,767	133,857	134,456	140,367	144,636	146,944	152,121
Employee Benefits	306	313	309	314	315	302	292	294	302	311
Teacher Retirement Benefits	380	397	418	437	441	440	451	444	445	454
Health and Human Services	56,844	54,923	53,023	53,420	52,238	49,288	48,389	49,097	50,910	53,161
Public Safety and Corrections	53,510	52,699	52,133	52,405	53,231	51,473	51,397	51,564	50,889	50,340
Transportation	14,553	14,751	14,926	14,845	14,717	14,078	14,551	14,744	14,748	14,148
Natural Resources and Recreation	7,971	8,062	8,172	8,370	8,299	7,990	8,053	8,018	8,014	7,597
Regulatory Services	3,960	3,931	3,933	3,973	3,882	3,779	3,882	3,869	3,828	4,558
Total FTE's	269,760	270,066	271,257	276,893	280,587	274,840	280,817	285,665	289,518	295,845
Percentage Change	0.1%	0.1%	0.4%	2.1%	1.3%	(2.0)%	2.2%	1.7%	1.3%	2.2%

Source: Texas State Auditor's Office.

Capital Asset Statistics by Function

Last Three Fiscal Years

Function	2006	2007	2008
GENERAL GOVERNMENT			
Number of TBPC Owned Facilities	75	75	137
State Real Property Inventory in Acres	2,425,037	1,322,123	1,325,319
EDUCATION			
Number of School Districts	1,033	1,031	1,031
Number of Students	4,505,572	4,576,933	4,671,493
Number of Higher Education Institutions	145	145	145
HEALTH AND HUMAN SERVICES			
Number of State Mental Health Facilities	39	39	39
Number of State Hospitals	10	10	11
PUBLIC SAFETY AND CORRECTIONS			
Number of State Prisons – TDCJ only	106	106	112
Number of available beds (capacity)	156,520	156,652	160,622
Number of authorized vehicular state patrol units	1,195	1,281	1,281
TRANSPORTATION			
Centerline Miles of Highways*	79,696	79,849	79,975
Number of Bridges**	33,322	32,996	33,118
NATURAL RESOURCES AND RECREATION			
Number of State Parks Managed	112	110	93
Number of Park Acreage	608,716	602,892	605,470

* Highway miles = state maintained centerline miles (miles traveled in one direction regardless of the number of lanes in a roadway).

** Number of bridges is the bridges owned by the state. TxDOT also works on off-system bridges (county and city-owned bridges). Off-system bridges are not included in the number of bridges total.

Source: Various state agencies and official state agency Web sites.

Operating Indicators by Function

Last Three Fiscal Years

Function	2006	2007	2008
GENERAL GOVERNMENT / REGULATORY SERVICES			
Number of Tax Returns Processed	3,904,659	4,251,103	4,054,947
Number of Licenses Issued (2008 is Estimated)	1,554,754	1,575,919	1,337,635
EDUCATION			
Average Daily School Attendance (ADA)*	4,205,729	4,260,406	4,326,176
Percent of Students Passing TAKS Test*	67%	70%	72%
Texas Higher Education Enrollments	1,211,582	1,228,897	1,273,954
Higher Education Degrees Awarded**	188,258	193,321	N/A
HEALTH AND HUMAN SERVICES			
Number of Medicaid Clients Served	2,873,786	2,831,832	2,877,326
Number of TANF Clients Served ***	172,776	145,807	125,250
Number of Immunizations	11,617,682	12,827,417	12,771,928
PUBLIC SAFETY AND CORRECTIONS			
Number of New Prison Population	74,170	73,525	74,283
Number of Prison Population Released	71,214	72,032	72,002
Average Daily Prison Population	151,734	152,805	155,588
Authorized Number of Troopers Patrolling Texas Highways	1,628	1,689	1,709
TRANSPORTATION			
Number of Construction Contracts Processed For Letting	1,075	877	694
Number of Lane Miles Receiving Roadway			
Surface Improvments: – By Contract	15,811	13,197	8,462
– Via State Sources	6,406	5,984	6,344
Number of Vehicles Registered	20,609,866	21,432,773	24,359,319
NATURAL RESOURCES AND RECREATION			
Number of State Parks Visits (In Millions)	5.0	4.9	4.3
Number of Parks and Wildlife Licenses Issued****	2,625,225	2,665,045	2,892,695

* The "Percent of Students Passing TAKS test" is from the 2007-08 TEA AEIS report at: http://www.tea.state.tx.us/perfreport/aeis/2008/state.pdf. These scores represent the "TAKS Met 2008 Standard (Sum of All Grades Tested)(Standard Accountability Indicator)".

** The 2008 degress conferred will not be available until later in 2009.

*** TANF fiscal 2008 is based on data through November 2008, but will not be finalized until March 2009.

**** Includes commercial and recreational licenses, stamps, tags and permits. Does not include items such as hunting lease license sales, collector's stamp sales, hunt drawing sales and other similar items sold through the Point-of-Sale System.

Other Sources: Various state agencies, state agency reports and official state agency Web sites.

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State Auditor's Office

John Keel, CPA
State Auditor

State of Texas Financial Portion of the

Statewide Single Audit Report For the Year Ended August 31, 2008

April 2009

Report No. 09-555

State Auditor's Office
John Keel, CPA
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Statewide Single Audit Report for the Year Ended August 31, 2008

SAO Report No. 09-555
April 2009

Overall Conclusion

The basic financial statements included in the Comprehensive Annual Financial Report (CAFR) for the State of Texas accurately present the financial position and activities of the State for the fiscal year ended August 31, 2008. These 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.

Basic Financial Statements

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 line items of major funds at 14 of the State's largest agencies and higher education institutions.

The State successfully contends with significant complexities in preparing its basic financial statements. Compiling financial information and ensuring its accuracy for more than 200 state agencies and higher education institutions is a major undertaking. The financial statements convey the use of nearly $97.2 billion.[1] Although auditors identified some weaknesses in the process, overall the State published materially accurate financial statements.

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 four agencies and three higher education institutions should correct to ensure the accuracy of their financial information.

The State Auditor's Office also audited the State's Schedule of Expenditures of Federal Awards (SEFA) for fiscal year 2008, which is prepared by the Office of the

[1] The $97.2 billion in annual expenditures exceeded the $85.5 billion appropriated for fiscal year 2008 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.

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) 936-9500.

Comptroller of Public Accounts (Comptroller's Office) using SEFA data from all state agencies and higher education institutions that made federal expenditures during the fiscal year. The State Auditor's Office and KMPG LLP audited the processes for preparing SEFA information at 15 agencies and 20 higher education institutions. Auditors identified errors caused by inadequate review of SEFA information at 22 agencies and higher education institutions. These errors are discussed in Chapter 1-H of this report.

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 companies that review the State's fiscal integrity to rate state-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 accurate basic financial statements.

Although the financial systems and controls were adequate, audit work identified control weaknesses at 7 of the 14 state agencies and higher education institutions audited. (Appendix 2 of this report lists all agencies and higher education institutions audited.) Specifically:

- The Comptroller's Office should strengthen its CAFR consolidation process. In addition, the Comptroller's Office should continue to strengthen (1) access controls for the State Treasury Division's technology operations, (2) procedures for profile change requests, and (3) financial reconciliations. Auditors previously identified these same types of issues during the audit of fiscal year 2007.

- The Department of State Health Services (Department) should complete required financial reconciliations. The Department did not complete the reconciliation of its internal accounting system with the State's accounting system (the Uniform Statewide Accounting System or USAS).

- The Department of Transportation should regularly update user access rights for its automated systems and consistently amortize bond premiums in accordance with requirements.

- The Health and Human Services Commission (Commission) should implement all components of its payment monitoring system. Auditors previously identified this same issue during the audits of fiscal years 2006 and 2007. The Commission also should fully document policies and procedures for recording and approving Medicaid, CHIP, and Vendor Drug program expenditures. Auditors previously identified this issue during the audits of fiscal years 2005 through 2007. The Commission should review user access to USAS and ensure that related duties are

properly segregated. Auditors previously identified this issue during the audits of fiscal years 2006 and 2007. The Commission should disclose the potential financial liability associated with the open investigations of the Office of Inspector General. Auditors previously identified this issue during the audit of fiscal year 2007. In addition, the Commission should accrue necessary expenditures. The Commission also should strengthen password requirements for its Premium Payment System.

- The University of Texas at Austin should strengthen its inventory controls. Auditors previously identified this issue during the audit of fiscal year 2007.
- The University of Texas at San Antonio should strengthen its capital asset records and restrict access to USAS.
- The University of Texas Southwestern Medical Center at Dallas should strengthen its capital asset records and its patient billing process.
- Agencies and higher education institutions also should strengthen their reviews of their SEFAs. Auditors identified a lack of adequate review of SEFA information at 22 of the 35 agencies and higher education institutions at which SEFA information was reviewed.

Summary of Management's Responses

The agencies and higher education institutions to which auditors addressed recommendations generally 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, and the University of Texas at San Antonio. Correcting these weaknesses will help to ensure the reliability of those entities' financial information.

Auditors also reviewed internal controls over USAS. As previously discussed, the Comptroller's Office should continue to strengthen procedures regarding the central profile change request. The central profile change request 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 access to the State Property Accounting system, the Human Resources Information System, the Standardized Payroll/Personnel Reporting System, and the Uniform Statewide Payroll/Personnel System and did not identify any significant control weaknesses in those systems.

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, 2008.

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 scope of the financial portion of the Statewide Single Audit included an audit of the State's basic financial statements and a review of significant controls over financial reporting and compliance with applicable requirements. The opinion on the basic financial statements, *The State of Texas Comprehensive Annual Financial Report for the Fiscal Year Ended August 31, 2008,* was dated February 20, 2009.

The scope of the federal portion of the Statewide Single Audit included an audit of the State's Schedule of Expenditures of Federal Awards (SEFA), a review of compliance for each major program, and a review of significant controls over federal compliance. The State Auditor's Office contracted with KPMG LLP to provide an opinion on compliance for each major program and internal control over compliance. The State Auditor's Office provided an opinion on the State's Schedule of Expenditures of Federal Awards (SEFA). The report on the federal portion of the Statewide Single Audit is included in a separate report issued by KPMG LLP entitled *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2008*, dated February 20, 2009.

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 State Health Services Should Complete Required Reconciliations 11

Chapter 1-C
The Department of Transportation Should Strengthen Certain Aspects of Its Information Technology and Financial Operations 13

Chapter 1-D
The Health and Human Services Commission Should Strengthen the Design and Operation of Its Internal Control Structure over Validating Payments for Public Assistance Programs 16

Chapter 1-E
The University of Texas at Austin Should Strengthen Certain Aspects of Its Financial Operations 28

Chapter 1-F
The University of Texas at San Antonio Should Strengthen Certain Aspects of Its Financial Operations and Information Technology 31

Chapter 1-G
The University of Texas Southwestern Medical Center at Dallas Should Strengthen Certain Aspects of Its Financial Operations 35

Chapter 1-H
Agencies and Higher Education Institutions Should Strengthen Their Reviews of Their Schedules of Expenditures of Federal Awards 39

Chapter 2
Federal Award Findings and Questioned Costs..... 43

Summary Schedule of Prior Audit Findings

Chapter 3
Summary Schedule of Prior Audit Findings 45

Chapter 3-A
The Office of the Comptroller of Public Accounts Should Strengthen Certain Aspects of Its Financial and Information Technology Operations 46

Chapter 3-B
The Department of Transportation Should Strengthen Certain Aspects of Its Information Technology 48

Chapter 3-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 50

Chapter 3-D
The Department of State Health Services Should Strengthen Certain Aspects of Its Financial and Information Technology Operations 58

Chapter 3-E
The Texas Workforce Commission Should Strengthen Certain Aspects of Its Information System Security and Fire Protection and Backup Power Capabilities 61

Chapter 3-F
The University of Texas at Austin Should Strengthen Its Capital Asset Records 63

Chapter 3-G
The Water Development Board Should Strengthen Certain Aspects of Its Information Technology 64

Independent Auditor's Report

Chapter 4
Summary of Auditor's Results 67

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 68

Appendices

Appendix 1
Objective, Scope, and Methodology 72

Appendix 2
Agencies and Higher Education Institutions Audited 76

Appendix 3
Agency and Higher Education Institution Responses to Schedule of Expenditures of Federal Awards Finding 78

Schedule of Findings and Responses

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2008

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

Chapter 1-A

The Office of the Comptroller of Public Accounts Should Strengthen Certain Aspects of Its Financial and Information Technology Operations

Issue 1
The Office of the Comptroller of Public Accounts Should Strengthen Its Comprehensive Annual Financial Report Consolidation Process

Reference No. 09-555-01
(Prior Audit Issue 08-555-03)

Type of finding: Significant Deficiency

Definition of Significant Deficiency

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.

Source: Codification of Statements on Auditing Standards AU, Section 325.06, American Institute of Certified Public Accountants.

Although the Office of the Comptroller of Public Accounts (Comptroller's Office) relies on state agencies and public higher education institutions to provide accurate financial information, the Comptroller's Office is ultimately responsible for the accurate presentation of the State's Comprehensive Annual Financial Report (CAFR) and Schedule of Expenditures of Federal Awards (SEFA).

Control weaknesses exist in the Comptroller's Office's process for preparing the State's CAFR and SEFA that allowed errors to occur without being detected or corrected in a timely manner. Auditors identified errors in financial data, consolidation adjustments, CAFR note disclosures, and supporting documentation. Based on the audit, the Comptroller's Office corrected most known errors before finalizing the CAFR.

Control weaknesses in tax-related information. The Comptroller's Office did not record tax revenues according to generally accepted accounting principles for taxes, and it did not update the fiscal year 2008 CAFR to reflect all effects of tax transactions that occurred after the end of fiscal year 2008 but that were related to tax account balances for fiscal year 2008. Specifically, the Comptroller's Office:

- Incorrectly based tax revenues on the amount of taxes collected, rather than on the amount of taxes assessed. Generally accepted accounting principles require that revenues should be recognized when the underlying exchange transaction occurs.

- Did not adjust the CAFR to reflect $606 million in tax overpayments for fiscal year 2008 as required by generally accepted accounting principles (see text box). Franchise taxpayers initially overpaid $606 million in fiscal year 2008. The Comptroller's Office refunded the $606 million to taxpayers after the end of fiscal year 2008. However, it did not initially reduce tax revenues or record the refunds due back to taxpayers on the fiscal year 2008 CAFR. This error caused franchise tax revenues to be overstated and accounts payable to be understated by $606 million on the fiscal year 2008 CAFR. After auditors identified the issue, the Comptroller's Office adjusted tax revenues and accounts payable before finalizing the fiscal year 2008 CAFR.

Tax Revenue Recognition

Generally accepted accounting principles require that tax revenues be recognized, net of estimated refunds and estimated uncollectible amounts, when the transaction the tax is assessed upon occurs or when resources are received, whichever occurs first.

Source: Governmental Accounting Standards Board, Statement 33, paragraph 16.

- Reported negative deferred revenues related to natural gas production taxes. Natural gas producers can claim severance tax exemptions for low-producing gas wells to reduce their tax liability. In most cases, taxpayers remit their tax payments prior to qualifying for the exemptions and initially pay more than their final liability. The Comptroller's Office asserted that these overpayments represented resources collected but not yet earned. Because most of these credits would not be available to the taxpayer in time to reduce current year obligations, the Comptroller's Office did not reduce tax revenues, even though these overpayments represented cash collected that was not legally due to the Comptroller.

As part of the tax revenue reporting process, the Comptroller's Office used information from its Integrated Tax System (ITS) to adjust the amount of tax revenues collected. However, the staff preparing the CAFR did not have a thorough understanding of how ITS processed tax assessments, payments, credits, and refunds. Having a better understanding of ITS and all transactions related to tax revenue would help ensure that tax revenue is presented correctly in the CAFR. Auditors verified that the Comptroller's Office entered franchise tax payments into ITS correctly.

Control weaknesses in review of financial information. The Comptroller's Office did not always review financial information that agencies and higher education institutions submitted for reasonableness, accuracy, and completeness. For example, several agencies misclassified investment categories or reported investment balances that were not included in their annual financial reports when they reported investment balances through the Comptroller's Office's Web-based agency reporting system. Additionally, the Comptroller's Office did not verify the appropriateness of negative expenditures on one higher education institution's SEFA until auditors noted it during the audit.

Control weaknesses in following policies and procedures. The Comptroller's Office did not always follow established policies and procedures. For example,

explanations provided for one adjustment to the CAFR did not match the proposed adjusting entries. According to Comptroller's Office staff, the explanations had not been updated from the previous fiscal year.

The Comptroller's Office did not always conduct a thorough supervisory review process to detect errors and ensure that they were corrected in a timely manner. Conducting a thorough supervisory review could have enabled the Comptroller's Office to identify the errors noted above. While the individual errors that auditors identified did not materially affect the fair presentation of the CAFR, they demonstrated weaknesses in internal controls over the Comptroller's Office's process for reporting financial transactions.

The State's Uniform Statewide Accounting System (USAS) provides a systematic process for agencies and higher education institutions to record their financial data, but this data must be analyzed and adjusted by the Comptroller's Office Financial Reporting Section (FRS) before the State's CAFR can be completed. FRS also uses database applications to collect financial detail from agencies and higher education institutions to prepare notes to the CAFR and the SEFA.

Recommendations

The Comptroller's Office should strengthen its consolidation process for the CAFR and SEFA by:

- Ensuring that the CAFR consolidation policies and procedures are based on current financial system processes, available information, and reporting standards. The Comptroller's Office should determine whether revisions or new policies and procedures are needed to reflect changes in accounting standards or practices.
- Ensuring that staff understand and follow established policies and procedures for preparing the CAFR.
- Ensuring that the CAFR, the CAFR consolidation process, and supporting documentation are thoroughly reviewed by knowledgeable Comptroller's Office staff.
- Ensuring that it reviews the accuracy of the financial data provided by the state agencies and higher education institutions for reasonableness, accuracy, and completeness.

Management's Response

We agree that the Comptroller's Office is ultimately responsible for the accurate presentation of the State's Comprehensive Annual Financial Report (CAFR) and Schedule of Expenditures of Federal Awards (SEFA). Our staff

is committed to ensuring that these publications fairly present the financial position of the State and comply with generally accepted accounting principles.

The corrective actions discussed below will be monitored to ensure that they are effectively implemented as part of our system of quality control.

- *Financial Reporting Section (FRS) staff will make appropriate corrections to the procedures for calculating estimated tax revenues based upon taxes assessed and taking into account overpayments and refunds. FRS staff will also work with the Comptroller's Tax Policy and Information Technology Divisions to improve our understanding of processing related to tax assessments, payments, credits, and refunds.*

- *FRS staff will make appropriate corrections to the procedures governing the review of financial information submitted by agencies and higher education institutions. These changes will target strengthening the review process to improve our assessment of the reasonableness, accuracy, and completeness of agency financial information.*

- *FRS staff will amend the CAFR work plan to allot additional time to perform supervisory reviews to detect errors. Revising the work plan for this purpose will ensure that sufficient time is allowed for conducting reviews and that any errors identified can be corrected in a timely manner.*

We believe the above actions are responsive to the concerns documented in the finding.

Responsible Person: Manager of Fiscal Integrity

Implementation Date: September 1, 2009

Issue 2

The Office of the Comptroller of Public Accounts Should Continue to Strengthen Access Controls for the Treasury Division Technology Operations

Reference No. 09-555-02
(Prior Audit Issue 08-555-01)

Type of finding: Significant Deficiency

The Comptroller's Office continues to allow two developers to have access to production data for the State Treasury's automated systems. These systems were developed using a programming language that has limited security options. After auditors brought this issue to the Comptroller's Office's

attention during the fiscal year 2007 Statewide financial audit, the Comptroller's Office's Treasury Division reduced the access from 15 developers to 2 developers. The Comptroller's Office's Treasury Division is in the process of replacing the current systems with another application that can be designed with more advanced security features. It also has established compensating controls until the new application is completed.

Title 1, Texas Administrative Code, Section 202.20 (1)

Information resources residing in the various state agencies of state government are strategic and vital assets belonging to the people of Texas. These assets must be available and protected commensurate with the value of the assets. Measures shall be taken to protect these assets against unauthorized access, disclosure, modification or destruction, whether accidental or deliberate, as well as to assure the availability, integrity, utility, authenticity, and confidentiality of information. Access to state information resources must be appropriately managed.

The Texas Administrative Code requires agencies to take measures to protect data from unauthorized access, disclosure, modification, or destruction, whether accidental or deliberate (see text box). Granting excessive access and not providing for proper segregation of duties increases the risk of fraud, data corruption, potential service disruption, and loss of state revenue. Because the Treasury Division processes billions of dollars in revenue, the loss of even a single day's interest due to data manipulation or destruction would affect state revenue. However, nothing came to auditors' attention to indicate that automated systems had been compromised.

Recommendations

The Comptroller's Office should:

- Ensure that the security features of the planned new application enable the Treasury Division to manage end user and developer access for its automated systems.
- Continue to monitor end user and developer access to Treasury Division automated systems to ensure that the short-term compensating controls effectively address proper segregation of duties.

Management's Response

As noted, the Treasury Operations Division is in the process of replacing most of our current systems with new software. During this project we agree to ensure that the security features of the new system will allow for us to properly manage end user and developer access. The project is on target and is expected to be completed by the end of this calendar year.

Responsible Person: Director of Treasury Operations

Implementation Date: December 31, 2009

The Treasury Operations Division agrees to continue to monitor end user and developer access to our automated systems to ensure that the short-term compensating controls effectively address proper segregation of duties. After auditors brought this issue to our attention during the fiscal year 2007

statewide financial audit, we implemented a new security access process using the agency's Help Desk ticket system. The ticket system now requires multiple levels of approval before access is granted to files and automated systems. The user or developer requesting access must first obtain approval through their designated security coordinator, and then obtain approval through Treasury Operations' designated security coordinator before staff or developer access is granted. The process is monitored and approved at several check points throughout the process.

The current finding notes access to the Treasury Operations Division's automated systems is still granted to two developers. These individuals provide ongoing operations support to the automated system. We believe this access is a critical need given the large amount of dollars processed daily by the division. Any interruption in the daily processing could result in loss of interest earnings, directly affecting state revenue.

Responsible Person: Director of Treasury Operations

Implementation Date: Completed

Issue 3

The Office of the Comptroller of Public Accounts Should Continue to Strengthen Procedures Regarding Central Profile Change Requests

Reference No. 09-555-03
(Prior Audit Issue 08-555-02)

Type of finding: Significant Deficiency

The Comptroller's Office's Application Security Division should continue to improve the central profile change request process to ensure proper segregation of duties. All of the 25 change requests tested from fiscal year 2008 contained the initials of the Application Security Division employee entering the change. However, 2 (8 percent) of the 25 change requests had approvals that could not be verified as authorized using the Comptroller's Office Central Profile Action Request Authorized Approver Listing. One change request was not approved by an authorized approver and another change request was not signed by a reviewer. The Application Security Division had difficulty substantiating that authorized approvers had reviewed and approved change requests because the approver listing was incomplete or needed clarification.

The Texas Administrative Code requires agencies to take measures to protect data from unauthorized access, disclosure, modification, or destruction, whether accidental or deliberate. Granting excessive access and not providing for proper segregation of duties increases the risk of fraud, data corruption,

Title 1, Texas Administrative Code, Section 202.20

(5) The integrity of data, its source, its destination, and processes applied to it must be assured. Changes to data must be made only in an authorized manner.

(8) State agencies must ensure adequate controls and separation of duties for tasks that are susceptible to fraudulent or other unauthorized activity.

and potential service disruption (see text box).

The central profile change management process should be designed to ensure that all proposed system modifications are approved and that changes are tested and approved before they are placed into production. The risk of inaccurate financial data decreases when the required levels of approvals are obtained. Improper or unauthorized changes should not be made if the same individual both requests and approves a change.

Recommendations

The Comptroller's Office should:

- Update the Central Profile Action Request Authorized Approver Listing to ensure that employees who approve change requests are authorized to make the approvals and are clearly identified.
- Enforce its policies and procedures and ensure that staff obtain the proper authorization on change request forms prior to processing those requests.
- Ensure that the Applications Security Division carefully reviews central profile change requests for authorized approvals to ensure that all of the required signatures and initials are present before finalizing the change and filing the documentation.

Management's Response

The Comptroller's Office places great importance on the integrity of data and ensuring that adequate controls and separation of duties exist for processes that affect data.

The Central Profile Action Request Authorized Approver Listing was revised effective April 1, 2009, to address the issues noted above.

The Comptroller's Office will take additional steps to strengthen the review process to ensure that all Change Requests comply with the requirements of the Authorized Approver Listing. These steps include performing a supervisory review of each Change Request at the conclusion of the process to ensure that the policies and procedures that govern the change have been followed in their entirety.

We believe the above actions are responsive to the concerns documented in the finding.

Responsible Person: Manager of Fiscal Integrity

Implementation Date: May 1, 2009

Issue 4

The Comptroller's Office Should Continue to Strengthen Its Financial Reconciliations

Reference No. 09-555-04

Type of finding: Significant Deficiency

The Comptroller's Office should improve its Integrated Tax System reconciliation process. The Comptroller's Office should strengthen the timely preparation and review of its tax reconciliation process. The Comptroller's Office's Integrated Tax System (ITS) processed approximately $37 billion in tax payments for fiscal year 2008. Auditors' test of 20 reconciliations of ITS collections to the cash balances in USAS determined that these reconciliations were not always prepared or reviewed in a timely manner. Specifically:

- 19 reconciliations (95 percent) were not prepared in a timely manner.
- 9 reconciliations (45 percent) were not reviewed in a timely manner.

The Comptroller's Office should improve its monthly fund-to-cash reconciliation process. The Comptroller's Office should strengthen its review of its fund-to-cash reconciliations. The Comptroller's Office performs the fund-to-cash reconciliations on a monthly basis to reconcile the Treasury Division's Fund Accounting System to USAS cash balances. It performs accurate and complete fund-to-cash reconciliations in a timely manner; however, there was no evidence of a formal review of these reconciliations for accuracy.

Performing cash reconciliations in a timely manner is a key management control for ensuring that errors are detected and corrected promptly. Review of these reconciliations by a knowledgeable, independent person ensures that the reconciliation control is in place and operating effectively.

Recommendations

The Comptroller's Office should improve financial reconciliations to ensure that it detects and corrects errors in a timely manner. Specifically:

- The Revenue Administration Division should retain evidence that reconciliations of ITS tax collections to USAS cash balances are performed and reviewed for completeness and accuracy in a timely manner. Reconciliations should be completed within one month of the end of the month being reconciled. The review of the reconciliations should be finalized within one month from the date the reconciliations are prepared.

- The Statewide Fiscal Services Division should retain evidence that fund-to-cash reconciliations are reviewed for completeness and accuracy in a timely manner. Reconciliations should be completed within one month of the end of the month being reconciled. The review of the reconciliation should be finalized within one month from the date the reconciliations are prepared.

Management's Response

Revenue Administration Division

The Revenue Accounting Division agrees the reconciliation of ITS tax collections to USAS cash balances should be performed within one month of the end of the month being reconciled, the reviews for completeness and accuracy of the reconciliations should be finalized within one month from the date the reconciliations are prepared and that evidence of the reconciliations and reviews should be retained.

1. The recommended timelines are consistent with Revenue Accounting Division's historic and current guidelines. Revenue Accounting Division was not within these timelines due to a tremendous loss of highly experienced personnel. The division is currently developing an aggressive training plan for its current staff in order to develop and maintain the expertise necessary to comply with its internal timelines and this recommendation.

Responsible Person: Manager of Revenue Accounting

Implementation Date: Completion of a comprehensive training plan – April 30, 2009.

2. Training for all staff members is projected to be completed by August 31, 2009. During this period, employees will continue to work on outstanding reconciliations.

Responsible Person: Manager of Revenue Accounting

Implementation Date: August 31, 2009

3. Between April 30 and August 31, some of the outstanding reconciliations will be completed as division staff attain additional levels of proficiency. By the end of the fiscal year, we will be able to project a completion date for all outstanding reconciliations based on previous reconciliation rates.

Responsible Person: Manager of Revenue Accounting

Implementation Date: August 31, 2010

Fiscal Management Division

The Comptroller's Office places great importance on the role of financial reconciliations in ensuring that errors are identified and corrected in a timely manner.

We will take additional steps to strengthen the Fund-to-Cash Reconciliation review process to include performing a monthly comprehensive peer review and management sign-off. We believe the above actions are responsive to the concerns documented in the finding.

Responsible Person: Manager of Statewide Fiscal Services

Implementation Date: May 1, 2009

Chapter 1-B

The Department of State Health Services Should Complete Required Reconciliations

Issue 1
The Department of State Health Services Did Not Complete the Reconciliation of Its Internal Accounting System with the State's Accounting System

Reference No. 09-555-05

Type of finding: Significant Deficiency

The Department of State Health Services (Department) did not complete the reconciliation of its internal accounting system (the Health and Human Services Administrative System, HHSAS) with the State's accounting system (the Uniform Statewide Accounting System, USAS) as required by the Office of the Comptroller of Public Accounts (Comptroller's Office). The Department substantially completed its cash reconciliation for fiscal year 2008 (see prior year finding 08-555-11) but, as of December 22, 2008, it had not completed its general ledger reconciliation and it had not made the required adjusting entries for fiscal year 2008.

As a result, information in HHSAS did not agree with information in USAS. For example, there was a difference of $230,318,445 for fiscal year 2008 between total assets recorded in HHSAS and total assets recorded in USAS. (Specifically, information in HHSAS showed that total assets totaled $586,417,317, but information in USAS showed that total assets totaled $816,735,762.) Without a complete reconciliation, it is not possible to determine whether either system accurately reflected the Department's financial position as of August 31, 2008.

Additionally, the Department did not comply with the Comptroller's Office requirement that each agency post and reconcile its annual financial data to USAS and the agency's accounting system on a generally accepted accounting principles basis by November 20. Despite its noncompliance with that requirement, the Department submitted the certification form required by the Comptroller's Office certifying that its financial data correctly reflected its financial position as of August 31 of the current fiscal year as recorded in USAS and in the agency's accounting system.

Recommendation

The Department should complete the reconciliation of HHSAS to USAS and make the necessary adjusting entries as required by the Comptroller's Office.

Management's Response

The Department of State Health Services (DSHS) appreciates the auditors noting that the department has substantially implemented the cash reconciliation between the statewide accounting system and our internal accounting system. Through implementation of better internal controls and our monitoring efforts DSHS has finally resolved the prior year findings. DSHS has completed the entry into their internal accounting system of the non-cash adjustments noted by the auditors and had no variances to the information submitted in the department's Annual Financial Report. However, DSHS concurs that the timely entry of these transactions is necessary to assure accurate reporting and will implement procedures to ensure the posting of these transactions to the department's internal accounting system prior to submittal of the Annual Financial Report.

Responsible Person: Accounting Director

Implementation Date: November 20, 2009

Chapter 1-C

The Department of Transportation Should Strengthen Certain Aspects of Its Information Technology and Financial Operations

Issue 1

The Department of Transportation Did Not Regularly Update User Access Rights for Its Automated Systems

Reference No. 09-555-06

Type of finding: Significant Deficiency

In fiscal year 2008, the Department of Transportation (Department) did not regularly update access rights to its automated systems. Specifically:

Title 1, Texas Administrative Code, Section 202.20(1)

Information resources residing in the various state agencies of state government are strategic and vital assets belonging to the people of Texas. These assets must be available and protected commensurate with the value of the assets. Measures shall be taken to protect these assets against unauthorized access, disclosure, modification or destruction, whether accidental or deliberate, as well as assure the availability, integrity, authenticity, and confidentiality of information. Access to state information resources must be appropriately managed.

Title 1, Texas Administrative Code, Section 202.25(3)(B)

A user's access authorization shall be appropriately modified or removed when the user's employment or job responsibilities within the state agency change.

- Eight users whose employment with the Department had been terminated still had access rights to the Automated Purchasing System (APS) and the Material and Supply Management System (MSMS). APS is the Department's internal real-time purchasing system through which it requests and purchases all of its goods and services. MSMS is the Department's real-time inventory system.
- Six users whose employment with the Department had been terminated still had access rights to APS.
- Five users whose employment with the Department had been terminated still had access rights to the Financial Information Management System (FIMS). FIMS is the Department's internal accounting system.
- Four users whose employment with the Department had been terminated still had access rights to APS, MSMS, and the Equipment Operating System (EOS). EOS is the Department's system of record for all information on major equipment.
- Two users whose employment with the Department had been terminated still had access rights to APS and EOS.
- One user whose employment with the Department had been terminated still had access rights to APS and FIMS.
- One user whose employment with the Department had been terminated still had access rights to APS and the Minor Equipment System (MES). MES is the Department's system of record for all information on minor equipment.

- One user whose employment with the Department had been terminated still had access rights to EOS and MSMS.
- One user whose employment with the Department had been terminated still had access rights to MES.

According to the Department's *Information Security Manual* dated November 2007, "when a user's employment status or job functions changes, a user's access authorization must be removed or modified appropriately and immediately."

None of the users discussed above had accessed the automated systems after their employment was terminated. The Department removed the inappropriate access rights for 26 of those users after auditors brought this matter to its attention.

Recommendation

The Department should regularly update user access rights for its automated systems, as outlined in its *Information Security Manual*.

Management's Response

TxDOT understands the importance of removing access rights for users who no longer require access (either through terminations or job reassignments). In some cases, the security administrator (SA) in a district, division or office may elect to suspend the user's account, leaving it intact, but with no login capabilities, while the user's responsibilities are transitioned or the account history is audited. Suspended accounts cannot be used to log in to any system. Although the account is suspended, the user id will appear on reports which include mainframe user ids.

In May 2007, TxDOT implemented the Compliance Monitoring system which provides several monitoring reports to the Security Administrators highlighting all account discrepancies. Since the implementation of this system, the 'Terminated User Report', which lists all terminated users for a district, division, or office, has been provided to the Security Administrators on a monthly basis. As a result of the monthly reports, TxDOT's Information Systems Security branch recorded a reduction in the number of active user accounts assigned to a terminated user. The improvement in suspending or deleting the user access after termination was improved; however, it was not sufficient to meet TxDOT policy.

In October 2008, the Information Systems Security branch implemented daily notification to Security Administrators of all terminated users in their district, division, or office. During this same time frame, the Information System Security branch also began daily monitoring of these reports. If a terminated

user remains on the report for more than 2 days, the Security Administrator is contacted via phone and advised to resolve the issue immediately. The daily notification also serves as a reinforcement of TxDOT's Information Security policy relating to suspending or deleting user accounts immediately upon termination. The results of the daily notification have been positive. The Security Administrators now have immediate access to users in their district, division, or office who have been terminated and they can pro-actively work with the supervisors to remove the access per TxDOT policy.

TxDOT believes the daily notification and daily monitoring of terminated users will provide the necessary controls to resolve the issues noted in this audit.

Responsible Person: Director, Technology Services Division

Implementation Date: October 2008

Issue 2

The Department of Transportation Did Not Consistently Amortize Bond Premiums in Accordance with Requirements

Reference No. 09-555-07

Type of finding: Significant Deficiency

In fiscal year 2008, the Department did not consistently amortize its bond premiums in accordance with the Office of the Comptroller of Public Accounts' (Comptroller's Office) *Reporting Requirements for Annual Financial Reports of State Agencies and Universities.* Specifically:

Amortizing Bond Discounts and Premiums

If bond discounts, premiums, issuance costs, and gain/(loss) on refunding are individually greater than five percent of the par value of the bond issue, the amount must be capitalized and amortized over the remaining life of the bonds using the straight-line or interest method. Amounts less than five percent of the par value may be capitalized or expensed at the time of bond issuance as determined by each individual agency. The five percent applies to each category, not the combined total of all.

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts, July 2008.

- The Department did not amortize bond premiums greater than 5 percent of the issuance cost for State Highway Fund 006. After this error was brought to the Department's attention, the Department amortized these premiums using the "bonds outstanding" method and submitted the amortization information to the Comptroller's Office. However, the "bonds outstanding" method is not one of the two methods outlined in the Comptroller's Office's *Reporting Requirements for Annual Financial Reports of State Agencies and Universities* (see text box for additional details).

- The Department used the "straight-line" method to amortize all bond premiums for the Central Texas Turnpike System. The straight-line method is one of the two methods outlined in *Reporting Requirements for Annual Financial Reports of State Agencies and Universities.* However, the Department used the "bonds outstanding" method to amortize all bond premiums for the Texas Mobility Fund. As discussed above, the "bonds outstanding" method is

not outlined in the *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*. There was not a material difference between the amortization cost calculated using the "bonds outstanding" method and the amortization cost calculated using the methods outlined in *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*.

Recommendation

The Department should establish and implement guidelines to ensure that it amortizes bond premiums and issuance costs consistently and in accordance with the Comptroller's Office's *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*.

Management's Response

The Department agrees with the recommendation. However, the Department is in the process of requesting the Comptroller's Office to add the bonds outstanding method of amortization of premium/discount on serial bonds to their reporting requirements. The bonds outstanding method of amortization provides a result which is closer to the interest method (the preferred method per generally accepted accounting principles) than the straight line method. Per Accounting Principles Board Opinion #21, any method of amortization may be used as long as it provides a result that is not materially different than that obtained under the interest method. In the future, the Department will only use a method for amortizing bond premiums/discounts permitted by the Comptroller's Office's Reporting Requirements for Annual Financial Reports of State Agencies and Universities.

Responsible Person: Director, Finance Division

Implementation Date: April 2009

Chapter 1-D

The Health and Human Services Commission Should Strengthen the Design and Operation of Its Internal Control Structure over Validating Payments for Public Assistance Programs

Public assistance program payments that the Health and Human Services Commission (Commission) reported in its fiscal year 2008 financial statements were materially accurate. The Commission relies on an internal control structure, including pre- and post-payment controls, to help ensure that public assistance program payments for eligible clients are allowable and accurate. These internal controls exist at both the Commission and its

contractors. However, there are weaknesses in the design and operation of these internal controls that limit the assurances it can make regarding the validity of payments made for public assistance programs in fiscal year 2008. The programs affected by these weaknesses spent $10.2 billion in federal funds in fiscal year 2008 (see text box).

Fiscal Year 2008 Federal Expenditures from Public Assistance Programs

Medicaid: 40 million claims paid, payments totaled $9.5 billion.

Children's Health Insurance Program (CHIP): 4.7 million member months, payments totaled $676 million.

Vendor Drug Program: More than 28 million prescriptions filled. Total payments are included within the Medicaid and CHIP payments.

Sources: *Summary of Federal Expenditures by State Agencies* prepared by the Office of the Comptroller of Public Accounts and Health and Human Services Commission self-reported service levels for fiscal year 2008.

Several of the internal control weaknesses auditors identified during the audit of fiscal year 2008 had also been identified in prior audits and had not been fully corrected or mitigated. For example, the Commission's lack of documented policies and procedures for certain functions has been identified as a weakness in four consecutive years. Weaknesses in the Commission's payment monitoring system have been identified for three consecutive years. Weaknesses in user access have been identified for five consecutive years.

In addition, the Commission has only partially implemented prior year recommendations to correct identified internal control weaknesses in the Vendor Drug program and Medicaid. The Commission implemented prior year recommendations for Children's Medicaid, the Food Stamp program, and Temporary Assistance for Needy Families (TANF). The Commission also implemented a prior year recommendation to reconcile its internal accounting system with the Uniform Statewide Accounting System in a timely manner. The Commission took no action to implement prior year recommendations to track the open investigations of the Office of Inspector General and the Office of the Attorney General to account for contingent liabilities.

Auditors identified the following weaknesses during the audit of fiscal year 2008:

- The Commission did not fully implement all components of its payment monitoring process.
- The Commission did not sufficiently document policies and procedures for two key accounting functions.
- The Commission did not ensure that access to the Uniform Statewide Accounting System was properly segregated.
- The Commission did not disclose the potential financial liability associated with the open investigations of its Office of Inspector General.
- The Commission did not accrue $430.3 million in expenditures associated with the Medicaid Upper Payment Limit program.
- The Commission did not have adequate password restrictions for its Premium Payment System.

Issue 1

The Health and Human Services Commission Should Implement All Components of Its Payment Monitoring System

Reference No. 09-555-08
(Prior Audit Issues 08-555-05 and 07-555-01)

Type of finding: Significant Deficiency

The Commission relies on an internal control structure, including pre- and post-payment controls, to help ensure that public assistance program payments for eligible clients are allowable and accurate. However, it should make improvements in its payment monitoring system for the Vendor Drug program and managed care plans.

Vendor Drug Program

As the State Auditor's Office has reported in two previous audits, the Commission did not fully staff its regional pharmacists. As a result, the Commission continued to have vacancies in four highly populated regions: Fort Worth (two vacant positions), Houston (two vacant positions), Lubbock (one vacant position), and San Antonio (one vacant position).

During fiscal year 2008, only 4 of the Commission's 10 regional and sub-regional pharmacist positions were filled. The Commission uses regional and sub-regional pharmacists to review expenditure claims submitted by the approximately 4,150 pharmacies participating in the Vendor Drug program. However, it has not maintained a full complement of regional pharmacists to perform these reviews since prior to 2000.

The Commission hired a regional pharmacist manager during fiscal year 2008, and it has hired two regional pharmacists since August 31, 2008. The Vendor Drug program still needs to hire four more regional pharmacists in order to have all 10 regional and sub-regional pharmacist positions filled.

Additionally, the Commission did not maintain adequate monitoring records of the regional pharmacists' activities during fiscal year 2008. The monthly tracking reports the Commission provided to auditors for fiscal year 2008 were incomplete and included activities only through March 2008.

The Commission also did not ensure that the claims processing system at the Vendor Drug program service provider was operating as intended during fiscal year 2008. In fiscal year 2007, the Commission had a Statement on Auditing Standards No. 70 (SAS 70) review conducted on the service provider's claims processing system. As of September 2008, the Commission was finalizing a plan to address the issues identified in that review. The Commission made $2.45 billion in Vendor Drug program expenditures during fiscal year 2008. On December 11, 2008, the Commission contracted with a

vendor to perform a SAS 70 review of the service provider's claims processing system for fiscal year 2008 and a portion of fiscal year 2009 (through December 2008).

Managed Care Plans

The Medicaid/Children's Health Insurance Program (CHIP) Division did not approve and sign off on all purchase vouchers related to managed care plan payments. Of 18 vouchers tested, 14 (77.8 percent) were not approved. As a result, the Medicaid/CHIP Division was not fully aware of the final amounts that were paid to the managed care organizations it oversees.

The Commission's Internal Audit Division also identified this issue in its *Audit of Medicaid/CHIP Division Managed Care Contract Monitoring Processes* (April 2008). Eight of the 18 vouchers tested that did not have program approval were paid after that internal audit report was published.

Recommendations

The Commission should:

- Continue to enhance its monitoring to ensure that payments for public assistance programs are allowable and paid to eligible clients. Monitoring could encompass activities within the Commission and should include, but not be limited to, the following programs: the Vendor Drug program, Medicaid, and CHIP.
- Ensure that contracted service providers report accurate financial information by either contracting for an independent review of service providers' automated systems or requiring Commission employees to perform sufficient testing of service providers' automated systems.
- Ensure that all payments made on behalf of Medicaid and CHIP programs are approved and signed by the appropriate Medicaid/CHIP Division staff.

Management's Response

Responsibility for monitoring public assistance program payments rests with management within various HHSC departments who perform complementary functions which, when combined, result in a comprehensive monitoring function. Control structures are maintained in Eligibility Determination, Medicaid Claims Processing, Medicaid/CHIP Managed Care, Medicaid/CHIP Vendor Drug Program, and Temporary Assistance to Needy Families (TANF) and Food Stamp programs. (The Food Stamp Program is now referred to as the Supplemental Nutrition Assistance Program, SNAP). Management's control structure is augmented by oversight activities

performed by the HHSC Office of Inspector General (OIG), HHSC Internal Audit, other state and federal audit entities, and external audit firms.

While most components of HHSC's monitoring function were in place and working as intended during fiscal year 2008, the following actions have subsequently been completed or are underway to provide additional controls over public assistance program expenditures.

Vendor Drug Program

Regional Pharmacists

According to the SAO Biennial Report on the State's Position Classification Plan (Report No. 09-701, October 2008), salaries of state pharmacists are approximately 27 percent lower than for equivalent positions in the marketplace. Despite the salary disparity, HHSC has had some success. In May 2008, HHSC hired a Vendor Drug Program Field Pharmacist Manager, whose primary focus has been to fill the vacant pharmacist positions. As a result, in December 2008 and January 2009, HHSC hired two pharmacists for the state's most populous region, Houston. On two separate occasions, pharmacists accepted offers for the San Antonio position, but then declined before the start date. HHSC's recruiting efforts continue to focus on filling four remaining vacancies. In addition, due to the competitive disadvantage experienced by HHSC in the marketplace, HHSC is exploring the possibility of hiring pharmacy technicians in lieu of pharmacists for these positions.

In addition to the Field Pharmacist Manager, HHSC hired a Regional Administrative Coordinator during fiscal year 2008. Both the manager and the coordinator are actively working with field staff to increase the level of standardization and compliance with procedures. In September 2008, HHSC began collecting monthly tracking statistics from all regional offices.

Responsible Person: Deputy Director for Medicaid/CHIP Vendor Drug Program

Implementation Date: December 2009 - Fill four regional pharmacist vacancies

Contracted Vendor Drug Service Provider

HHSC contracted with a vendor to perform a SAS 70 Level II review of the Pharmacy Claims and Rebate Administrator's (PCRA) system. The review period includes fiscal year 2008 and the first four months of fiscal year 2009. The vendor will review the PCRA system to determine the status of issues identified during the fiscal year 2007 SAS 70 and to report any new control weaknesses. To address reported issues, HHSC will take appropriate action, as allowed under the contract, including placing the Vendor Drug Service Provider under a corrective action plan.

To provide additional oversight and to determine whether the PCRA system is operating correctly, Vendor Drug Program staff is implementing a process to periodically review a random sample of claims.

Responsible Person: Deputy Director for Medicaid/CHIP Vendor Drug Program

Implementation Date: September 2009

Managed Care Operations

Managed Care Plan Payments

The Medicaid/CHIP Division is collaborating with Commission IT to fully automate the premium payment process across all managed care programs. The process will include review and authorization by Medicaid/CHIP Division staff prior to the processing of premium payments through HHSC's financial accounting system.

In the interim, the Medicaid/CHIP Division is employing an enhanced manual process to ensure Medicaid/CHIP Division staff review and approve all managed care organization payments prior to processing.

Responsible Person: Deputy Director for Managed Care Operations

Implementation Date: February 2010

Issue 2

The Health and Human Services Commission Should Fully Document Policies and Procedures for Two Key Accounting Functions

Reference No. 09-555-09
(Prior Audit Issues 08-555-08, 07-555-04, and 06-555-09)

Type of finding: Significant Deficiency

The Commission has continued to operate two key accounting functions since fiscal year 2005 without documented policies and procedures. These key accounting functions are related to the recording of public assistance payments. Specifically, the Commission does not have documented policies and procedures for:

- Recording and approving Medicaid and CHIP expenditures.
- Recording and approving Vendor Drug program expenditures.

The Commission began developing draft policies and procedures for these two key functions during fiscal year 2008; however, the draft policies and

procedures are not sufficiently detailed to enable an individual to perform these key functions in the absence of individuals currently performing the functions. The Commission has documented many of its other key accounting functions and has trained backup personnel to perform those functions.

Having documented policies and procedures is a key control over the Commission's financial reporting. It is important for management to communicate and monitor, through policies and procedures, staff members' responsibilities and expectations related to their job functions. In addition, policies and procedures are beneficial for new employees and backup personnel.

Recommendation

The Commission should document its policies and procedures for recording and approving Medicaid, CHIP, and Vendor Drug program expenditures.

Management's Response

HHSC has documented processes and procedures for both Fiscal Agent and Vendor Drug vouchers to ensure expenditures are recorded, approved, and processed in a timely manner.

HHSC will review these processes and procedures to ensure they include sufficient detail to enable staff who are familiar with similar processes to perform the tasks. Once this review is completed, the processes and procedures will be finalized and approved. HHSC will periodically review the processes and procedures to ensure they are up-to-date and appropriately address changes in the operating environment.

Responsible Person: Director of Fiscal Management

Implementation Date: August 2009

Issue 3

The Health and Human Services Commission Should Review User Access to the Uniform Statewide Accounting System and Ensure That Related Duties Are Properly Segregated

Reference No. 09-555-10
(Prior Audit Issues 08-555-10 and 07-555-05)

Type of finding: Significant Deficiency

The Commission does not adequately manage user access to the Uniform Statewide Accounting System (USAS). Specifically:

- Seven users have access to sensitive financial data; can enter, edit, and delete accounting transactions; and can release any accounting transactions in USAS.

- Eight users have user USAS class codes that conflict with their job duties. All eight users have access to transaction codes for accounts receivable and accounts payable and can enter, edit, and delete accounting transactions. In addition, three of these eight users also can release revenue transactions. This represents a weakness in segregation of duties, which increases the risk that inappropriate financial transactions could be made without detection.

- Four users have higher access levels in USAS than is appropriate for their job titles.

In fiscal year 2008, 385 documents totaling $9,873,973 were entered and/or modified and released by the same individual. Without mitigating controls, this increases the risk that intentional or unintentional errors could go undetected.

Recommendations

The Commission should:

- Continue to implement its process to identify individuals for whom access should be adjusted, including individuals whose employment has been terminated.

- Develop and implement procedures to monitor and mitigate the risk of employees performing incompatible duties and consider using USAS reports to monitor user access.

Management's Response

HHSC has documented policies and procedures to monitor employees whose USAS access rights should be terminated or adjusted. These procedures include monthly review of user accounts for terminated employees. HHSC will ensure that documented procedures include periodic confirmation from management that user access privileges are appropriate. For example, user access privileges would be modified when there are changes in responsibilities or transfers out of the business area.

HHSC has written policies and procedures to monitor and minimize the risks associated with the activities of individuals with entry, edit, delete, and release capabilities in USAS. These procedures include (1) monthly management review of a USAS report listing edited and released USAS transactions and (2) retention of documentation supporting the edits.

HHSC will review USAS security controls to determine whether current access levels can be further restricted. Once the review is completed, policies and procedures will be finalized and approved. HHSC will periodically review these policies and procedures to ensure they are up-to-date and appropriately address changes in the operating environment.

HHSC has performed job audits on the four positions with higher access levels in USAS than appropriate for their job title. These individuals' responsibilities and job titles are now aligned with their access privileges in USAS.

Responsible Person: Director of Fiscal Management

Implementation Date: August 2009

Issue 4

The Health and Human Services Commission Should Disclose the Potential Financial Liability Associated with the Open Investigations of Its Office of Inspector General

Reference No. 09-555-11
(Prior Audit Issue: 08-555-09)

Type of finding: Significant Deficiency

The Commission does not adequately track its Office of Inspector General's open investigations to determine related dollar amounts overpaid to providers for these cases.

As of August 31, 2008, the Commission's list of active open investigation cases included 3,646 cases. Due to their complexity, it takes more than one year to investigate the majority of those cases. The Commission did not analyze these cases to determine whether it should report them in its annual financial report as contingent liabilities. This resulted in the Commission not reporting a contingent liability in its annual financial report for fiscal year 2008. After this was brought to the Commission's attention, it provided a contingent liability note to the Office of the Comptroller of Public Accounts (Comptroller's Office) for inclusion in the State's Comprehensive Annual Financial Report for fiscal year 2008.

Contingent Liability

A loss contingency arising from a claim must be disclosed when it is reasonably possible that a loss will eventually be incurred and if it is either not probable or not subject to reasonable estimation. The disclosure should indicate the nature of the contingency and give an estimate of the possible loss or range of loss. However, if an estimate of the loss cannot be made, the disclosure must state this fact.

A loss contingency arising from a claim is accrued as of the balance sheet date when both of the following conditions are true:

- Information available before the financial statements are issued indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements. It must be probable that one or more future events will also occur confirming the fact of the loss.
- The amount of the loss can be reasonably estimated.

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts, July 2008.

The Comptroller's Office requires that notes to the financial statements communicate information that is necessary for a fair presentation of the financial position and the results of operations, but not readily apparent from, or not included in, the financial statements themselves (see text box for additional details).

Recommendation

The Commission should comply with the Comptroller's Office's requirement to prepare financial statements that are presented fairly and that include all required notes.

Management's Response

HHSC management drafted a contingent liability footnote addressing this issue and submitted it to the Comptroller's Office. The note was incorporated into the fiscal year 2008 annual financial report, and future reports will contain the same contingent liability disclosure.

Responsible Person: Inspector General, HHSC Office of Inspector General and Director of Fiscal Management

Implementation Date: Complete

Issue 5

The Health and Human Services Commission Should Accrue Necessary Expenditures

Reference No. 09-555-12

Type of finding: Significant Deficiency

Medicaid Upper Payment Limit

The Medicaid Upper Payment Limit requires that the Medicaid agency find that the estimated average proposed payment rate is reasonably expected to pay no more in the aggregate for inpatient hospital services or long-term care facility services than the amount that the agency reasonably estimates would be paid for the services under the Medicare principles of reimbursement.

Source: Title 42, Code of Federal Regulations, Section 447.253 (b) (2).

In fiscal year 2008, the Commission did not accrue $430.3 million in expenditures with a fiscal year 2008 service date related to the Medicaid Upper Payment Limit (see text box) program, which it oversees. The Commission accrued the necessary expenditures in previous fiscal years.

After this issue was brought to the Commission's attention, the Commission prepared an adjustment to accrue the necessary expenditures. In future fiscal years, the Commission has asserted it will provide the adjustment to the Comptroller's

Office.

According to the Comptroller's Office's *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, expenditures should be recognized as soon as a liability is incurred, regardless of the timing of related cash flows.

Recommendation

The Commission should establish a process to ensure it reports any updated accrual information for unpaid expenditures to the Comptroller's Office as soon as practical.

Management's Response

HHSC has a process in place to ensure it reports UPL expenditures each year to the Comptroller's Office as a component of its annual Accounts Payable estimation.

Responsible Person: Director of Fiscal Management

Implementation Date: Complete

Issue 6

The Health and Human Services Commission Should Strengthen Password Requirements for its Premiums Payable System

Reference No. 09-555-13

Type of finding: Significant Deficiency

The Commission should strengthen the password requirements for its Premiums Payable System (PPS). Passwords for that system are not required to have a minimum length and do not have a system-enforced requirement to change the passwords at regular intervals. The PPS also does not maintain a history to prevent reuse of recent passwords. In addition, 7 (63.6 percent) of the 11 user accounts on the PPS online application are generic accounts. Use of generic user accounts prevents accountability for user actions and places the Commission's data at risk of unauthorized changes.

Title 1, Texas Administrative Code, Section 202.25(3)(A), requires that "each user of information resources shall be assigned a unique identifier except for situations where risk analysis demonstrates no need for individual accountability of users. User identification shall be authenticated before the information resources system may grant that user access." Title 1, Texas Administrative Code, Section 202.25(3)(D), requires that "Information

resources systems which use passwords shall be based on industry best practices on password usage and documented state agency security risk management decisions."

The Commission informed auditors that it is replacing the PPS with a new system that has up-to-date security. The new system is expected to be in production after finalization of the State Data Center environment.

Recommendation

The Commission should ensure that the new system complies with Texas Administrative Code requirements.

Management's Response

In January 2009, Commission IT completed the migration of the Premiums Payable System (PPS) from the mainframe to a server-based platform. The risk identified in the audit has been mitigated by disabling access controls to the application. In the interim, access to system information is being fulfilled through ad hoc queries developed by authorized Commission IT programming staff. When PPS is enhanced and fully functional, system access will be controlled through a web-based solution that utilizes an identity management tool which fully complies with all Texas Administrative Code requirements, including strong eight character passwords, forced changing of passwords, role based security, and elimination of generic accounts.

To implement planned enhancements, Commission IT is dependent on IBM's Team for Texas, the state data center provider, to establish adequate development, test, and production environments. A formal request for these environments was made in July 2008. To date, no delivery date has been provided for these environments. Once these environments are available, the web-based solution can be implemented within 90 days.

Responsible Person: Director of Commission IT in coordination with the Deputy Director for Managed Care Operations

Implementation Date: 90 days after delivery of data center environments by IBM's Team for Texas

Chapter 1-E

The University of Texas at Austin Should Strengthen Certain Aspects of Its Financial Operations

Issue 1
The University of Texas at Austin Should Strengthen its Inventory Controls

Reference No. 09-555-14
(Prior Audit Issue 08-555-15)

Type of finding: Significant Deficiency

The University of Texas at Austin (University) did not always follow state property accounting requirements established by the Office of the Comptroller of Public Accounts. Specifically:

- As of August 15, 2008, the University had not entered 799 capital assets valued at $41.4 million into the inventory system as a permanent inventory record. This amount includes a single item for $22.8 million. Of those capital assets, 644 with a value of $38.4 million were purchased between September 5, 2007 and July 15, 2008. However, this activity was reflected in the August 31, 2008 financial statements. Inventory information should be entered on a timely basis into the permanent record of the item to ensure that inventory records are accurate and current.

- According to the University's Inventory Services unit, purchased items are required to be tagged within 30 days of receipt. Although the University's training documents include this expectation, the University had not updated its Handbook of Business Procedures (Handbook) to reflect this expectation as of September 2, 2008. Currently, the University Handbook has been updated and accurately reflects the tagging requirement.

- The University did not correctly value 8 (21.6 percent) of 37 assets that auditors tested. Specifically:

  - The University did not account for $3,742 in discounts when valuing 1 (2.7 percent) of the 37 assets that auditors tested.

  - The University incorrectly expensed 1 (2.7 percent) of the 37 assets that auditors tested. The asset, purchased for $2,125, was necessary for the operation of equipment and should have been capitalized as required by the *SPA Process User's Guide* (see text box for additional details).

  - The University did not correctly value 4 (10.8 percent) of the 37 assets that auditors tested. These four assets had freight costs of $671 that should have been capitalized as required by the *SPA Process User's Guide* (see text box for additional details).

Excerpts from the
SPA Process User's Guide

Capital assets should be recorded at their historical costs, which include invoice, sales tax, initial installation costs, modifications, attachments, accessories or apparatus necessary to make the asset usable and render it into service. Historical costs also include ancillary charges, such as freight and transportation charges, site preparation costs, and professional fees.

Incidental charges, such as extended warranties or maintenance agreements, additional parts, or consumable items are no longer considered part of the capital asset cost.

Source: *SPA Process User's Guide,* Office of the Comptroller of Public Accounts, February 2008.

- The University incorrectly capitalized $1,758 in information technology support and maintenance costs associated with 2 (5.4 percent) of the 37 assets that auditors tested. These costs should have been expensed as required by the *SPA Process User's Guide* (see text box on the previous page for additional details).

- The University asserted that it reconciles its fixed asset system to the State Property Accounting (SPA) system on an annual basis, rather than on a quarterly basis**.** According to the *SPA Process User's Guide*, the University, as a reporting agency, should reconcile balances from its fixed assets system to the SPA system on a quarterly basis, and reconciling items identified should be cleared (that is, corrections should be made) as soon as possible. All reconciling items should be cleared before the preparation of the capital asset note in the financial statements.

Ensuring that accurate information is entered into the University's fixed asset system and the SPA system helps to ensure that capital asset balances, depreciation, and accumulated depreciation are reported accurately on the State's Comprehensive Annual Financial Report.

Recommendations

The University should:

- Conduct an independent verification of department inventory records throughout the fiscal year.

- Update permanent inventory records on a timely basis. As part of this effort, the Inventory Services unit should periodically monitor the assets that departments purchase to ensure that departments submit inventory information and that inventory tags are assigned to capitalized assets within 30 days of receipt.

- Develop written policies and procedures for accounting for freight, maintenance costs, and discounts. Specifically, it should:

  - Capitalize the shipping and handling costs associated with capital assets.

  - Capitalize all modifications, attachments, accessories or apparatus necessary to make assets usable and render them into service.

  - Expense service agreement costs (rather than capitalizing those costs) that are associated with capital assets if the warranty costs or service agreement costs are listed as separate line items on the purchase order or invoices.

  - Ensure it takes all discounts on assets.

- Strengthen guidance available to departments that are responsible for recording and tagging assets.
- Reconcile its fixed asset system to the SPA system on a quarterly basis.

Management's Response

The University concurs with the finding.

Spot audits of department inventory records will begin in April, 2009. This will allow Inventory Services to monitor, and provide additional guidance to departments, regarding tagging requirements and the need for timely submission of inventory information. The Handbook of Business Procedures has been updated accordingly.

There are many factors that contribute to the lateness of entering assets into the University's computerized inventory system. One issue is that the system design requires that it be closed at year-end to daily processing in order to perform fiscal year end procedures, and then reopened in late October. During that time departments and Inventory Services continue to tag items that are received by the University. The system close creates a delay in processing the permanent records by Inventory Services. In addition to the needed design changes to the University's electronic inventory system, other changes are needed to expedite the time it takes to enter each item into the inventory system including policy changes to allow the item serial number to function as the official University tag number, and better integration between the inventory system, the University's procurement systems, and departmental procedures. This is a long-term initiative and will involve communications with the State Comptroller, software modifications, and procedural modifications throughout the community. Resource availability is limited during the current hiring freeze and it is unlikely that all of this can be accomplished by the end of this fiscal year. The University will immediately begin spot testing purchases of capital and controlled items to address the procedural delays in the university community; however, full implementation of the inventory system design and integration will not be completed until the following fiscal year end, August 31, 2010.

The Handbook of Business Procedures has been updated to reflect the appropriate processing of shipping, handling, service agreements, maintenance costs, and warranty costs. The Handbook will be updated in May 2009 to include accounting policies for capitalizing modifications and attachments used for making an asset serviceable. Training has been provided to the Office of Accounting staff on how to correctly account for these costs including discounts. The University will continue to enhance written procedures and training for these costs.

Inventory data from the University's system is sent to SPA electronically via data uploads on a monthly basis. Data quality issues and limited staffing resources have prohibited more frequent reconciliations and made the current process manual and time consuming. The University is addressing the data quality issues utilizing the University's IQ (data warehousing) System and improving the automation processes in order to maximize limited resources. The University will develop and implement a plan by December 2009.

Responsible Person: Finance Manager, Inventory Services

Implementation Dates:

Handbook of Business Procedures updates	*May 2009*
Quarterly reconciliation implementation	*December 2009*
Inventory system design changes for year-end processing	*August 2010*

Chapter 1-F

The University of Texas at San Antonio Should Strengthen Certain Aspects of Its Financial Operations and Information Technology

Issue 1

The University of Texas at San Antonio Should Strengthen Its Capital Asset Records

Reference No. 09-555-15

Type of Finding: Significant Deficiency

The University of Texas at San Antonio (University) did not always follow state property accounting requirements established by the Office of the Comptroller of Public Accounts (Comptroller's Office). Specifically:

- The University did not have documentation supporting the acquisition costs for 21 (43.8 percent) of 48 assets that auditors tested. The University's record retention policy requires the University to maintain this documentation for the fiscal year in which it purchased an asset plus three years. However, the Comptroller's Office's *SPA Process User's Guide* and the Library and Archive Commission's *Texas State Records Retention Schedule* require state entities to maintain property records for the life of the asset plus three years. The University acquired these 21 assets between June 1993 and August 2004, which was beyond the retention requirements of the University's record retention schedule but still within the retention requirements of the *SPA Process User's Guide* and the *Texas State Records Retention Schedule*. Six of the 21 assets were fully depreciated. Auditors performed additional procedures to substantiate the asset balances for the remaining 15 assets.

- The University made numerous clerical errors (including posting errors, incorrect classifications of furniture as building costs, and calculation errors) in the schedules within its annual financial report that related to buildings and depreciation. Auditor testing determined that the University overstated capital assets by $164,249 or 0.02 percent**,** overstated depreciation expenses by $296,194 or 1.1 percent**,** and understated accumulated depreciation by $290,013 or 0.1 percent on its fiscal year 2008 annual financial report. The University's financial statements reported $849,566,355 in capital assets; $26,317,313 in total depreciation and amortization expenses; and $220,181,573 in total accumulated depreciation for fiscal year 2008.

Ensuring that accurate information is entered into the University's fixed asset system and the State Property Accounting system helps to ensure that capital asset balances, depreciation, and accumulated depreciation are reported accurately on the State's Comprehensive Annual Financial Report.

Recommendations

The University should:

- Follow the *SPA Process User's Guide* and the *Texas State Records Retention Schedule* and retain invoices and documentation for capital assets for the life of the asset plus three years.

- Strengthen its process to review supporting documentation for capital asset purchases and the accumulation of construction costs for buildings.

Management's Response

The University does not agree that the issues raised by the State Auditor rise to the level of a significant deficiency as defined by the American Institute of Certified Public Accounts. The SPA Process User's Guide and the Library and Archive Commission's Texas State Records Retention Schedule requires that a property record be maintained for the life of the asset plus three years. Neither of these documents defines the term "property record." We interpret a property record to include: the carrying value of the asset, the useful life, a description of the asset, the acquisition date, and other pertinent information.

Further, there are specific sections in the Texas State Records Retention schedule related to invoicing, pricing, and other records of expenditures that require only Fiscal Year End plus three years retention including:

4.1.002 Billing Detail	*FE + 3 years*
4.1005 Inventory and Other Cost Files (pricing)	*FE + 3*

4.2.005 Purchase Vouchers (invoices or statements) FE + 3 years

We do not believe that the SPA Process User's Guide and the Library and Archive Commission's Texas State Records Retention Schedule requires the retention of invoices and other documents as supporting evidence for capital assets to be retained for the life of the asset plus three years. Within UTSA's financial accounting system, the Inventory module receives an electronic feed of data directly from the Accounting module whenever capital inventory object codes apply to an expenditure voucher. As such, certification of the invoice amount and review of the asset pricing is performed when the payment voucher is approved by a central module in detailed format, including cost, acquisition date and other pertinent information. Before an inventory tag is used by the University's central Capital Asset management staff, the existence of the asset is verified. We believe this data comprises the official UTSA property record which is maintained in our database for the life of the asset plus three years. We will continue to work with the State Comptroller's office to determine the type of evidence to meet the requirements outlined in the SPA Process User's Guide and the Library and Archive Commission's Texas State Records Retention Schedule.

The capital outlay analysis process is a manual process that will be reviewed to minimize the potential for clerical errors. The journal entry to record capital assets will be broken down by buildings as opposed to lump sum. The detailed entry will enable a more in-depth review and should ensure that assets are added to the correct classification and carried forward accurately between schedules. In addition, a closer review will be completed by appropriate Accounting management to minimize errors in depreciation and accumulated depreciation.

Responsible Person: Associate Vice President for Financial Affairs

Implementation Date: August 2009

Issue 2
The University of Texas at San Antonio Should Restrict Access to the Uniform Statewide Accounting System

Reference No. 09-555-16

Type of Finding: Significant Deficiency

> **Title 1, Texas Administrative Code, Section 202.20(1)**
>
> Information resources residing in the various state agencies of state government are strategic and vital assets belonging to the people of Texas. These assets must be available and protected commensurate with the value of the assets. Measures shall be taken to protect these assets against unauthorized access, disclosure, modification or destruction, whether accidental or deliberate, as well as assure the availability, integrity, authenticity, and confidentiality of information. Access to state information resources must be appropriately managed.

In fiscal year 2008, five users at the University had inappropriate access rights to the Uniform Statewide Accounting System (USAS, the State's accounting system). These users had the ability to enter, edit, and release transactions. The ability to perform all three of these actions in USAS enables users to alter data.

After auditors brought this issue to the University's attention, it removed the release access rights for these five users. University management asserted that these five users do not release transactions into USAS in accordance with their job descriptions.

Recommendation

The University should:

- Restrict access to USAS to the level necessary for each user's job functions.
- Restrict access granted to USAS to a level that provides for proper segregation of duties.

Management's Response

USAS access was corrected in February 2009 to restrict access to each authorized user's specific job responsibilities and to assure proper segregation of duties. Additionally, an internal access request form was developed, which will be approved by the employee's Director and the Assistant Vice President, Financial Affairs and Controller. The access request form will ensure access to USAS is necessary for the employee's job function and that there is proper segregation of duties. An annual review will also be conducted.

Responsible Person: Associate Vice President for Financial Affairs

Implementation Date: February 2009, with the access form to be implemented immediately and the annual review performed each August.

Chapter 1-G

The University of Texas Southwestern Medical Center at Dallas Should Strengthen Certain Aspects of Its Financial Operations

Issue 1
The University of Texas Southwestern Medical Center at Dallas Should Strengthen Its Capital Asset Records

Reference No. 09-555-17

Type of finding: Significant Deficiency

The University of Texas Southwestern Medical Center at Dallas (Medical Center) did not always follow state property accounting requirements established by the Office of the Comptroller of Public Accounts and its own policies. Specifically:

- The Medical Center did not value 3 (5.6 percent) of 54 assets that auditors tested using a reasonable method. The three assets were works of art that the Medical Center valued at $301,376 (one of the assets was valued at $300,000). The Medical Center based the value of these donated assets on the donor's assertion of their value. According to the Office of the Comptroller of Public Accounts' *SPA Process User's Guide* (February 2008), donated property must be recorded at its estimated fair market value on the date of acquisition using a reasonable method. The method must be fully documented, maintained on file, and reported to the State Property Accounting (SPA) system. Examples of reasonable methods include the use of appraisals, tax assessment records, manufacturer price lists, and industry publications.

- The Medical Center capitalized and depreciated 1 (1.9 percent) of 54 assets that auditors tested, rather than expensing it in accordance with its unofficial policy. As a result, the Medical Center overstated capital assets by $62,700 and overstated accumulated depreciation by $18,661 on its fiscal year 2008 financial statements. The Medical Center did not consistently follow its unofficial policy of expensing research and laboratory animals after they are purchased.

- Auditors were unable to locate 2 (3.7 percent) of 54 assets that auditors tested. One asset was the laboratory animal discussed in the preceding bullet, and the other asset was a piece of equipment that the Medical Center had salvaged but had not removed from its fixed asset system. According to the *SPA Process User's Guide*, state entities should maintain a detailed description of the exact location of assets and update the location as necessary.

- The Medical Center did not have documentation supporting the acquisition costs for 4 (7.4 percent) of 54 assets that auditors tested. The Medical Center acquired these 4 assets at least 10 years ago. According to the *SPA Process User's Guide* and the Library and Archive Commission's

Texas State Records Retention Schedule, state entities are required to maintain property records for the life of the asset plus three years.

- The Medical Center did not have documentation supporting the disposal of 15 (50 percent) of 30 fiscal year 2008 asset disposals that auditors tested. As discussed above, the *SPA Process User's Guide* requires that property records be maintained for the life of the asset plus three years. Specifically:

  - The Medical Center disposed of 7 (46.7 percent) of the 15 assets by having an auctioneer sell the assets. However, the assets were not individually identified in the receipts the Medical Center received from the auctioneer. Starting in fiscal year 2009, the Medical Center asked the auctioneer to individually identify the assets in each lot on receipts.

  - Other than screen prints from its fixed asset system, the Medical Center did not have supporting documentation for 8 (53.3 percent) of the 15 assets.

- Of the 30 fiscal year 2008 asset disposals that auditors tested, auditors determined that one asset had been disposed of in the prior fiscal year. The Medical Center had disposed of this asset in April 2007, but it did not remove the asset from its fixed assets system until April 2008. According to the *SPA Process User's Guide*, once property is disposed of it should be removed from the fixed asset system.

- The Medical Center did not expense warranty costs for two assets. The warranty costs associated with these two assets totaled $83,060. As a result of this issue, the Medical Center overstated accumulated depreciation by $6,222 on its fiscal year 2008 financial statements. According to the *SPA Process User's Guide*, warranty costs should be expensed if they are itemized on the invoice or purchase order. In addition, the Medical Center did not deduct a credit of $1,087 from the acquisition cost of one of these assets.

Ensuring that accurate information is entered into the Medical Center's fixed asset system and the SPA system helps to ensure that capital asset balances, depreciation, and accumulated depreciation are reported accurately on the State's Comprehensive Annual Financial Report.

Recommendations

The Medical Center should:

- Use a reasonable assessment when determining the value of donated capital assets.

- Apply all credits to the acquisition cost of assets.
- Follow the *SPA Process User's* Guide and the *Texas State Records Retention Schedule* and retain invoices and documentation for capital assets for the life of the asset plus three years.
- Maintain documentation supporting the removal of assets from its fixed asset system.
- Remove assets from its fixed asset system in the fiscal year in which it disposes of the assets.
- Expense warranty costs (rather than capitalizing those costs) associated with capital assets when the warranty costs are listed as separate line items on purchase orders or invoices.

Management's Response

We agree with the recommendation. We will implement the recommendations outlined in the report to ensure capital assets are accurately recorded, documentation is adequately maintained, and assets are properly disposed.

Responsible Person: Assistant Vice President for Materials Management

Implementation Date: April 1, 2009

Issue 2
The University of Texas Southwestern Medical Center at Dallas Should Strengthen Its Patient Billing Process

Reference No. 09-555-18

Type of finding: Significant Deficiency

The Medical Center did not review and address in a timely manner uncharged outpatient transactions for the two hospitals that it manages. Unbilled outpatient transactions are identified on the Medical Center's *Discharged Not Final Billed Report*.

As of August 31, 2008, the Medical Center had not billed for 6,126 patient accounts with charges totaling $7,151,027 (see Table 1 on the next page).

Table 1

Summary of Accounts for which the Medical Center Had Not Billed As of August 31, 2008		
Number of Days Account Had Not Been Billed	Number of Accounts	Balance
0-30 days	3,341	$4,657,184
31-60 days	1,548	1,232,488
61-90 days	212	318,147
More than 90 days	1,025	943,208
Totals	6,126	$7,151,027

Of the 1,025 accounts for which the Medical Center had not billed for more than 90 days, 194 (18.9 percent) were from fiscal years 2005, 2006, and 2007. These 194 accounts represented 23.1 percent or $217,530 of the total balance of accounts not billed for more than 90 days. According to Medical Center personnel, 13 of the accounts were previously billed.

In addition, numerous patient accounts did not have associated billing amounts. As a result, it was not possible to determine from the *Discharged Not Final Billed Report* how much these patients owed the Medical Center. Some of these accounts had registration dates from October 2004**.**

There are several reasons that the Medical Center may not have billed an account. For example:

- In some cases, doctors have not provided a final diagnosis.
- The Medical Center sometimes places holds on accounts because the accounts are awaiting insurance verification, lack an emergency room level charge, or are awaiting the entry of a national drug code for Medicaid.

Recommendation

The Medical Center should review and address in a timely manner its uncharged outpatient transactions.

Management's Response

We agree with the recommendation. We will review and address unbilled transactions in a timely manner.

Responsible Person: Director Patient Financial Services Hospital Administration

Implementation Date: April 1, 2009

Chapter 1-H

Agencies and Higher Education Institutions Should Strengthen Their Reviews of Their Schedules of Expenditures of Federal Awards

Reference No. 09-555-19

Type of finding: Significant Deficiency

Schedule of Expenditures of Federal Awards (SEFA)

Each agency, college, and university that expends federal awards is required to prepare a Schedule of Expenditures of Federal Awards (SEFA). Federal awards include federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities [Office of Management and Budget (OMB) Circular A-133, Section .105].

Federal financial assistance includes any assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance (OMB Circular A-133, Section .105).

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts, July 2008.

The agencies and higher education institutions listed in Table 2 did not perform an adequate review of their fiscal year 2008 Schedules of Expenditures of Federal Awards (SEFAs) (see textbox for additional information).

Because they did not perform an adequate review, the SEFAs these agencies and higher education institutions submitted to the Office of the Comptroller of Public Accounts (Comptroller's Office) contained errors. Table 2 summarizes the errors auditors identified in these agencies' and higher education institutions' fiscal year 2008 SEFA.

The 22 agencies and higher education institutions listed below reported $7.7 billion in federal expenditures, or 21.9 percent of the total federal expenditures reported by the State of Texas for fiscal year 2008. The errors listed below were not material to the fiscal year 2008 SEFA for the State of Texas or to the fiscal year 2008 Comprehensive Annual Financial Report for the State of Texas.

Table 2

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2008 SEFAs

Agency or Higher Education Institution	Incorrect Program Clustering [a]	Incorrect Pass-through Reporting [b]	Incorrect Preparation of SEFA Using Revenues [c]	Incorrect Classification of Expenditures [d]	Incorrect Exclusion of Expenditures [e]	Errors in Notes to the SEFA [f]	Inadequate Support [g]	Incorrect Exclusion of Indirect Cost Recovery [h]
Angelo State University	X							
Department of Agriculture		X		X	X			X
Department of Public Safety	X			X	X			

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2008 SEFAs								
Agency or Higher Education Institution	Incorrect Program Clustering [a]	Incorrect Pass-through Reporting [b]	Incorrect Preparation of SEFA Using Revenues [c]	Incorrect Classification of Expenditures [d]	Incorrect Exclusion of Expenditures [e]	Errors in Notes to the SEFA [f]	Inadequate Support [g]	Incorrect Exclusion of Indirect Cost Recovery [h]
Department of State Health Services			X	X				X
Department of Transporta-tion		X						
Parks and Wildlife Department			X					
Texas A&M University	X							
Texas A&M University - Corpus Christi	X		X					
Texas AgriLife Research	X			X				
Texas Southern University	X				X			
Texas State University - San Marcos	X			X				
Texas Tech University				X				
University of North Texas Health Science Center at Fort Worth	X			X				
The University of Texas at Austin	X			X				
The University of Texas at Dallas	X							
The University of Texas at El Paso						X		
The University of Texas of the Permian Basin	X			X				
The University of Texas Southwestern Medical Center at Dallas				X		X		

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2008 SEFAs								
Agency or Higher Education Institution	Incorrect Program Clustering [a]	Incorrect Pass-through Reporting [b]	Incorrect Preparation of SEFA Using Revenues [c]	Incorrect Classification of Expenditures [d]	Incorrect Exclusion of Expenditures [e]	Errors in Notes to the SEFA [f]	Inadequate Support [g]	Incorrect Exclusion of Indirect Cost Recovery [h]
The University of Texas Health Science Center at Houston				X				
The University of Texas Health Science Center at San Antonio	X							
The University of Texas Medical Branch at Galveston	X			X			X	
West Texas A&M University	X							

[a] Reported federal programs in an incorrect cluster. Texas Southern University incorrectly included one federal program on its SEFA. That program should have been reported by the Higher Education Coordinating Board on its SEFA.

[b] Incorrectly classified expenditures as direct expenditures. The expenditures should have been classified as "Pass-Through to Non-State Entities" and "Pass-Through to Agencies or Universities."

[c] Incorrectly prepared SEFA using federal revenues rather than expenditures.

[d] Incorrectly classified expenditures between federal programs.

[e] Texas Southern University did not include all federal expenditures from its general ledger. The Department of Agriculture and the Department of Public Safety did not include accrued expenditures on their SEFAs.

[f] The University of Texas Southwestern Medical Center at Dallas incorrectly excluded the ending balance of previous year's loan for one program in the notes to their SEFA. Summaries of the prior year ending loan balances and new loans are required to be presented in the SEFA. The University of Texas at El Paso incorrectly classified an expenditure between federal programs in the reconciliation note to its SEFA.

[g] On September 13, 2008, Hurricane Ike led to an extended closure of the University of Texas Medical Branch at Galveston (Medical Branch). During the transportation of files, the Medical Branch misplaced or misfiled some documents that supported the amounts on its SEFA.

[h] Did not include indirect cost recovery.

Performing an adequate review of their SEFAs and supporting documentation would help the agencies and higher education institutions ensure that the SEFA information they submit to the Comptroller's Office is accurate.

Recommendation

Agencies and higher education institutions should implement an adequate review process to ensure that the SEFA information they submit to the Comptroller's Office is accurate.

Summary of Management's Responses

The agencies and higher education institutions to which auditors addressed the recommendation agreed with the recommendation. Responses from each agency and higher education institution are presented in Appendix 3.

Federal Award Findings and Questioned Costs

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2008 was included in Chapter 1-H of this report. All other fiscal year 2008 federal award information was issued in a separate report. See *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2008*, by KPMG LLP, dated February 20, 2009.

Summary Schedule of Prior Audit Findings

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2008

Federal regulations (Office of Management and Budget Circular A-133) state that "the auditee is responsible for follow-up and corrective action on all audit findings." As part of this responsibility, the auditees report the corrective actions they have taken for the findings reported in:

- *An Audit Report on Financial Management at the Department of Health* (State Auditor's Office Report No. 01-021, March 2001).
- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2001* (State Auditor's Office Report No. 02-555, May 2002).
- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2002* (State Auditor's Office Report No. 03-555, April 2003).
- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2003* (State Auditor's Office Report No. 04-555, March 2004).
- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2004* (State Auditor's Office Report No. 05-555, March 2005).
- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2005* (State Auditor's Office Report No. 06-555, March 2006).
- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2006* (State Auditor's Office Report No. 07-555, April 2007).
- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2007* (State Auditor's Office Report No. 08-555, April 2008).

The Summary Schedule of Prior Audit Findings (for the year ended August 31, 2008) has been prepared to address these responsibilities.

Chapter 3-A

The Office of the Comptroller of Public Accounts Should Strengthen Certain Aspects of Its Financial and Information Technology Operations

Issue 1

The Treasury Division within the Office of the Comptroller of Public Accounts Should Strengthen Access Controls and Financial Reconciliations

Reference No. 08-555-01

Auditors identified weaknesses in access to automated systems and in financial reconciliations within the Treasury Division (Division) at the Office of the Comptroller of Public Accounts (Comptroller's Office).

The Division should improve how it grants access to automated systems.

The Division grants inappropriate access to its automated systems. Auditors reviewed access rights for automated systems that processed and reconciled $47.2 billion in fiscal year 2007 and identified the following:

- Twenty-three developers had access rights that allowed them to modify and delete data in all eight automated systems.
- Thirteen staff, including executive assistants, could modify and delete data in all eight automated systems.
- For all eight automated systems, the Division assigned access rights to staff regardless of whether staff's job duties required this level of access. For three of the automated systems reviewed, more than 40 users could modify and delete data.
- Fifteen developers who were contracting with the Comptroller's Office were erroneously granted access to the Division's systems.

After auditors brought these matters to the Division's attention, the Division began to review the access levels for individuals and accounts and remove inappropriate access levels.

Title 1, Texas Administrative Code, Section 202.20 (1)

Information resources residing in the various state agencies of state government are strategic and vital assets belonging to the people of Texas. These assets must be available and protected commensurate with the value of the assets. Measures shall be taken to protect these assets against unauthorized access, disclosure, modification or destruction, whether accidental or deliberate, as well as to assure the availability, integrity, utility, authenticity, and confidentiality of information. Access to state information resources must be appropriately managed.

The Texas Administrative Code requires agencies to take measures to protect data from unauthorized access, disclosure, modification, or destruction, whether accidental or deliberate (see text box). Granting excessive access and not providing for proper segregation of duties increases the risk of fraud and potential service disruption.

Because the Division is responsible for processing billions of dollars in revenue, loss of interest on even a single day's interest due to data manipulation or destruction would affect state revenues. It is important to note, however, that nothing came to auditors' attention to indicate that automated systems

had been compromised. Although compensating manual controls could reduce the risk of undetected errors or fraud in the Division's financial system, auditors identified weaknesses in those controls, which are discussed below.

Treasury Accounting should consistently review reconciliations.

Performing financial reconciliations could mitigate the risks associated with the access weaknesses described above. However, Treasury Accounting, a unit within the Division, consistently reviews financial reconciliations that are completed on the same day every week. Therefore, it did not review 142 of 176 (80.7 percent) financial reconciliations tested.

Treasury Accounting staff perform more than 600 financial reconciliations per month. Reviewing these reconciliations helps to ensure that all cash paid to the State is accounted for and helps to maintain the integrity of accounting data. Auditors identified no errors in the reconciliations reviewed.

Corrective Action and Management's Response

See current year finding 09-555-02.

Issue 2
The Office of the Comptroller of Public Accounts Should Strengthen Procedures Regarding Central Profile Change Requests

Reference No. 08-555-02

The Application Security Section at the Comptroller's Office does not ensure that the proper segregation of duties exists for the central profile change request process. Of the 27 central profile change request forms auditors tested, 7 (26 percent) were initiated and approved by the same individual. The central profile change management process should be designed to ensure that all proposed system modifications are appropriately approved and that changes are tested and approved before they are placed into production.

In addition, not all of the 27 change request forms auditors tested contained all of the approvals required by the Comptroller's Office's policies and procedures. Specifically, 23 change request forms tested (85 percent) lacked the approvals that are required to facilitate the change request. The Uniform Statewide Accounting System security administrator review approval also was not obtained or documented on four (15 percent) of the change request forms tested.

Changes to state data should be managed appropriately. Improper or unauthorized changes could be made if the same individual requests and approves a change. In addition, the risk of inaccurate financial data decreases

when the required levels of approvals are obtained. Title 1, Texas Administrative Code, Section 202.20 (5), states "The integrity of data, its source, its destination, and processes applied to it must be assured. Changes to data must be made only in an authorized manner." Additionally, Title 1, Texas Administrative Code, Section 202.20 (8), states "State agencies must ensure adequate controls and separation of duties for tasks that are susceptible to fraudulent or other unauthorized activity."

Corrective Action and Management's Response

See current year finding 09-555-03.

Issue 3
The Office of the Comptroller of Public Accounts Should Strengthen Its Review of the Consolidation Process for the Comprehensive Annual Financial Report

Reference No. 08-555-03

The Comptroller's Office's Financial Reporting Section does not consistently perform a thorough review of documentation that supports the process for consolidating financial data for the Comprehensive Annual Financial Report (CAFR). Auditors identified errors in consolidation adjustments, CAFR note disclosures, and calculations, as well as instances in which the CAFR did not agree with supporting documentation. Based on the audit, the Comptroller's Office corrected these errors before finalizing the CAFR.

Performing a thorough review of the documentation that supports the process for consolidating financial data helps to ensure that all financial data is correct and helps to maintain internal consistency within the CAFR.

Corrective Action and Management's Response

See current year finding 09-555-01.

Chapter 3-B
The Department of Transportation Should Strengthen Certain Aspects of Its Information Technology

Reference No. 08-555-04

To protect the integrity of its information resources, the Department of Transportation (Department) should ensure that it properly restricts access to certain automated systems and that user passwords are sufficiently complex.

Title 1, Texas Administrative Code, Section 202.20(1)

Information resources residing in the various state agencies of state government are strategic and vital assets belonging to the people of Texas. These assets must be available and protected commensurate with the value of the assets. Measures shall be taken to protect these assets against unauthorized access, disclosure, modification or destruction, whether accidental or deliberate, as well as assure the availability, integrity, authenticity, and confidentiality of information. Access to state information resources must be appropriately managed.

Title 1, Texas Administrative Code, Section 202.25(3)(B)

A user's access authorization shall be appropriately modified or removed when the user's employment or job responsibilities within the state agency change.

The Department should restrict access to the Uniform Statewide Accounting System.

In fiscal year 2007, nine users at the Department had inappropriate access rights to the Uniform Statewide Accounting System (USAS). These users could access one to four agencies outside of the Department, and this access was not necessary for their job duties. The agency has since taken action to remove users' improper access. The Comptroller's Office uses the information in USAS to create the State's Comprehensive Annual Financial Report. Restricting the level of access to USAS to only what is necessary for a user's job functions helps to ensure that information resources, including the State's accounting system, are protected against unauthorized access, disclosure, modification, or destruction. It also helps to ensure the availability, integrity, authenticity, and confidentiality of information.

The Department should restrict access to SiteManager.

The Department uses the automated SiteManager system to monitor construction projects, generate daily work reports, and process contractor payment estimates for projects funded through the federal Highway Planning and Construction cluster of programs. Access to SiteManager is controlled by security administrators at each district and division within the Department. However, the Department does not ensure that its districts and divisions restrict SiteManager access to current, active employees. Furthermore, the Department does not ensure that access to SiteManager is removed immediately upon termination of employment or a change in employee job functions. As a result, 2 of 61 (3 percent) employees tested had access to SiteManager after their employment had been terminated. Auditors also identified 30 additional employees who had access to SiteManager after their employment had been terminated or after their job functions changed and they no longer required the use of SiteManager. After auditors brought this matter to the Department's attention, the Department inactivated access for all of the employees involved in the circumstances described above.

Removing access to SiteManager immediately upon termination of an employee or a change in job functions helps to ensure that information resources, including SiteManager, are protected against unauthorized access, disclosure, modification, or destruction. It also helps to ensure the availability, integrity, authenticity, and confidentiality of information.

Auditors did not identify any issues that resulted from the deficiencies discussed above.

The Department should strengthen network and Financial Information Management System password settings.

Employees and users of the Department's automated systems must have access to the Department's network to access those systems. The Financial Information Management System (FIMS) is the Department's internal accounting system used to create and process vouchers for payment. To access the network and FIMS, users must enter a password. According to the Department of Information Resources, state agencies should use unique passwords that contain both alphanumeric characters and special characters. However, the Department does not require this for users of its network and FIMS. Instead, the Department requires only that passwords be eight characters in length. The Department's network and FIMS password settings give users the option to use alphanumeric or special characters in their passwords; however, they do not require this.

Requiring the use of passwords that include both alphanumeric and special characters helps to ensure that information resources, including financial systems, are protected against unauthorized access, disclosure, modification, or destruction. It also helps to ensure the availability, integrity, authenticity, and confidentiality of information.

Corrective Action and Management's Response

Corrective action was taken.

Fiscal Year 2007 Federal Expenditures from Public Assistance Programs

Medicaid: 43 million claims paid, payments totaled $8.9 billion.

Children's Health Insurance Program (CHIP): 3.7 million member months, payments totaled $0.4 billion.

Food Stamp Program: Average of 1 million households served per month, payments totaled $2.9 billion.

Temporary Assistance to Needy Families: Average of 59,500 households served per month, payments totaled $0.1 billion.

Vendor Drug Program: More than 28 million prescriptions filled. Total payments are included within the Medicaid and CHIP payments.

Sources: *Summary of Federal Expenditures by State Agencies* prepared by the Comptroller of Public Accounts and Health and Human Services Commission self-reported service levels for fiscal year 2007.

Chapter 3-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

Public assistance program payments that the Health and Human Services Commission (Commission) reported in its fiscal year 2007 financial statements were materially accurate and fairly stated. The Commission relies on an internal control structure, including pre- and post-payment controls, to help ensure that public assistance program payments for eligible clients are allowable and accurate. These internal controls exist at both the Commission and its contractors. However, there are weaknesses in the design and operation of these internal controls that limit the assurances it can make regarding the validity of payments made for public assistance programs in fiscal year 2007. The programs affected by these weaknesses spent $12.1 billion in federal funds in fiscal year 2007.

Several of the internal control weaknesses auditors identified during the audit of fiscal year 2007 had also been identified in prior audits and not been fully corrected or mitigated. For example, the Commission's lack of documented policies and procedures for certain functions has been identified as a weakness in three consecutive years. Weaknesses in the Commission's payment monitoring system have been identified for two consecutive years. Weaknesses in user access have been identified for four consecutive years.

In addition, the Commission does not adequately monitor the specific areas in which auditors identified internal control weaknesses in the Vendor Drug program, Medicaid, Children's Medicaid, Food Stamps program, and Temporary Assistance for Needy Families (TANF). The Commission also does not adequately monitor its Office of Inspector General's post-payment audit, review, and investigative activities, which significantly increases the risk of intentional or unintentional overpayment for public assistance services.

The Commission cannot provide full assurance that all of these expenditures were allowable and paid to eligible clients because:

- The Commission has not fully implemented all components of its payment monitoring process.
- The Commission's Office of Inspector General has not conducted a significant portion of the audits and reviews it planned to conduct.
- The Commission has not regularly reconciled its internal accounting system to the cash in the State's accounting system.
- The Commission has not fully documented policies and procedures for two key accounting functions.
- The Commission does not adequately track and monitor the open investigations of its Office of Inspector General and the Office of the Attorney General to determine the related dollar amounts paid to providers for these cases.
- The Commission does not regularly update user access to the Uniform Statewide Accounting System.

Issue 1
The Health and Human Services Commission Should Implement All Components of Its Payment Monitoring System

Reference No. 08-555-05
(Prior Audit Issue 07-555-01)

The Commission relies on an internal control structure, including pre- and post-payment controls, to help ensure that public assistance program payments for eligible clients are allowable and accurate. However, it 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.

Vendor Drug Program

During fiscal year 2007, the Commission did not fully staff its regional pharmacists in nine highly populated regions: Houston, Dallas, Beaumont, Austin, San Antonio, Midland, El Paso, Longview, and Abilene. The Commission uses 14 regional and sub-regional pharmacist positions to review expenditure claims submitted by the approximately 4,125 pharmacies participating in the Vendor Drug program. However, it has not maintained a full complement of regional pharmacists to perform these reviews since prior to 2000. In September 2007, the Commission approved an optimization plan to address the regional pharmacist vacancies. However, as of December 2007, the Commission had not posted any of these positions.

Additionally, the Commission did not maintain adequate monitoring records of the regional pharmacists' activities during fiscal year 2007. The monthly tracking reports the Commission provided to the auditors for fiscal year 2007 were incomplete.

The Commission's Office of Inspector General completed only one Vendor Drug program review in fiscal year 2007. The Office of Inspector General asserted that it used available audit and review resources to address the backlog of desk reviews and field audits of the cost reports that providers submit.

Medicaid and Children's Medicaid

During fiscal years 2006 and 2007, the Commission's Office of Inspector General initiated reviews at six hospitals and started reviewing outpatient costs for Medicaid from fiscal year 2001 through fiscal year 2005. As of October 2007, however, it had not completed those reviews.

During fiscal year 2007, the Commission's Office of Inspector General did not pursue fraud investigations or recovery of overpayments to Medicaid clients whose eligibility was determined through the Texas Integrated Eligibility Redesign System (TIERS). In August 2007, the Office of Inspector General reviewed the standards it used to determine support for fraud (criminal) cases and determined that it could rely on TIERS data as evidence for these cases.

The Office of Inspector General began investigating TIERS administrative cases in September 2007. Administrative cases are non-fraud cases related to overpayments resulting from Commission errors, client errors, or intentional program violations of less than $1,500 per client.

Food Stamp Program and TANF

During fiscal year 2007, the Office of Inspector General did not pursue fraud investigations or recoupment of overpayments to Food Stamp and TANF clients whose eligibility was determined through TIERS. As discussed above, the Office of Inspector General began investigating TIERS administrative cases in September 2007.

Corrective Action and Management's Response

See current year finding 09-555-08.

Issue 2
The Commission's Office of Inspector General Did Not Fully Implement Its Audit Plan for Fiscal Year 2007

Reference No. 08-555-06

The Commission's Office of Inspector General did not fully implement its plan for fiscal year 2007 to audit the state's Medicaid, Vendor Drug, Food Stamps, and TANF programs. The Commission has assigned certain audit responsibility for the State's public assistance programs to the Office of Inspector General.

The Office of Inspector General did not complete significant portions of its fiscal year 2007 audit plan. Specifically, it did not complete the following planned audits or reviews:

- 14 of 14 planned audits of Commission contracts. The purpose of those audits was to ensure that contractors (1) complied with contractual requirements; (2) used funds properly to provide contracted services to eligible recipients; (3) adequately managed funds; and (4) prevented and detected fraud, waste, and abuse. The types of contracts that could have been selected for audit included contracts for nursing care, community care services, nutrition assistance, child care, foster care, outpatient pharmaceutical services, and various consulting and professional services.

- 34 of 35 planned audits of Vendor Drug program providers.

- 5,045 of 5,046 planned audits of provider cost reports for fiscal years 2006 and 2007 (the initial audit plan called for conducting 6,523 of these reviews or audits for fiscal years 2006 and 2007).

- A planned audit of the National Heritage Insurance Company's risk stabilization reserve. The purpose of that audit was to review the settlement of the risk stabilization reserve outstanding balance from the Commission's contract with the National Heritage Insurance Company.

(The National Heritage Insurance Company was the Commission's former Medicaid claims administrator, and its contract with the Commission ended on December 31, 2003.)

- A planned audit of Medicaid hospice drug costs for long-term care facilities.
- A planned audit of the information system of First Health (a Vendor Drug program service organization).
- A planned audit of the information system of a Texas Medicaid Administrative Services (TMAS) contractor, McKesson Health Systems (a disease management contractor).
- A planned attestation review of the implementation of amendment 15 to the Texas Medicaid and Healthcare Partnership (TMHP) contract. That amendment authorized TMHP to perform additional months of service and authorized payment for those additional months of service, primarily to support the Commission's Vendor Drug Program help desk function.
- 6 planned audits of Medicaid outpatient hospital cost reports for fiscal years 2006 and 2007.

The Office of Inspector General also did not complete any of an unspecified number of planned reviews of audits of Medicaid contractors. Additionally, neither the Office of Inspector General's fiscal year 2007 activities nor its audit plan included audits of subrecipients of federal funds.

The Office of Inspector General did complete or initiate portions of its fiscal year 2007 audit plan. Specifically, it completed or initiated the following planned audits or reviews:

- 66 agreed-upon procedure attestation engagements of intermediate care facilities covering fiscal years 2004 through 2007.
- 4,685 reviews or audits of cost reports submitted by providers covering fiscal years 2002, 2004, 2005, and 2006.
- 2,412 reviews or audits of attendant compensation reports submitted by providers covering fiscal years 2005 and 2006.

The Commission relies on the activities of the Office of Inspector General to serve as a portion of its internal control structure over public assistance programs. Therefore, the lack of audit coverage by the Office of Inspector General is a weakness in the Commission's internal control structure and increases the risk that intentional or unintentional errors go undetected.

Corrective Action and Management's Response

Corrective action was taken.

Issue 3
The Health and Human Services Commission Does Not Reconcile Its Internal Accounting System with the Uniform Statewide Accounting System in a Timely Manner

Reference No. 08-555-07

Reconciliation Requirements

Texas Government Code, Section 2101.012, specifies that the Comptroller of Public Accounts shall prescribe uniform accounting and financial reporting procedures that each state agency shall use in the preparation of its annual financial reports.

The Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports of State Agencies and Universities* (July 2007) and its *USAS User Manual* (Volume 1, December 1995) require state agencies to reconcile their USAS cash in the State Treasury to their internal accounting systems on a monthly basis.

The Commission does not reconcile cash recorded in the Health and Human Services Administrative System (HHSAS, the Commission's internal accounting system) with the Uniform Statewide Accounting System (USAS, the State's accounting system) in a timely manner as required by the Comptroller of Public Accounts and statute (see text box for additional details). From September 2006 to December 2006, the Commission identified cash variances between these two systems, but it did not begin investigating or researching these differences until January 2007. Auditors identified 74 cash variances with an absolute value of $76,602,238.54 (or 22.9 percent of the USAS year-end cash balance) that the Commission did not correct in a timely manner.

Corrective Action and Management's Response

Corrective action was taken.

Issue 4
The Health and Human Services Commission Has Not Fully Documented Policies and Procedures for Two Key Accounting Functions

Reference No. 08-555-08
(Prior Audit Issues 07-555-04 and 06-555-09)

The Commission has continued to operate two key accounting functions since fiscal year 2005 without documented policies and procedures. These key accounting functions are related to the recording of public assistance payments. Specifically, the Commission does not have documented policies and procedures for:

- Recording and approving Medicaid and CHIP expenditures.
- Recording and approving Vendor Drug program expenditures.

The Commission began developing draft policies and procedures for these two functions during fiscal year 2008. It also has documented many of its other key accounting functions and has trained backup personnel to perform these functions.

It is important to note that the accounts payable department responsible for these two key accounting functions experienced turnover rates of 48.5 percent and 5.9 percent in fiscal years 2006 and 2007, respectively. The Commission attributes the high turnover rate for fiscal year 2006 to the effects of the consolidation of the state's health and human service agencies required by House Bill 2292 (78th Legislature, Regular Session), which became effective on September 1, 2003.

Having documented policies and procedures is a key control over the Commission's financial reporting. It is important for management to communicate and monitor, through policies and procedures, staff members' responsibilities and expectations related to their job functions. In addition, policies and procedures are beneficial for new employees and backup personnel.

Corrective Action and Management's Response

See current year finding 09-555-09.

Issue 5
The Health and Human Services Commission Does Not Adequately Track and Monitor the Open Investigations of the Office of Inspector General and the Office of the Attorney General

Reference No. 08-555-09

The Commission does not adequately track and monitor its Office of Inspector General's open investigations to determine related dollar amounts paid to providers for these cases. The Commission's open investigation list includes both Office of Inspector General investigation cases and Office of the Attorney General Medicaid investigation cases. These cases represent potential overpayments of federal and state funds for public assistance programs. Without adequate tracking and monitoring of these cases, the Commission cannot reasonably determine whether the related dollar amounts paid to providers for these cases are material to its financial statements.

The Office of Inspector General tracks the questioned costs associated with these cases after the cases are closed and settled. However, this information is limited, and each case must be reviewed individually to identify the questioned costs related to a specific fiscal year. Additionally, this

information does not take into account the possible questioned payments made to the providers during the investigation period.

Contingent Liability

A loss contingency arising from a claim must be disclosed when it is reasonably possible that a loss will eventually be incurred and if it is either not probable or not subject to reasonable estimation. The disclosure should indicate the nature of the contingency and give an estimate of the possible loss or range of loss. However, if an estimate of the loss cannot be made, the disclosure must state this fact.

A loss contingency arising from a claim is accrued as of the balance sheet date when both of the following conditions are true:

- Information available before the financial statements are issued indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements. It must be probable that one or more future events will also occur confirming the fact of the loss.
- The amount of the loss can be reasonably estimated.

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Comptroller of Public Accounts, July 2007.

The Commission's list of active open investigation cases during fiscal year 2007 included more than 7,000 cases. Due to their complexity, it takes more than one year to investigate the majority of those cases. As a result, with some exceptions, the providers under investigation continue to submit claims for public assistance services provided to the clients. These claims may be related to the cases under investigation. Therefore, a portion of the $12.1 billion in federally-funded public assistance payments reported in the Commission's fiscal year 2007 annual financial report could be identified as questioned costs that will later be recovered through various processes the Commission has established. However, the Commission has not analyzed these possible questioned costs to determine if they should be reported in the Commission's annual financial report as contingent liabilities. The Comptroller of Public Accounts requires that notes to the financial statements communicate information that is necessary for a fair presentation of the financial position and the results of operations, but not readily apparent from, or not included in, the financial statements themselves (see text box for additional details).

Corrective Action and Management's Response

See current year finding 09-555-11.

Issue 6
The Health and Human Services Commission Does Not Regularly Update User Access to the Uniform Statewide Accounting System

Reference No. 08-555-10
(Prior Audit Issue 07-555-05)

In fiscal year 2007, the Commission did not regularly update user access to the Uniform Statewide Accounting System (USAS, the State's accounting system). Specifically:

- 4 users whose employment with the Commission had been terminated still had access rights to USAS.
- 11 users had inappropriate access rights to USAS because their access rights included access to agencies that no longer exist (the Department of Human Services, the Texas Low-Level Radioactive Waste Disposal Authority, and the Department of Mental Health and Mental Retardation).

After auditors brought these issues to the Commission's attention, it deleted the access rights for each of the instances noted above.

Additionally, two Commission employees had voucher payment edit and release capabilities and duties in USAS, but the Commission has not documented the policies and procedures addressing these duties. In fiscal year 2007, there were 232 instances totaling $5,562,304.28 in which these two employees edited and released USAS transactions after addressing USAS transaction errors. Without documented procedures or mitigating controls, these activities increase the risk that intentional or unintentional errors could go undetected.

Corrective Action and Management's Response

See current year finding 09-555-10.

Chapter 3-D

The Department of State Health Services Should Strengthen Certain Aspects of Its Financial and Information Technology Operations

Issue 1
The Department of State Health Services Did Not Reconcile Its Internal Accounting System with the State's Accounting System in a Timely Manner

Reference No. 08-555-11
(Prior Audit Issue 07-555-06, 06-555-04, 05-555-02, 04-555-02, 03-555-01, 02-555-01, and 01-021)

The Department of State Health Services (Department) has established formal policies and procedures for the reconciliation of its internal accounting system (the Health and Human Services Administrative System) and the State's accounting system (the Uniform Statewide Accounting System). However, it did not clear, adjust, or correct certain reconciling differences in a timely manner as required by the Comptroller of Public Accounts and statute (see text box for additional details). This issue has existed at the Department or its predecessor agency (the Department of Health) for the past seven years. However, during the audit of fiscal year 2007, auditors noted improvement in the Department's efforts to reconcile the two systems on a timely basis.

Reconciliation Requirements

Texas Government Code, Section 2101.012, specifies that the Comptroller of Public Accounts shall prescribe uniform accounting and financial reporting procedures that each state agency shall use in the preparation of its annual financial reports.

The Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports of State Agencies and Universities* (July 2007) and its *USAS User Manual* (Volume 1, December 1995) require state agencies to reconcile their USAS cash in the State Treasury to their internal accounting systems on a monthly basis.

Although the Department reconciles by appropriation year, fund, and appropriation to ensure the accuracy and completeness of recorded transactions, it continues to carry forward a significant number and dollar amount of reconciling items between periods without resolution and after the Department's internal accounting system has

been closed for the respective accounting period. For the month ending October 31, 2007, auditors identified the following:

- The Department cleared 2,666 reconciling items from prior appropriation years 2003 through 2007 between September 30, 2007, and October 31, 2007. (Auditors reviewed the September 30, 2007, and October 31, 2007, reconciliations because the Department had reported that it had taken corrective action on the prior audit issue as of October 2007.) However, 1,951 reconciling items still needed to be cleared. The individual amounts of the 1,951 outstanding reconciling items ranged from $0.01 to $8.9 million and had a combined absolute value of $94,363,761.12.

- Of the 1,951 outstanding reconciling items, 730 were reconciling items arising from transactions posted during October 2007 that affected appropriation years 2004 through 2007.

In prior years, the Department indicated that many of the reconciling items were created during fiscal year 2005, when the Department of State Health Services took over the operations of the former Department of Health. The Department also indicated that reconciling items from prior appropriations must be adjusted or written off before the appropriations expire. However, of the items remaining to be reconciled, auditors identified one item from appropriation year 2003 ($31,659.56) and six items from appropriation year 2004 (with a combined absolute value of $631,789.63). (At the time of audit fieldwork, the Department's internal accounting system had been closed for appropriation years 2003 and 2004.)

Corrective Action and Management's Response

Corrective action was taken.

Issue 2
The Department of State Health Services Did Not Regularly Update User Access for the Texas WIC Information Network

Reference No. 08-555-12
(Prior Audit Issues 07-555-07, 06-555-05, and 05-555-03)

Title 1, Texas Administrative Code, Section 202.25(3)(B)

A user's access authorization shall be appropriately modified or removed when the user's employment or job responsibilities within the state agency change.

Title 1, Texas Administrative Code, Section 202.25(5)(A)

Information resources systems must provide the means whereby authorized personnel have the ability to audit and establish individual accountability for any action that can potentially cause access to, generation of, modification of, or effect the release of confidential information.

In fiscal year 2007, the Department did not regularly update user access to the Texas WIC Information Network (Texas WIN), which is the system that maintains program and expenditure information for the Women, Infants, and Children nutrition program. Specifically, 11 individuals whose employment had been terminated still had access to Texas WIN. This is a violation of Title 1, Texas Administrative Code, Section 202.25(3)(B) (see text box for additional details).

Auditors also identified one active test user account that could be used to access live production data. This is a violation of Title 1, Texas Administrative Code, Section 202.25(5)(A) (see text box for additional details).

After auditors brought these issues to the Department's attention, the Department deleted the access rights associated with each of the instances noted above.

Corrective Action and Management's Response

Corrective action was taken.

Chapter 3-E

The Texas Workforce Commission Should Strengthen Certain Aspects of Its Information System Security and Fire Protection and Backup Power Capabilities

Issue 1
The Texas Workforce Commission Should Strengthen Information System Security Monitoring

Reference No. 08-555-13
(Prior Audit Issues 07-555-11, 06-555-11, and 05-555-05)

Security Management Products

Mainframe security management products are used to restrict access to a computer system to only users who have been authorized to access the system.

These security products identify and authenticate users, determine the information assets to which each user is authorized, and log and report unauthorized users' attempts to access protected assets.

The Texas Workforce Commission (Commission) should revise its security reporting to make this task more manageable and ensure that it is performed consistently. The Commission does not adequately review security reports that provide information on security events identified by its mainframe computer's security management product (see text box). This prevents it from promptly investigating potential instances of unauthorized access.

Reviewing security reports is important because this can enable the Commission to detect security events such as unauthorized attempts to access its mainframe and, therefore, its automated systems and data. Although the security reports are comprehensive, they are lengthy and can be difficult to manage and review. While the Commission provides the full reports to its central computer security function and portions of the reports to departmental security managers, improvements are needed to ensure an effective review process.

Certain information technology resources at the Commission, including the mainframe equipment in the Commission's data center, are subject to transfer to the Department of Information Resources in accordance with the requirements of House Bill 1516 (79th Legislature, Regular Session). As a result, the Department of Information Resources has delayed all software purchases related to the Commission's mainframe pending the determination of the new consolidated data center environment. The Commission has previously taken steps to correct this issue by:

- Installing software that monitors security and generates monitoring reports. However, staffing limitations have prevented the agency from being able to fully utilize the software.
- Generating daily monitoring reports that list any (1) changes made to operating system libraries or (2) use of a specific, powerful administrative account.

- Generating daily reports of departmental incidents that have occurred on the Commission's internal network.

Corrective Action and Management's Response

Corrective action was taken.

Issue 2
The Texas Workforce Commission Should Strengthen Its Fire Protection and Backup Power Capabilities

Reference No. 08-555-14
(Prior Audit Issues 07-555-12, 06-555-12, and 05-555-06)

The Commission's data center does not have a fire suppression system (other than hand-held extinguishers), a secondary method of power supply (such as a generator), or an uninterruptible power supply system for its mainframe systems. However, certain information technology resources at the Commission, including the mainframe equipment in the Commission's data center, are subject to transfer to the Department of Information Resources in accordance with the requirements of House Bill 1516 (79th Legislature, Regular Session). As a result, the Commission has not dedicated funds to correct the fire suppression issues in its data center and is waiting until a decision is made regarding which information technology resources will be transferred to the Department of Information Resources.

Fire suppression systems can help reduce the damage to data and systems in the event of a fire and can reduce the time needed to resume operations. Although the Commission has a processing agreement for an alternative site for system backup and recovery, the lack of a fire suppression system in the data center increases the reliance on this backup site and could result in significant costs to the Commission if it needed to rely on the backup center for an extended period of time.

Having an uninterruptible power supply system or generator could help the Commission avoid having to (1) revert to its off-site backup and recovery processing facility to continue operations, (2) delay processing until power could be restored to the data center, or (3) lose and re-enter data.

Corrective Action and Management's Response

Corrective action was taken.

Chapter 3-F

The University of Texas at Austin Should Strengthen Its Capital Asset Records

Reference No. 08-555-15

The University should update its capital asset records in a timely manner.

The University of Texas at Austin (University) does not always process its capital assets in a timely manner. Specifically:

- In October 2007, auditors obtained a list of untagged capital assets from University management. Excluding purchased software and internally developed software, the value of the assets on that list totaled nearly $8 million. The University purchased those assets between July 25, 2007, and August 31, 2007.
- The University had not tagged or had incorrectly tagged 7 of 51 (13.7 percent) capital assets that auditors tested.
- The University's Inventory Services unit processed $43 million in new assets in the last 38 days of fiscal year 2007. Those assets represented 66.1 percent of the University's new assets for fiscal year 2007.

Property Tagging Requirements

Texas Government Code, Section 2101.012, specifies that the Comptroller of Public Accounts shall prescribe uniform accounting and financial reporting procedures that each state agency shall use in the preparation of its annual financial report.

The Comptroller of Public Accounts' *State Property Accounting (SPA) Process User's Guide*, Chapter 2, February 2008, requires that "all property capitalized or designated as a 'controlled' asset must be marked or tagged as property owned by the agency with the exception of real property."

According to University policy, Inventory Services is required to assign an inventory number or affix a numbered property control plate to each asset. In addition, it is the University's practice to tag assets within 30 days of receipt. Management indicated the high number of assets processed at the end of the fiscal year occurred because of (1) a shortage in resources that resulted from the implementation of additional inventory controls (for example, the University began using new scanners to interact with its internal accounting system) and (2) employee turnover.

Tagging is important in providing an accurate method of identifying assets; controlling the location of assets; aiding in the identification of assets if they are lost or stolen; discouraging theft; and reducing the magnitude of the State's property losses. If assets are not tagged, there is an increased risk of misappropriation.

The University should properly account for incidental charges associated with capital assets.

The University does not always expense warranty costs and service agreement costs that are associated with its capital assets. It also does not always capitalize shipping and handling costs associated with its capital assets. Specifically:

- The University had not expensed the warranty costs or service agreement costs associated with 5 of 55 (9.1 percent) assets that auditors tested. For these five assets, the University instead capitalized the $7,742.64 in associated warranty costs or service agreement costs. According to the Comptroller of Public Account's *SPA Process User's Guide*, warranty costs or service agreement costs should be expensed if they are itemized on the invoice or purchase order.

- The University had not capitalized the shipping and handling costs associated with 2 of 55 (3.6 percent) assets that auditors tested. According to the Comptroller of Public Account's *SPA Process User's Guide*, the University should have capitalized the $4,250 in shipping and handing costs associated with the assets.

Requirements for Recording of Incidental Charges

Texas Government Code, Section 2101.012, specifies that the Comptroller of Public Accounts shall prescribe uniform accounting and financial reporting procedures that each state agency shall use in the preparation of its annual financial report.

The Comptroller of Public Accounts' *State Property Accounting (SPA) Process User's Guide*, Chapter 1, June 2006 and February 2008, states that incidental charges, such as extended warranties or maintenance agreements, are no longer considered part of the capital asset cost. These charges should now be expensed. However, if the incidental items are not broken out separately on the purchase order or on the invoice, the incidental charges are considered a part of the capital asset and should be capitalized.

The guide also states that freight and transportation charges should be included as part of the historical cost of the asset.

Corrective Action and Management's Response

See current year finding 09-555-14.

Chapter 3-G

The Water Development Board Should Strengthen Certain Aspects of Its Information Technology

Reference No. 08-555-16

To protect the integrity of its information resources, the Water Development Board (Board) should ensure that it properly restricts access to certain automated systems.

The Board should restrict access to its network.

The Board does not always remove access to its network after an individual is no longer employed by the Board. Auditors determined that four individuals whose employment with the Board had been terminated still had access to the Board's network. After auditors brought this issue to the Board's attention, the Board removed the access for these individuals.

The Board should restrict access to the Financial Information System.

Six users whose employment with the Board had been terminated still had access rights to the Financial Information System (FIS), a database developed by the Board and used to track all information associated with the Board's debt and financial assistance (including bonds, loan contracts, and loan forgiveness contracts). After auditors brought this issue to the Board's attention, it removed the access for these six individuals. The employees had not accessed FIS after their employment ended.

Title 1, Texas Administrative Code, Section 202.20(1)

Information resources residing in the various state agencies of state government are strategic and vital assets belonging to the people of Texas. These assets must be available and protected commensurate with the value of the assets. Measures shall be taken to protect these assets against unauthorized access, disclosure, modification or destruction, whether accidental or deliberate, as well as assure the availability, integrity, authenticity, and confidentiality of information. Access to state information resources must be appropriately managed.

Title 1, Texas Administrative Code, Section 202.25(3)(B)

A user's access authorization shall be appropriately modified or removed when the user's employment or job responsibilities within the state agency change.

The Board should ensure employees have a current authorized access form on file.

In July 2007, the Board's internal auditor recommended that each employee have a current form on file that identifies all authorized access to the Micro Information Products (MIP, the Board's internal accounting system) and a group of systems managed by the Office of the Comptroller of Public Accounts. The group of systems included the Uniform Statewide Accounting System, the Uniform Statewide Payroll/Personnel System, the Texas Identification Number System, and Web Warrant Inquiry/Cancellation Access. In addition, the internal auditor recommended that the Board review the forms when staff duties are altered significantly. Auditors reviewed access levels for MIP during financial compliance testing and determined that the access levels were appropriate.

Corrective Action and Management's Response

Corrective action was taken.

Independent Auditor's Report

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2008

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

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2008 was included in Chapter 1-H of this report. All other fiscal year 2008 federal award information was issued in a separate report (see *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2008*, by KPMG LLP, dated February 20, 2009).

State Auditor's Office
John Keel, CPA
State Auditor

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 Joe Straus III, 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, 2008, which collectively comprise the State's basic financial statements and have issued our report thereon dated February 20, 2009. 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 consideration of 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.

Summary of Findings	
Agency	**Finding Numbers**
Comptroller of Public Accounts	09-555-01 09-555-02 09-555-03 09-555-04
Department of State Health Services	09-555-05
Department of Transportation	09-555-06 09-555-07
Health and Human Services Commission	09-555-08 09-555-09 09-555-10 09-555-11 09-555-12 09-555-13
The University of Texas at Austin	09-555-14
The University of Texas at San Antonio	09-555-15 09-555-16
The University of Texas Southwestern Medical Center at Dallas	09-555-17 09-555-18
Multiple agencies and higher education institutions	09-555-19

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.

Entities Audited by Other Auditors	Scope of Work Performed
Permanent School Fund	An audit of the statements of fiduciary net assets, changes in fiduciary net assets, and supplemental schedules of the Permanent School Fund was conducted as of and for the years ended August 31, 2008.
Texas Local Government Investment Pool	An audit of the statements of pool net assets of the Texas Local Government Investment Pool, an investment trust fund of the State of Texas, was conducted as of August 31, 2008 and 2007, and the related statements of changes in pool net assets for the years then ended.
Permanent University Fund	An audit of the statements of fiduciary net assets and changes in fiduciary net assets of the Permanent University Fund was conducted as of and for the years ended August 31, 2008 and 2007.
The University of Texas System General Endowment Fund	An audit of the statements of fiduciary net assets and changes in fiduciary net assets of the University of Texas System General Endowment Fund was conducted as of and for the years ended August 31, 2008 and 2007.
The University of Texas System Intermediate Term Fund	An audit of the statements of fiduciary net assets and changes in fiduciary net assets of the University of Texas System Intermediate Term Fund was conducted as of and for the years ended August 31, 2008 and 2007.
The University of Texas System Long Term Fund	An audit of the statements of fiduciary net assets and changes in fiduciary net assets of the University of Texas System Long Term Fund was conducted as of and for the years ended August 31, 2008 and 2007.
The University of Texas System Permanent Health Fund	An audit of the statements of fiduciary net assets and changes in fiduciary net assets of the Permanent Health Fund was conducted as of and for the years ended August 31, 2008 and 2007.
The University of Texas M.D. Anderson Cancer Center	An audit of the consolidated balance sheets of the University of Texas M.D. Anderson Cancer Center and subsidiaries as of August 31, 2008 and 2007, and the related consolidated statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended.

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 2008 Financial Statements* (State Auditor's Office Report No. 09-015, December 2008)
- *A Report on the Audit of the Department of Transportation's Central Texas Turnpike System Financial Statements for the Fiscal Year Ended August 31, 2008* (State Auditor's Office Report No. 09-016, January 2009)
- *A Report on the Audit of the Employees Retirement System's Fiscal Year 2008 Financial Statements* (State Auditor's Office Report No. 09-017, January 2009)
- *A Report on the Audit of the Office of the Fire Fighters' Pension Commissioner's Fiscal Year 2008 Financial Statements* (State Auditor's Office Report No. 09-018, January 2009)

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, 2009

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

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, 2008.

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.

Scope

The scope of the financial portion of the Statewide Single Audit included an audit of the State's basic financial statements and a review of significant controls over financial reporting and compliance with applicable requirements. The opinion on the basic financial statements, *The State of Texas Comprehensive Annual Financial Report for the Fiscal Year Ended August 31, 2008*, was dated February 20, 2009.

The scope of the federal portion of the Statewide Single Audit included an audit of the State's Schedule of Expenditures of Federal Awards (SEFA), a review of compliance for each major program, and a review of significant controls over federal compliance. The State Auditor's Office contracted with KPMG LLP to provide an opinion on compliance for each major program and internal control over compliance. The State Auditor's Office provided an opinion on the State's Schedule of Expenditures of Federal Awards (SEFA). The report on the federal portion of the Statewide Single Audit is included in a separate report issued by KPMG LLP entitled *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2008*, dated February 20, 2009.

Methodology

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.

Information collected included the following:

- Agency and higher education institution policies and procedures.
- Agency and higher education institution systems documentation.

- Agency and higher education institution accounting data.
- Agency and higher education institution year-end accounting adjustments.
- Agency and higher education institution fiscal year 2008 annual financial reports.
- Agency and higher education institution fiscal year 2008 Schedule of Expenditures of Federal Award submissions to the Office of the Comptroller of Public Accounts.

Procedures and tests conducted included the following:

- Evaluating automated systems controls.
- Performing analytical tests of account balances.
- Performing detail tests of vouchers.
- Comparing agency and higher education institution accounting practices with Office of the Comptroller of Public Accounts reporting requirements.

Information systems reviewed included the following:

- Agency and higher education institution internal accounting systems.
- Uniform Statewide Accounting System (USAS).
- State Property Accounting system (SPA).
- Human Resource Information System (HRIS).
- Standardized Payroll/Personnel Reporting System (SPRS).
- Uniform Statewide Payroll/Personnel System (USPS).

Criteria used included the following:

- Texas statutes.
- Texas Administrative Code.
- General Appropriations Act (80th Legislature).
- The Office of the Comptroller of Public Accounts' policies and procedures.
- The Office of the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*.

- The Office of the Comptroller of Public Accounts' *SPA Process User's Guide*.
- Generally accepted accounting principles.
- Agency and higher education institution policies.
- Office of Management and Budget Circular A-133.

Other Information

Fieldwork was conducted from July 2008 through February 2009. Except as discussed in the following paragraph, we conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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.

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

Michelle Ann Feller, CIA (Project Manager)
Jules Hunter, CPA, CIA (Project Manager)
Scott Ela, CPA (Assistant Project Manager)
William J. Morris, CPA (Assistant Project Manager)
Jenay Oliphant (Assistant Project Manager)
Snehi Basnet, MAcy
Michael Boehme, CIA, PHR
Robert H. (Rob) Bollinger, CPA, CFE
Mark A. Cavazos
Bruce W. Dempsey, CIA
Melissa Dozier
W. Chris Ferguson, MBA
Michael Gieringer, CFE
Lauren Godfrey, CGAP
Joe K. Fralin, MBA
Nick Frey
Cindy Haley, CPA
Kathryn K. Hawkins
Frances Anne Hoel, CIA, CGAP
Joyce Inman, CGFM
Tracy Jarratt, CPA, MAcy
Ashlee C. Jones, MAcy, CGAP, CFE
Robert G. Kiker, CGAP
Joe Kozak, CPA, CISA
Marlen Randy Kraemer, MBA, CISA, CGAP
Brianna Lehman
Jennifer Lehman, MBA, CGAP
Jennifer Logston, MBA
Thomas Andrew Mahoney
Kenneth Manke
Shahpar McIntyre, MS, JD, CPA, State Bar
Joseph Mungai, CIA, CISA
Robert Pagenkopf
Jeannette Quiñonez
Stephen Randall, MBA
Brad Reynolds
Fabienne Robin, MBA
Anthony W. Rose, MPA, CPA, CGFM
Michael A. Simon, MBA, CGAP
Serra Tamur, MPAff, CISA, CIA
Tony White, CFE
Rachelle Wood, MBA
Leslie Ashton, CPA (Quality Control Reviewer)
Dennis Ray Bushnell, CPA (Quality Control Reviewer)
Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)
Worth S. Ferguson, CPA (Quality Control Reviewer)
Kelly Furgeson Linder, CIA, CGAP (Federal Funds Audit Manager)
Angelica C. Martinez, CPA (Audit Manager)
Michael C. Apperley, CPA (Assistant State Auditor)

Agencies and Higher Education Institutions Audited

Financial accounts at the following agencies and higher education institutions were audited:

- Department of Aging and Disability Services.
- Department of State Health Services.
- Department of Transportation.
- Health and Human Services Commission.
- Office of the Comptroller of Public Accounts.
- Texas A&M University System.
- Texas Education Agency.
- Texas Workforce Commission.
- The University of Texas at Austin.
- The University of Texas at San Antonio.
- The University of Texas Health Science Center at San Antonio.
- The University of Texas Southwestern Medical Center at Dallas.
- The University of Texas System.
- Water Development Board.

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

- Angelo State University.
- Department of Aging and Disability Services.
- Department of Agriculture.
- Department of Assistive and Rehabilitative Services.
- Department of Family and Protective Services.
- Department of Housing and Community Affairs.
- Department of Public Safety.
- Department of State Health Services.
- Department of Transportation.
- Health and Human Services Commission.
- Higher Education Coordinating Board.
- Office of the Attorney General.
- Parks and Wildlife Department.
- Sul Ross State University.
- Texas A&M University.
- Texas A&M University – Corpus Christi.
- Texas AgriLife Research.

- Texas Education Agency.
- Texas Southern University.
- Texas State University – San Marcos.
- Texas Tech University.
- Texas Workforce Commission.
- University of Houston.
- University of North Texas Health Science Center at Fort Worth.
- The University of Texas at Austin.
- The University of Texas at Dallas.
- The University of Texas at El Paso.
- The University of Texas of the Permian Basin.
- The University of Texas at San Antonio.
- The University of Texas Health Science Center at Houston.
- The University of Texas Health Science Center at San Antonio.
- The University of Texas Medical Branch at Galveston.
- The University of Texas Southwestern Medical Center at Dallas.
- Water Development Board.
- West Texas A&M University.

Agency and Higher Education Institution Responses to Schedule of Expenditures of Federal Awards Finding

Below are the individual responses from management at agencies and higher education institutions included in the Schedule of Expenditures of Federal Awards (SEFA) finding in Chapter 1-H of this report.

Angelo State University

Each grant will be screened for inclusion in the Research & Development cluster. This will be accomplished by using the CFDA website and reviewing grant objectives and uses. The principal investigator for each grant may also be contacted during this process.

Responsible Person: Director of Accounting

Implementation Date: June 30, 2009

Department of Agriculture

The Texas Department of Agriculture's (TDA) Financial Services Division (Division) staff will ensure information submitted to the Comptroller's Office in the SEFA is accurate. Division staff will work with KPMG and Comptroller Office staff to resolve inconsistencies in prior year guidance and reporting instructions provided to agencies and universities, participate in current Comptroller Office SEFA trainings where these issues are being discussed and addressed, and ensure TDA's SEFA review process is adequate to prevent future errors.

Responsible Person: Assistant Commissioner for Financial Services

Implementation Date: November 2009

Department of Public Safety

The Department agrees with the finding a) Incorrect Program Clustering

A thorough review will be conducted of the A-133 Compliance Supplemental for 2009 to ensure proper identification of cluster. In instances where there is confusion if a program should be included in a cluster, the department will seek clarification from the Comptroller of Public Accounts prior to submission of the SEFA. This process should eliminate any potential inconsistencies in interpreting cluster type programs.

Responsible Person: Grant Accounting Supervisor

Implementation Date: July 2009

The Department agrees with the finding d) Incorrect Classification of Expenditures

All correcting entries and cost allocations will be completed before year-end to ensure that expenditures are distributed correctly between federal programs. Review and approval will be carried out by in line management on a monthly basis on all reconciliations which will identify all adjusting entries for cost allocations.

Responsible Person: Grant Accounting Supervisor

Implementation Date: May 2009

The Department agrees with the finding e) Incorrect Exclusion of Expenditures

An additional report will be created and run at year end identifying unexpended award balances for all sub-awards to local agencies. A formula based on average expenditures for the previous year will be used to calculate an estimate of anticipated accruals for non-state agencies. The methodology will be documented and available for review by the Auditors.

Responsible Person: Grant Accounting Supervisor

Implementation Date: May 2009

Department of State Health Services

The adjustment to the Schedules of Expenditures for Federal Awards (SEFA) for the Department of State Health Services (DSHS), as noted by the auditors, were not material to the (SEFA) or Comprehensive Annual Financial Report. DSHS has implemented procedures for validating the information and will continue to enhance these controls to reduce the number of adjustments required.

Responsible Person: Accounting Director

Implementation Date: November 20, 2009

Department of Transportation

The Department agrees with the recommendation. New processes will be developed and implemented prior to August 1, 2009, to help ensure that the SEFA information submitted to the Comptroller's Office is accurate.

Responsible Person: Director, Finance Division

Parks and Wildlife Department

Texas Parks and Wildlife Department agrees with the recommendation that SEFA information should be prepared using federal expenditures rather than revenues. Our current financial system extracts expenditures for federal billing accurately but does not store the history of which qualifying expenses were actually billed.

However, this data is only available in detailed individual grant files making the preparation of SEFA in the correct manner a massive task. Our agency is in the process of implementing a new system which will clearly identify expenses billed to our federal partners in the system.

Responsible Person: Finance Director

Implementation Date: September 1, 2010

Texas A&M University

Texas A&M University has established SEFA preparation and review procedures. The University will continue to evaluate procedures for enhancement opportunities that are reasonable and cost effective to further minimize errors. A review of current procedures will be performed prior to the next SEFA preparation.

Responsible Person: Director of Project Administration, TAMU-RS

Implementation Date: November 1, 2009

Texas A&M University - Corpus Christi

While Texas A&M University-Corpus Christi had correctly identified the programs within the Research & Development Cluster on the university's Schedule of Expenditures of Federal Awards (SEFA) work papers, due to a clerical data entry error, the information was not transferred to the SEFA. Of $55,458,544.35 in federal expenditures, $235,081.88 was incorrectly reported, which understated expenditures. The SEFA preparation process has been reviewed with all staff involved in preparing and reviewing the SEFA. The SEFA procedures have been updated to ensure the proper reporting of federal expenditures on all future SEFA submissions.

Responsible Person: University Comptroller

Implementation Date: September 1, 2009

Texas AgriLife Research

We agree with the findings and will incorporate review processes in to our procedures to address these findings. We will include a complete review of all final CFDA and cluster data entered in to the web system. We will look for potential items which should not be included in research and development and seek guidance as needed for clarification.

Responsible Person: Financial Management Supervisor, Contracts and Grants office

Implementation Date: Fall 2009

Texas Southern University

Management concurs. The action steps for corrective measures are as follows:

> *1. The Director of Grants and Contracts will perform a detail review of proposed clustering, prior to inclusion on the SEFA.*
> *2. The Staff Accountant will perform reconciliation between expenditures on the SEFA and the general ledger*
> *3. The Director of Grants and Contracts will review the reconciliation between the expenditures on the SEFA and the general ledger and resolve any discrepancies.*

Responsible Persons: Director of Grants and Contracts and Senior Grant Accountant

Implementation Date: November 2009

Texas State University - San Marcos

Texas State University-San Marcos Management concurs that the TRIO Cluster including Student Support Service, Talent Search, and Upward Bound was misclassified and reported in the incorrect Cluster. Further Texas State agrees with the SAO's recommendation. Management will review current business practices, procedures, and systems for establishment of grant master data and completion and quality control review of the SEFA. Following analysis and review, enhanced business practices, procedures, and quality control measures will be implemented to ensure the accuracy of the information presented on the Schedule of Expenditures of Federal Awards.

Texas State will also consider, year to year changes in the A-133 Compliance Supplement, review of cluster program definitions and requirements, and published Chapter 8 — Requirements for Schedules to the Financial

Statements in its review. The General Accounting Office is identified as the project lead and in collaboration with the Office of Sponsored Programs and the Office of Financial Aid and Scholarships jointly accepts responsibility to represent Texas State in order to remedy the referenced Significant Deficiency Finding.

Responsible Persons: Interim Director, Accounting (Project Lead); Director, Office of Sponsored Programs; and Director, Financial Aid and Scholarships

Implementation Date: The corrective action plan for this finding will be completed by August 31, 2009. Business processes and procedures will be updated by August 31 to ensure timely completion and submission of an accurate SEFA report for the year ending August 31, 2009. Potential Financial System Modifications which might be identified during the Business Process Review will be completed by December 31, 2009.

Texas Tech University

Management agrees that there should be an adequate review process to ensure the SEFA information we submit to the Comptroller's Office is accurate. Supporting documentation and the accounting system was accurate with regards to the classification of expenditures. However, when the data was entered into the Comptroller's website, expenditures for a grant were listed with the incorrect CFDA due to a data entry error. An additional step will be added to perform a thorough and complete review of all supporting documentation prior to final submission of the SEFA to ensure data entry accuracy.

Responsible Person: Managing Director, Sponsored Programs Accounting & Reporting

Implementation Date: September 2009

University of North Texas Health Science Center at Fort Worth

The management of the University of North Texas Health Science Center (UNTHSC) agrees with your recommendation. UNTHSC will implement an adequate review process to ensure that the SEFA information submitted to the Comptroller's Office is accurate.

Responsible Person: Director of Accounting

Implementation Date: November 1, 2009

The University of Texas at Austin

Management agrees that a more adequate review needs to occur prior to submission of the SEFA information. The University has enhanced its post initial certification procedures related to classification of expenditures and will track changes more diligently.

Management also agrees that procedures need to be enhanced to correctly identify clusters. The University has taken action to improve the process resulting in SEFA cluster presentation. Those actions include additional staff training, periodic review for programs with a normal cluster default, and improvements to year end processes related to the SEFA presentation.

Responsible Person: Associate Director, Office of Sponsored Projects

Implementation Date: January 2009

The University of Texas at Dallas

The University agrees with the recommendation and has already taken the necessary corrective actions. In January 2009 management reassigned the responsibility for entering contract and grant award documents into the accounting system to the Office of Finance from the Office of Sponsored Projects. This change of responsibilities will provide the necessary quality assurance of financial data before it is entered into the financial reporting system.

Responsible Person: Associate Vice President for Finance and Controller

Implementation Date: January 2009

The University of Texas at El Paso

The University of Texas at El Paso concurs with the finding. An incorrect CFDA number was used in the notes section of the Schedule of Expenditure of Federal Awards due to an oversight during preparation. The misidentification is easily correctable and greater care will be taken when preparing the Schedule in the future to avoid similar errors.

Responsible Person: Director, Contracts and Grants Accounting

Implementation Date: April 30, 2009

The University of Texas of the Permian Basin

Management concurs. We will implement a review process to ensure the accuracy of SEFA reports submitted to the Comptroller.

Responsible Person: Director of Accounting

Implementation Date: April 14, 2009

The University of Texas Southwestern Medical Center at Dallas

We agree with the recommendation. We will implement a review process that ensures accurate information is submitted to the Comptroller's Office.

Responsible Person: Assistant Vice President, Office of Accounting

Implementation Date: April 1, 2009

The University of Texas Health Science Center at Houston

While the error rate experienced by UTHSC-H was less than .1%, in the future we will implement a secondary check specifically for all special exclusion items to re-verify and tie CFDA totals on the 1A schedule prior to submission. This additional review step will be included in our procedure documentation.

Responsible Person: Vice President, Finance and Business Services

Implementation Date: June 30, 2009

The University of Texas Health Science Center at San Antonio

The Health Science Center will strengthen its procedures related to the review of information contained in the SEFA submitted to the Comptroller's Office. The Office of Accounting will review the SEFA before and after submission to ensure that all programs are assigned the appropriate CFDA number and are properly classified in the appropriate cluster.

Responsible Person: Director of Accounting

Implementation Date: Fall 2009

The University of Texas Medical Branch at Galveston

Management concurs with the finding and will establish an appropriate review process to ensure accuracy of future year SEFA reports submitted to the Comptroller.

Responsible Person: Director, Post-Award, Office of Sponsored Programs

Implementation Date: September 2009

West Texas A&M University

Total federal funding was $35,871,709 and the amount misclassified was $198,079. This grant was a pass-through from another state agency to West Texas A&M University and was simply misclassified with regards to the type of expenditures related to the grant. The university has put in place a process to review identification and designation of federal grant funding.

Responsible Person: Vice President for Business and Finance

Implementation Date: April 10, 2009

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Joe Straus III, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas "Tommy" Williams, Member, Texas Senate
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Rene Oliveira, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Boards, Commissions, Chancellors, Executive Directors, and Presidents of the Following Agencies and Higher Education Institutions

Angelo State University
Department of Aging and Disability Services
Department of Agriculture
Department of Assistive and Rehabilitative Services
Department of Family and Protective Services
Department of Housing and Community Affairs
Department of Public Safety
Department of State Health Services
Department of Transportation
Health and Human Services Commission
Higher Education Coordinating Board
Office of the Attorney General
Office of the Comptroller of Public Accounts
Parks and Wildlife Department
Sul Ross State University
Texas A&M University
Texas A&M University - Corpus Christi
Texas A&M University System
Texas AgriLife Research
Texas Education Agency
Texas Southern University
Texas State University - San Marcos
Texas State University System
Texas Tech University
Texas Tech University System
Texas Workforce Commission
The University of Texas at Austin
The University of Texas at Dallas
The University of Texas at El Paso
The University of Texas at San Antonio
The University of Texas Health Science Center at Houston
The University of Texas Health Science Center at San Antonio
The University of Texas Medical Branch at Galveston

The University of Texas of the Permian Basin
The University of Texas Southwestern Medical Center at Dallas
The University of Texas System
University of Houston
University of Houston System
University of North Texas Health Science Center at Fort Worth
University of North Texas System
Water Development Board
West Texas A&M University

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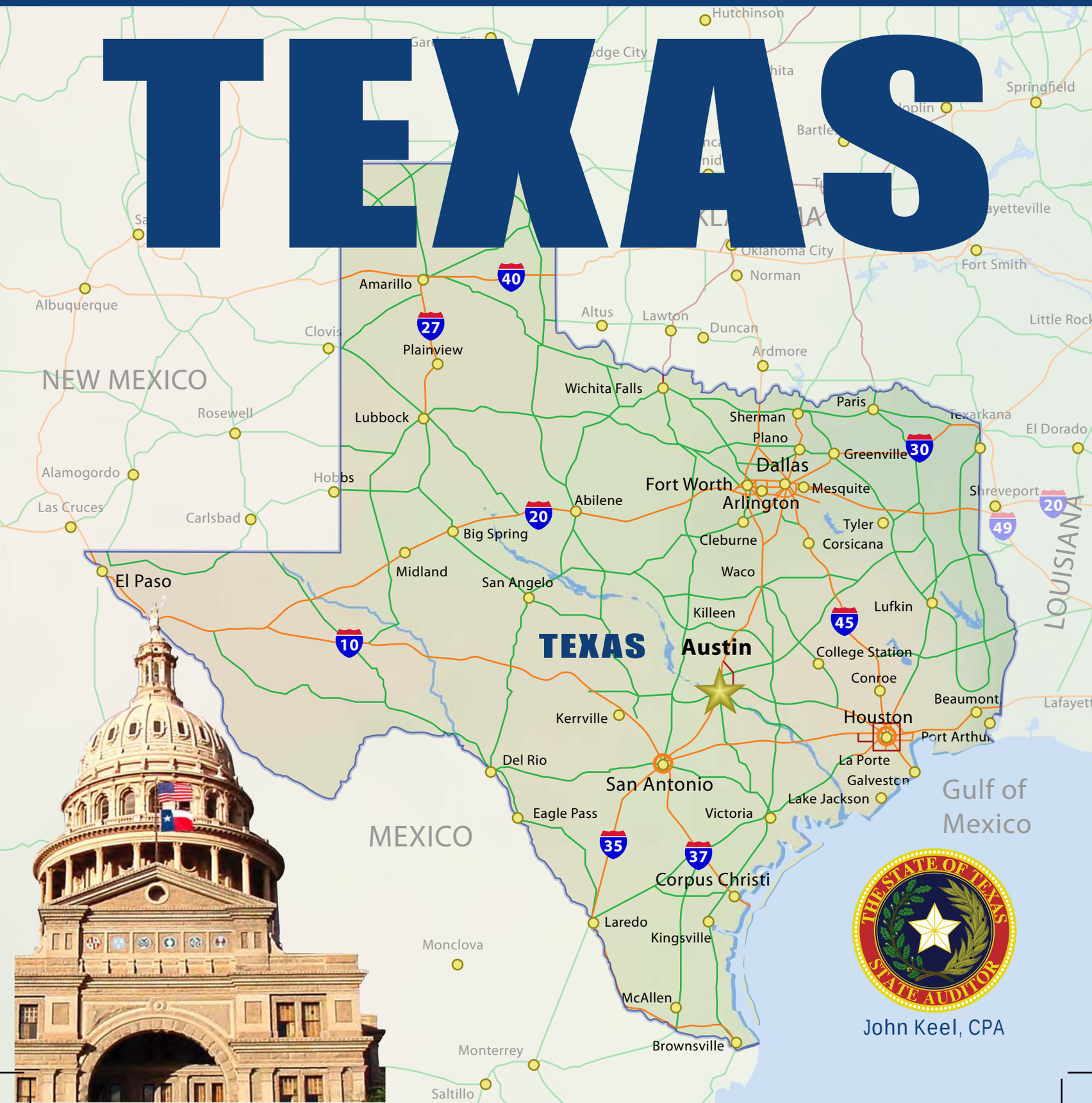
Federal Portion of the Statewide Single Audit Report For the Fiscal Year Ended August 31, 2008

TEXAS



THE STATE OF TEXAS STATE AUDITOR

John Keel, CPA

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 117

Schedule of Findings and Questioned Costs

Section 1:
Summary of Auditors' Results 122

Section 2:
Financial Statement Findings 126

Section 3a:
Federal Award Findings and Questioned Costs - KPMG 128

Section 3b:
Federal Award Findings and Questioned Costs - Other Auditors 203

Summary of Schedule of Prior Audit Findings - KPMG 337

Summary of Schedule of Prior Audit Findings - Other Auditors 386

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Independent Auditors' Reports

Federal Portion of
Statewide Single Audit Report

For the Year Ended August 31, 2008

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State Auditor's Office
John Keel, CPA
State Auditor

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 Joe Straus, 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, 2008, and have issued our report thereon dated February 20, 2009.

Our audit was conducted for the purpose of forming 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, 2009

Robert E. Johnson Building
1501 N. Congress Avenue
Austin, Texas 78701

P.O. Box 12067
Austin, Texas 78711-2067

Phone:
(512) 936-9500

Fax:
(512) 936-9400

Internet:
www.sao.state.tx.us

SAO No. 09-326

KPMG LLP
Suite 1900
111 Congress Ave
Austin, TX 78701

Telephone 512 320 5200
Fax 512 320 5100
Internet www.*us*.kpmg.com

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

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, 2008, 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 20.106-Airport Improvement Program, CFDA 20.233-Border Enforcement Grants, CFDA 66.000 Capitalization Grants for Colonias Wastewater Treatment Assistance Programs, CFDA 66.458-Capitalization Grants for State Revolving Funds, CFDA 66.468-Capitalization Grants for Drinking Water State Revolving Funds, CFDA 84.032L Federal Family Education Loans (Lenders), CFDA 97.036 - Public Assistance Grants (including CFDA 83.544), CFDA 97.039 - Hazard Mitigation Grant (including CFDA 83.548), Highway Planning and Construction Cluster, and Homeland Security Grant Cluster which are approximately 21% 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 20.106-Airport Improvement Program, CFDA 20.233-Border Enforcement Grants, CFDA 66.000 Capitalization Grants for Colonias Wastewater Treatment Assistance Programs, CFDA 66.458-Capitalization Grants for State Revolving Funds, CFDA 66.468-Capitalization Grants for Drinking Water State Revolving Funds, CFDA 84.032L Federal Family Education Loans (Lenders), CFDA 97.036 - Public Assistance Grants (including CFDA 83.544), CFDA 97.039 - Hazard Mitigation Grant (including CFDA 83.548), Highway Planning and Construction Cluster, and Homeland Security Grant Cluster 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 20.106-Airport Improvement Program, CFDA 20.233-Border Enforcement Grants, CFDA 66.000 Capitalization Grants for Colonias Wastewater Treatment Assistance Programs, CFDA 66.458-Capitalization Grants for State Revolving Funds, CFDA 66.468-Capitalization Grants for Drinking Water State Revolving Funds, CFDA 84.032L Federal Family Education Loans (Lenders), CFDA 97.036 - Public Assistance Grants (including CFDA 83.544), CFDA 97.039 - Hazard Mitigation Grant (including CFDA 83.548), Highway Planning and Construction Cluster, and Homeland Security Grant Cluster 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: Federal Perkins Loan program as described in the Compliance Supplement. Those requirements govern functions performed by Affiliated Computer Services, Inc. (ACS), Continental Service Group, Inc. (dba Campus Partners), Panhandle Plains Student Loan Corporation,

KPMG LLP, a U.S. limited liability partnership, is the U.S.
member firm of KPMG International, a Swiss cooperative.

William & Fudge, Inc., General Revenue Corporation, Educational Loan Servicing, LLC (dba ConServe), Enterprise Recovery Systems, Inc., Todd Bremer & Lawson, Inc., Windham Professionals, Inc., and National Credit Management. 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, 2008 was examined by other accountants in accordance with the U.S. 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.

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.

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:

Agency/University	Program	Compliance Requirement	Finding Number
Health and Human Services Commission	CFDA 93.767 - State Children's Insurance Program	Eligibility	09-16
	CFDA 93.558 - Temporary Assistance for Needy Families	Special Tests and Provisions	09-18
	Food Stamp Cluster	Special Tests and Provisions	09-19
	Medicaid Cluster	Special Tests and Provisions	09-22
Texas Education Agency	CFDA 84.011 - Migrant Education - State Grant Program CFDA 84.048 - Vocational Education - Basic Grants to States CFDA 84.287 - Twenty-First Century Community Learning Centers CFDA 84.357 - Reading First State Grants Special Education Cluster	Subrecipient Monitoring	09-32

Agency/University	Program	Compliance Requirement	Finding Number
Texas Southern University	Student Financial Assistance Cluster	Special Tests and Provisions	09-62
Texas State University - San Marcos	Student Financial Assistance Cluster	Special Tests and Provisions	09-69
Department of Transportation	CFDA 20.106 - Airport Improvement Program	Reporting	09-77
	Highway Planning and Construction Cluster	Special Tests and Provisions	09-81
University of Houston	Student Financial Assistance Cluster	Special Tests and Provisions	09-86 09-87
University of Texas of the Permian Basin	Student Financial Assistance Cluster	Special Tests and Provisions	09-107

In our opinion, based on our audit and the report of other auditors, except for the noncompliance described in the preceding paragraph, 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, 2008. 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:

Agency/University	Program	Compliance Requirement	Finding Number
Department of Agriculture	CFDA 10.558 - Child and Adult Care Food Program	Subrecipient Monitoring	09-02
	CFDA 10.560 - State Administrative Expenses for Child Nutrition	Subrecipient Monitoring	09-03
	CFDA 10.550 - Food Donation	Subrecipient Monitoring	09-04
	CFDA 10.558 - Child and Adult Care Food Program CFDA 10.560 - State Administrative Expenses for Child Nutrition	Allowable Costs/Cost Principles	09-05

Agency/University	Program	Compliance Requirement	Finding Number
Department of Agriculture Health and Human Services Commission	CFDA 10.558 - Child and Adult Care Food Program	Allowable Costs/Cost Principles Earmarking Reporting Subrecipient Monitoring	09-06
Department of Assistive and Rehabilitative Services	CFDA 84.126 - Rehabilitation Services - Vocational Rehabilitation Grants to States	Eligibility	09-07
Department of Family and Protective Services	CFDA 93.558 - Temporary Assistance for Needy Families	Allowable Costs/Cost Principles Eligibility	09-08
	CFDA 93.558 - Temporary Assistance for Needy Families CFDA 93.658 - Foster Care - Title IV-E CFDA 93.659 - Adoption Assistance CFDA 93.667 - Social Services Block Grant	Allowable Costs/Cost Principles	09-09
	CFDA 93.659 - Adoption Assistance	Allowable Costs/Cost Principles Eligibility	09-10
	CFDA 93.658 - Foster Care - Title IV-E	Eligibility	09-11
	CFDA 93.558 - Temporary Assistance for Needy Families CFDA 93.658 - Foster Care - Title IV-E	Subrecipient Monitoring	09-12
	CFDA 93.658 - Foster Care - Title IV-E CFDA 93.659 - Adoption Assistance	Matching	09-13
Health and Human Services Commission	Medicaid Cluster	Allowable Costs/Cost Principles	09-15
	CFDA 93.558 - Temporary Assistance for Needy Families Food Stamp Cluster Medicaid Cluster	Eligibility	09-17

Agency/University	Program	Compliance Requirement	Finding Number
Health and Human Services Commission	Medicaid Cluster	Special Tests and Provisions	09-20
	CFDA 93.558 - Temporary Assistance for Needy Families	Special Tests and Provisions	09-21 09-24
Health and Human Services Commission Department of Family and Protective Services Department of State Health Services	CFDA 10.557 - Special Supplemental Nutrition Program for Woman, Infants, and Children CFDA 93.268 - Immunization Grants CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance CFDA 93.558 - Temporary Assistance for Needy Families CFDA 93.658 - Foster Care - Title IV-E CFDA 93.667 - Social Services Block Grant CFDA 93.767 - State Children's Insurance Program CFDA 93.889 - Hospital Preparedness Program CFDA 93.917 - HIV Care Formula Grants Food Stamp Cluster Medicaid Cluster	Procurement and Suspension and Debarment	09-25
Health and Human Services Commission Department of Aging and Disability Services Department of Assistive and Rehabilitative Services Department of State Health Services Department of Family and Protective Services	CFDA 10.557 - Special Supplemental Nutrition Program for Woman, Infants, and Children CFDA 10.560 - State Administrative Expenses for Child Nutrition CFDA 84.126 - Rehabilitation Services - Vocational Rehabilitation Grants to States CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance CFDA 93.558 - Temporary Assistance for Needy Families CFDA 93.658 - Foster Care - Title IV-E CFDA 93.659 - Adoption Assistance CFDA 93.667 - Social Services Block Grant	Allowable Costs/Cost Principles	09-26

Agency/University	Program	Compliance Requirement	Finding Number
Health and Human Services Commission Department of Aging and Disability Services Department of Assistive and Rehabilitative Services Department of State Health Services Department of Family and Protective Services	CFDA 93.767 - State Children's Insurance Program CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse CFDA 93.994 - Maternal and Child Health Services Block Grants to the States Aging Cluster Disability Insurance/SSI Cluster Food Stamp Cluster Medicaid Cluster	(continued)	09-26
Parks and Wildlife Department	Fish and Wildlife Cluster	Reporting	09-28
Department of State Health Services	CFDA 93.217 - Family Planning Services CFDA 93.268 - Immunization Grants CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance CFDA 93.889 - Hospital Preparedness Program CFDA 93.917 - HIV Care Formula Grants CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse CFDA 93.994 - Maternal and Child Health Services Block Grants to the States	Subrecipient Monitoring	09-31
Texas Education Agency	CFDA 84.287 - Twenty-First Century Community Learning Centers	Level of Effort - Maintenance of Effort	09-34
Angelo State University	Student Financial Assistance Cluster	Eligibility	09-36
		Special Tests and Provisions	09-37
Department of Public Safety	Homeland Security Cluster	Allowable Costs/Cost Principles	09-38
	Homeland Security Cluster CFDA 20.233 - Border Enforcement Grant	Equipment and Real Property Management	09-40

Agency/University	Program	Compliance Requirement	Finding Number
Department of Public Safety	Homeland Security Cluster	Matching, Level of Effort, Earmarking	09-41
	Homeland Security Cluster	Procurement and Suspension and Debarment	09-42
	Homeland Security Cluster	Subrecipient Monitoring	09-43
	CFDA 20.233 - Border Enforcement Grant	Procurement and Suspension and Debarment	09-45
	CFDA 97.036 - Public Assistance Grants (including CFDA 83.544) CFDA 97.039 - Hazard Mitigation Grant (including CFDA 83.548)	Reporting	09-47
	CFDA 97.036 - Public Assistance Grants (including CFDA 83.544)	Subrecipient Monitoring	09-48
Sul Ross State University	Student Financial Assistance Cluster	Eligibility	09-49
		Special Tests and Provisions	09-50
Texas A&M University	Student Financial Assistance Cluster	Special Tests and Provisions	09-51 09-52 09-53
Texas A&M University - Corpus Christi	Student Financial Assistance Cluster	Eligibility	09-54
		Special Tests and Provisions	09-55
Texas Higher Education Coordinating Board	84.032L - Federal Family Education Loans (FFEL) - Lender	Special Tests and Provisions	09-56 09-57 09-58 09-59 09-60
Texas Southern University	Student Financial Assistance Cluster	Eligibility	09-61

Agency/University	Program	Compliance Requirement	Finding Number
Texas Southern University	Student Financial Assistance Cluster	Special Tests and Provisions	09-63
	Research and Development Cluster	Allowable Costs/Cost Principles	09-64
Texas State University - San Marcos	Student Financial Assistance Cluster	Eligibility	09-65
		Reporting	09-66
		Special Tests and Provisions	09-67 09-68 09-70
Texas Tech University	Student Financial Assistance Cluster	Reporting	09-71
		Special Tests and Provisions	09-72 09-73 09-74 09-75
Department of Transportation	CFDA 20.106 - Airport Improvement Program	Procurement and Suspension and Debarment	09-76
		Special Tests and Provisions	09-78
	Highway Planning and Construction Cluster	Procurement and Suspension and Debarment	09-79
		Subrecipient Monitoring	09-80
University of Houston	Student Financial Assistance Cluster	Eligibility	09-82
		Reporting	09-83
		Special Tests and Provision	09-84 09-85
University of North Texas Health Science Center at Fort Worth	Student Financial Assistance Cluster	Special Tests and Provisions	09-88

Agency/University	Program	Compliance Requirement	Finding Number
University of Texas at Austin	Student Financial Assistance Cluster	Special Tests and Provisions	09-89 09-90 09-91
	Research and Development Cluster	Allowable Costs/Cost Principles	09-92
		Davis-Bacon Act	09-93
		Equipment and Real Property Management	09-94
University of Texas at Dallas	Student Financial Assistance Cluster	Eligibility	09-96
	Research and Development Cluster	Procurement and Suspension and Debarment	09-97
University of Texas at El Paso	Student Financial Assistance Cluster	Eligibility	09-98
		Special Tests and Provisions	09-99
	Research and Development Cluster	Allowable Costs/Cost Principles	09-100
University of Texas Health Science Center at Houston	Research and Development Cluster	Allowable Costs/Cost Principles	09-101
		Equipment and Real Property Management	09-102
		Procurement and Suspension and Debarment	09-103
University of Texas Health Science Center at San Antonio	Student Financial Assistance Cluster	Special Tests and Provisions	09-104
University of Texas Medical Branch at Galveston	Student Financial Assistance Cluster	Special Tests and Provisions	09-105

Agency/University	Program	Compliance Requirement	Finding Number
University of Texas of the Permian Basin	Student Financial Assistance Cluster	Eligibility	09-106
University of Texas at San Antonio	Student Financial Assistance Cluster	Eligibility	09-108
		Special Tests and Provisions	09-109 09-110
University of Texas Southwestern Medical Center at Dallas	Research and Development Cluster	Special Tests and Provisions	09-111
Water Development Board	CFDA 66.000 - Capitalization Grants for Colonias Wastewater Treatment Assistance Program	Matching	09-114
	CFDA 66.458 - Capitalization Grants for Clean Water State Revolving Fund	Procurement and Suspension and Debarment	09-115
	CFDA 66.468 - Capitalization Grants for Drinking Water State Revolving Fund CFDA 66.000 - Capitalization Grants for Colonias Wastewater Treatment Assistance Program	Subrecipient Monitoring	09-116
West Texas A&M University	Student Financial Assistance Cluster	Special Tests and Provisions	09-117
Texas Workforce Commission	CFDA 93.596 - Child Care Matching & Matching Funds of the Child Care	Matching	09-118

Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we and the other auditors considered the State's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

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Requirements governing maintaining contact with borrowers and billing and collection procedures in the Student Financial Assistance Cluster: Federal Perkins Loan Program as described in the Compliance Supplement are performed by the service organizations noted above. Internal control over compliance related to such functions for the year ended August 31, 2008 was reported on 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*. Our report does not include the results of the other accountants' testing of the service organizations' internal control over compliance related to such functions.

Our consideration of internal control over compliance was for the limited purpose described above and would not necessarily identify all deficiencies in the State's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We and the other auditors consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs and items listed below to be significant deficiencies, excluding those significant deficiencies we also consider to be material weaknesses:

Agency/University	Program	Compliance Requirement	Finding Number
Department of Agriculture	CFDA 10.558 - Child and Adult Care Food Program CFDA 10.560 - State Administrative Expenses for Child Nutrition	Allowable Costs/Cost Principles	09-01
	CFDA 10.560 - State Administrative Expenses for Child Nutrition	Subrecipient Monitoring	09-03
	CFDA 10.550 - Food Donation	Subrecipient Monitoring	09-04
	CFDA 10.558 - Child and Adult Care Food Program CFDA 10.560 - State Administrative Expenses for Child Nutrition	Allowable Costs/Cost Principles	09-05

Agency/University	Program	Compliance Requirement	Finding Number
Department of Agriculture Health and Human Services Commission	CFDA 10.558 - Child and Adult Care Food Program	Allowable Costs/Cost Principles Earmarking Reporting Subrecipient Monitoring	09-06
Department of Assistive and Rehabilitative Services	CFDA 84.126 - Rehabilitation Services - Vocational Rehabilitation Grants to States	Eligibility	09-07
Department of Family and Protective Services	CFDA 93.558 - Temporary Assistance for Needy Families	Allowable Costs/Cost Principles Eligibility	09-08
	CFDA 93.558 - Temporary Assistance for Needy Families CFDA 93.658 - Foster Care - Title IV-E CFDA 93.659 - Adoption Assistance CFDA 93.667 - Social Services Block Grant	Allowable Costs/Cost Principles	09-09
	CFDA 93.659 - Adoption Assistance	Allowable Costs/Cost Principles Eligibility	09-10
	CFDA 93.658 - Foster Care - Title IV-E	Eligibility	09-11
	CFDA 93.558 - Temporary Assistance for Needy Families CFDA 93.658 - Foster Care - Title IV-E	Subrecipient Monitoring	09-12
Health and Human Services Commission	CFDA 93.767 - State Children's Insurance Program Medicaid Cluster	Allowable Costs/Cost Principles	09-14
	CFDA 93.767 - State Children's Insurance Program	Eligibility	09-16
	CFDA 93.558 - Temporary Assistance for Needy Families	Special Tests and Provisions	09-18
	Food Stamp Cluster	Special Tests and Provisions	09-19
	Medicaid Cluster	Special Tests and Provisions	09-20

Agency/University	Program	Compliance Requirement	Finding Number
Health and Human Services Commission	CFDA 93.558 - Temporary Assistance for Needy Families	Special Tests and Provisions	09-21
	Medicaid Cluster	Special Tests and Provisions	09-22
	Food Stamp Cluster	Special Tests and Provisions	09-23
	CFDA 93.558 - Temporary Assistance for Needy Families	Special Tests and Provisions	09-24
Health and Human Services Commission Department of Family and Protective Services Department of State Health Services	CFDA 10.557 - Special Supplemental Nutrition Program for Woman, Infants, and Children CFDA 93.268 - Immunization Grants CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance CFDA 93.558 - Temporary Assistance for Needy Families CFDA 93.658 - Foster Care - Title IV-E CFDA 93.667 - Social Services Block Grant CFDA 93.767 - State Children's Insurance Program CFDA 93.889 - Hospital Preparedness Program CFDA 93.917 - HIV Care Formula Grants Food Stamp Cluster Medicaid Cluster	Procurement and Suspension and Debarment	09-25
Texas Department of Housing and Community Affairs	CFDA 93.568 - Low-Income Home Energy Assistance	Cash Management Earmarking Subrecipient Monitoring Reporting	09-27
Department of State Health Services	CFDA 93.889 - Hospital Preparedness Program	Allowable Costs/Cost Principles Period of Availability of Federal Funds	09-29
	CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children	Allowable Costs/Cost Principles Special Tests and Provisions	09-30

Agency/University	Program	Compliance Requirement	Finding Number
Department of State Health Services	CFDA 93.217 - Family Planning Services CFDA 93.268 - Immunization Grants CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance CFDA 93.889 - Hospital Preparedness Program CFDA 93.917 - HIV Care Formula Grants CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse CFDA 93.994 - Maternal and Child Health Services Block Grant to the States	Subrecipient Monitoring	09-31
Texas Education Agency	CFDA 84.011 - Migrant Education-State Grant Program CFDA 84.048 - Vocational Education-Basic Grants to States CFDA 84.287 - Twenty-First Century Community Learning Centers CFDA 84.357 - Reading First State Grants Special Education Cluster	Subrecipient Monitoring	09-32
	CFDA 84.048 - Vocational Education-Basic Grants to States Special Education Cluster	Allowable Costs/Cost Principles	09-33
Angelo State University	Student Financial Assistance Cluster	Eligibility	09-36
		Special Tests and Provisions	09-37
Department of Public Safety	Homeland Security Cluster	Allowable Costs/Cost Principles	09-38
		Cash Management	09-39
	Homeland Security Cluster CFDA 20.233 - Border Enforcement Grant	Equipment and Real Property Management	09-40

Agency/University	Program	Compliance Requirement	Finding Number
Department of Public Safety	Homeland Security Cluster	Matching, Level of Effort, Earmarking	09-41
		Procurement and Suspension and Debarment	09-42
		Subrecipient Monitoring	09-43
	CFDA 20.233 - Border Enforcement Grant	Procurement and Suspension and Debarment	09-45
		Reporting	09-46
	CFDA 97.036 - Public Assistance Grants (including CFDA 83.544) CFDA 97.039 - Hazard Mitigation Grant (including CFDA 83.548)	Reporting	09-47
	CFDA 97.036 - Public Assistance Grants (including CFDA 83.544)	Subrecipient Monitoring	09-48
Sul Ross State University	Student Financial Assistance Cluster	Eligibility	09-49
		Special Tests and Provisions	09-50
Texas A&M University	Student Financial Assistance Cluster	Special Tests and Provisions	09-51 09-52 09-53
Texas A&M University - Corpus Christi	Student Financial Assistance Cluster	Eligibility	09-54
		Special Tests and Provisions	09-55
Texas Higher Education Coordinating Board	84.032L - Federal Family Education Loans (FFEL) - Lender	Special Tests and Provisions	09-56 09-57 09-58 09-59 09-60
Texas Southern University	Student Financial Assistance Cluster	Eligibility	09-61

Agency/University	Program	Compliance Requirement	Finding Number
Texas Southern University	Student Financial Assistance Cluster	Special Tests and Provisions	09-63
	Research and Development Cluster	Allowable Costs/Cost Principles	09-64
Texas State University - San Marcos	Student Financial Assistance Cluster	Eligibility	09-65
		Reporting	09-66
		Special Tests and Provisions	09-67 09-68 09-70
Texas Tech University	Student Financial Assistance Cluster	Reporting	09-71
		Special Tests and Provisions	09-72 09-73 09-74 09-75
Department of Transportation	CFDA 20.106 - Airport Improvement Program	Procurement and Suspension and Debarment	09-76
		Special Tests and Provisions	09-78
	Highway Planning and Construction Cluster	Procurement and Suspension and Debarment	09-79
		Subrecipient Monitoring	09-80
University of Houston	Student Financial Assistance Cluster	Eligibility	09-82
		Reporting	09-83
		Special Tests and Provision	09-85
University of North Texas Health Science Center at Forth Worth	Student Financial Assistance Cluster	Special Tests and Provisions	09-88

Agency/University	Program	Compliance Requirement	Finding Number
University of Texas at Austin	Student Financial Assistance Cluster	Special Tests and Provisions	09-89 09-90 09-91
	Research and Development Cluster	Allowable Costs/Cost Principles	09-92
		Davis-Bacon Act	09-93
		Equipment and Real Property Management	09-94
		Matching, Level of Effort, Earmarking	09-95
University of Texas at Dallas	Student Financial Assistance Cluster	Eligibility	09-96
	Research and Development Cluster	Procurement and Suspension and Debarment	09-97
University of Texas at El Paso	Student Financial Assistance Cluster	Eligibility	09-98
		Special Tests and Provisions	09-99
	Research and Development Cluster	Allowable Costs/Cost Principles	09-100
University of Texas Health Science Center at Houston	Research and Development Cluster	Equipment and Real Property Management	09-102
		Procurement and Suspension and Debarment	09-103
University of Texas Health Science Center at San Antonio	Student Financial Assistance Cluster	Special Tests and Provisions	09-104
University of Texas Medical Branch at Galveston	Student Financial Assistance Cluster	Special Tests and Provisions	09-105

Agency/University	Program	Compliance Requirement	Finding Number
University of Texas of the Permian Basin	Student Financial Assistance Cluster	Eligibility	09-106
University of Texas at San Antonio	Student Financial Assistance Cluster	Eligibility	09-108
		Special Tests and Provisions	09-109 09-110
University of Texas Southwestern Medical Center at Dallas	Research and Development Cluster	Special Tests and Provisions	09-111
Water Development Board	CFDA 66.000 - Capitalization Grants for Colonias Wastewater Treatment Assistance Program	Cash Management	09-112
	CFDA 66.458 - Capitalization Grants for Clean Water State Revolving Fund CFDA 66.468 - Capitalization Grants for Drinking Water State Revolving Fund CFDA 66.000 - Capitalization Grants for Colonias Wastewater Treatment Assistance Program	Equipment and Real Property Management Procurement and Suspension and Debarment Subrecipient Monitoring	09-113 09-115 09-116
West Texas A&M University	Student Financial Assistance Cluster	Special Tests and Provisions	09-117

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we and the other auditors consider the items listed below, to be material weaknesses:

Agency/University	Program	Compliance Requirement	Finding Number
Health and Human Services Commission	CFDA 93.558 - Temporary Assistance for Needy Families Food Stamp Cluster Medicaid Cluster	Eligibility	09-17
Texas Education Agency	CFDA 84.011 - Migrant Education - State Grant Program	Reporting Special Tests and Provisions	09-35

Agency/University	Program	Compliance Requirement	Finding Number
Department of Public Safety	CFDA 20.233 - Border Enforcement Grant	Matching, Level of Effort, Earmarking	09-44
Texas Southern University	Student Financial Assistance Cluster	Special Tests and Provisions	09-62
Texas State University - San Marcos	Student Financial Assistance Cluster	Special Tests and Provisions	09-69
Department of Transportation	CFDA 20.106 - Airport Improvement Program	Reporting	09-77
	Highway Planning and Construction Cluster	Special Tests and Provisions	09-81
University of Houston	Student Financial Assistance Cluster	Special Tests and Provisions	09-86 09-87
University of Texas of the Permian Basin	Student Financial Assistance Cluster	Special Tests and Provisions	09-107

The State's response to the findings identified in our audit and the report of other auditors are described in the accompanying schedule of findings and questioned cost. We, and the other auditors, did not audit the State's response, and accordingly, we and the other auditors express no opinion on it.

This report is intended solely for the information and use of the Governor, the Members of the Texas State Legislature, Legislative Audit Committee, management of State agencies and universities, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 20, 2009

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
Office of National Drug Control Policy					
Office of National Drug Control Policy	07.XXX	PHNP506	$	$ 80,461	$ 80,461
		PSWP562		194,153	194,153
Total - Office of National Drug Control Policy			0	274,614	274,614
U.S. Department of Agriculture					
U.S. Department of Agriculture	10.XXX	7X412COOL		(524)	(524)
		12-25-A-4666		37,200	37,200
		Coop. Agr #004		3,035	3,035
		Dog Fighting Investigations		39,558	39,558
		FMPPTX-204-2007		25,722	25,722
		FSIS-C-68-2003		30,007	30,007
		WIEB-04-TX-0		(18,992)	(18,992)
Pass-Through from Southern US Trade Association		E04MX4NA95		100,261	100,261
Agricultural Research--Basic and Applied Research	10.001			6,869	6,869
Plant and Animal Disease, Pest Control, and Animal Care	10.025			5,892,668	5,892,668
Wildlife Services	10.028			120,000	120,000
Livestock Assistance Program	10.066			668,645	668,645
Conservation Reserve Program	10.069			1,487	1,487
Market News	10.153			33,507	33,507
Federal-State Marketing Improvement Program	10.156			32,960	32,960
Market Protection and Promotion	10.163		12,405	1,372,524	1,384,929
Specialty Crop Block Grant Program	10.169			135,881	135,881
Grants for Agricultural Research, Special Research Grants	10.200			58,460	58,460
Payments to 1890 Land-Grant Colleges and Tuskegee University	10.205			1,348,751	1,348,751
Grants for Agricultural Research--Competitive Research Grants	10.206			32,817	32,817
Animal Health and Disease Research	10.207		20,704	168,154	188,858
Small Business Innovation Research	10.212				
Pass-Through from Lynntech, Inc.		442160		23,160	23,160
Sustainable Agriculture Research and Education	10.215				
Pass-Through from Southern Forest Research Partnership		435140		44,096	44,096
1890 Institution Capacity Building Grants	10.216			162,534	162,534
Higher Education Challenge Grants	10.217			53,192	53,192
Hispanic Serving Institutions Education Grants	10.223			575,644	575,644
Integrated Programs	10.303		788,633	300,884	1,089,517
Pass-Through from North Carolina State University		420120		37,178	37,178
Pass-Through from North Carolina State University		433450		5,440	5,440
Pass-Through from North Carolina State University		433690		4,580	4,580
Pass-Through from North Carolina State University		434930		723	723
Homeland Security Agricultural	10.304			285,447	285,447
Pass-Through from University of Florida		440490		41,814	41,814
Interest Assistance Program	10.437			6,672	6,672
Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443			189,525	189,525
Rural Community Development Initiative	10.446			20,477	20,477
Commodity Partnerships for Small Agricultural Risk Management Education Sessions	10.459			77,658	77,658
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475			4,708,965	4,708,965
Cooperative Extension Service	10.500		2,511,632	25,973,118	28,484,750
Pass-Through from Auburn University		434450		21,195	21,195
Pass-Through from Auburn University		455140		144,625	144,625
Pass-Through from Auburn University		455490		61,325	61,325

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Agriculture (continued)					
Pass-Through from Mississippi State University		457150		128	128
Pass-Through from Mississippi State University		458180		515	515
Pass-Through from National 4-H Council		2005-45201-03332		20,856	20,856
Pass-Through from National 4-H Council		455510		582	582
Pass-Through from National 4-H Council		455530		24,056	24,056
Pass-Through from University of Florida		433950		3,982	3,982
Pass-Through from University of Florida		434110		996	996
Pass-Through from University of Florida		434150		7,704	7,704
Pass-Through from University of Florida		440510		3,007	3,007
Pass-Through from University of Georgia		437450		4,809	4,809
Pass-Through from University of Georgia		450340		7,118	7,118
Pass-Through from University of Georgia		450550		11,637	11,637
Pass-Through from University of Minnesota		422007	56,062		56,062
Pass-Through from University of Minnesota		422008		44,941	44,941
Pass-Through from University of Minnesota		422009	25,600		25,600
Pass-Through from University of Minnesota		422010	4,443		4,443
Pass-Through from University of Minnesota		422011	1,223		1,223
Pass-Through from University of Nebraska		457180		9,916	9,916
Food Distribution	10.550		105,836,247	417,190	106,253,437
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		108,690,515	692,346,333	801,036,848
Child and Adult Care Food Program	10.558		209,474,157	19,078,480	228,552,637
State Administrative Expenses for Child Nutrition	10.560		4,885,465	11,585,382	16,470,847
Commodity Supplemental Food Program	10.565		7,405,939	2,561,531	9,967,470
WIC Farmers' Market Nutrition Program (FMNP)	10.572		137,598	980,174	1,117,772
Child Nutrition Discretionary Grants Limited Availability	10.579		40,913	19,800	60,713
Fresh Fruit and Vegetable Program	10.582		274,838		274,838
Forestry Research	10.652			932,249	932,249
Cooperative Forestry Assistance	10.664			7,676,216	7,676,216
Rural Development, Forestry, and Communities	10.672			11,296	11,296
Forest Land Enhancement Program	10.677			64,345	64,345
Forest Health Protection	10.680			514,158	514,158
Rural Business Enterprise Grants	10.769			95,171	95,171
Rural Cooperative Development Grants	10.771			207,541	207,541
Distance Learning and Telemedicine Loans and Grants	10.855			379,657	379,657
1890 Land Grant Institutions Rural Entrepreneurial Outreach Program	10.856			96,756	96,756
Soil and Water Conservation	10.902				
Pass-Through from National Fish and Wildlife Foundation		449003	76,578		76,578
Pass-Through from National Fish and Wildlife Foundation		449160		8,092	8,092
Plant Materials for Conservation	10.905			81,026	81,026
Watershed Surveys and Planning	10.906			37,890	37,890
Environmental Quality Incentives Program	10.912		5,000	1,076,716	1,081,716
Wildlife Habitat Incentive Program	10.914				
Pass-Through from National Fish and Wildlife Foundation		454230		7,390	7,390
Total – U.S. Department of Agriculture			440,247,952	781,144,882	1,221,392,834
U.S. Department of Commerce					
U.S. Department of Commerce	11.XXX	EA133C-02-CN-0036		52,962	52,962
		EA135006SE5303		24,885	24,885
Economic Development--Technical Assistance	11.303			3,436	3,436
Pass-Through from Economic Development Administration		08-66-04211		107,450	107,450
Trade Adjustment Assistance for Firms	11.313			1,021,795	1,021,795
Sea Grant Support	11.417			(16,547)	(16,547)
Coastal Zone Management Administration Awards	11.419		744,417	1,222,003	1,966,420

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Commerce (continued)					
Pass-Through from Houston Area Research Council		606240		(252)	(252)
Pass-Through from University of New Hampshire		604860		39,224	39,224
Pass-Through from University of New Hampshire		606620	38,577	555	39,132
Office of Oceanic and Atmospheric Research (OAR) Joint and Cooperative Institutes	11.432			605,824	605,824
Marine Fisheries Initiative	11.433			10,886	10,886
Regional Fishery Management Councils	11.441			789,970	789,970
Unallied Industry Projects	11.452			222,753	222,753
Special Oceanic and Atmospheric Projects	11.460			(90)	(90)
Habitat Conservation	11.463			1,351,388	1,351,388
Pass-Through from Coastal Bend Bays		742924909		1,610,000	1,610,000
Coastal Services Center	11.473			4,898	4,898
Public Telecommunications Facilities Planning and Construction	11.550			53,344	53,344
Public Safety Interoperable Communication Grant Program	11.555		1,200	116,882	118,082
Measurement and Engineering Research and Standards	11.609			8,815	8,815
Manufacturing Extension Partnership	11.611			1,466,616	1,466,616
Advanced Technology Program	11.612				
Pass-Through from University of Nebraska - Lincoln		25-63310134-004		6,685	6,685
Minority Business Enterprise Centers	11.800			246,111	246,111
Total - U.S. Department of Commerce			784,194	8,949,593	9,733,787
U.S. Department of Defense					
U.S. Department of Defense	12.XXX	401-8-TAMIU		40,196	40,196
		580008	310,288		310,288
		AFOTCR170		21,338	21,338
		DACW42-03-2-0002		223,851	223,854
		FA 51 IQC (W91WAW-08-P-0075)		479,042	479,042
		FA4484-07-T-0030		1,259	1,259
		FA8901-07-M-0089/PET	2,623	172,117	174,740
		FA8901-08-C-003		3,218	3,218
		G72746		3,802	3,802
		IAC 1647		2,547	2,547
		NOO189-07-P-M299		15,000	15,000
		VM9113M-05-C-1087		1,827,556	1,827,556
		W81K00-06-P-0525		25,817	25,817
		WOLF - BAMC		61,811	61,811
		WOLF/IPAA/STEWART		159,667	159,667
Pass-Through from Karta Technologies		FA8901-06-C-0002	110,000	10,375	120,375
Pass-Through from Rice University		R14051-72600003		12,372	12,372
Procurement Technical Assistance for Business Firms	12.002		17,274	818,664	835,938
Flood Control Projects	12.106			280,843	280,843
Payments to States in Lieu of Real Estate Taxes	12.112			2,823,145	2,823,145
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113			783,580	783,580
Collaborative Research and Development	12.114			108,165	108,165
Civil Defense- Architect/Engineer Faculty Development	12.300			619,948	619,948
Pass-Through from Consortium for Oceanographic Research and Education		NA06SEC4690002		13,343	13,343
Military Construction, National Guard	12.400			5,124,503	5,124,503
National Guard Military Operations and Maintenance (O&M) Projects	12.401			44,385,422	44,385,422

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Defense (continued)					
Readiness Sustainment Maintenance Program	12.402			12,276,896	12,276,896
National Guard Civilian Youth Opportunities	12.404			2,010,744	2,010,744
Military Medical Research and Development	12.420		613,512	1,532,511	2,146,023
Basic Scientific Research	12.431			1,390,415	1,390,415
Pass-Through from Academy for Applied Science		PRIME W911NF-04-1-0001		19,509	19,509
Basic, Applied, and Advanced Research in Science and Engineering	12.630			504,540	504,540
Air Force Defense Research Sciences Program	12.800			283,465	283,465
Pass-Through from EM-Assist, Inc.		FA7014-07-C-0041		12,500	12,500
Mathematical Sciences Grants Program	12.901			1,400	1,400
Research and Technology Development	12.910			137,618	137,618
Total - U.S. Department of Defense			1,053,697	76,187,179	77,240,876
U.S. Department of Housing and Urban Development					
U.S. Department of Housing and Urban Development	14.XXX	7751021000		95,642	95,642
		CH-TEX 249(D)		269,758	269,758
		CH-TEX-250D-300630		93,330	93,330
		SA-265-1000(S)		48,802	48,802
Pass-Through from City of Houston		FC62153 06-05001		40,505	40,505
Pass-Through from University of California - San Francisco		G72127		27,794	27,794
Community Development Block Grants/Technical Assistance Program	14.227				
Pass-Through from City of Arlington		B-05-MC48-0008		90	90
Community Development Block Grants/State's Program	14.228		132,282,786	9,899,196	142,181,982
Emergency Shelter Grants Program	14.231		4,761,577	187,745	4,949,322
Supportive Housing Program	14.235				
Pass-Through from Housing Authority of New Orleans		07-101-04-12		80,507	80,507
Pass-Through from SCI Research		07-101-04-12	95,943		95,943
Historically Black Colleges and Universities Program	14.237			148,491	148,491
HOME Investment Partnerships Program	14.239		30,186,775	3,686,962	33,873,737
Housing Opportunities for Persons with AIDS	14.241		2,886,092	73,295	2,959,387
Pass-Through from City of Dallas		04-0531		6,630	6,630
Pass-Through from City of Dallas		72160		25,088	25,088
Rural Housing and Economic Development	14.250		129	42,247	42,376
Pass-Through from Neighborhood Housing Service of Dimmit County		3911-01		28,722	28,722
General Research and Technology Activity	14.506			25,000	25,000
Community Outreach Partnership Center Program	14.511			25	25
Hispanic-Serving Institutions Assisting Communities	14.514			285,401	285,401
Historically Black Colleges and Universities Program	14.520			54,011	54,011
Public and Indian Housing	14.850				
Pass-Through from Lubbock Housing Authority		135244B5604100		60,931	60,931
Demolition and Revitalization of Severely Distressed Public Housing (HOPE IV)	14.866				
Pass-Through from Housing Authority of City of Beaumont		HOPE VI Grant - 12-08-07 - 426047		5,969	5,969
Section 8 Housing Choice Vouchers	14.871			6,400,207	6,400,207
Healthy Homes Demonstration Grants	14.901			76,749	76,749
Total - U.S. Department of Housing and Urban Development			170,213,302	21,663,097	191,876,399
U.S. Department of the Interior					
U.S. Department of the Interior	15.XXX	05-FG-40-2424, MOD 2		1,550	1,550

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of the Interior (continued)					
		06CRBA0003/6003CB0003/0787960239		5,542	5,542
		06CRBA0003/6003CB0004/0886530256		3,901	3,901
		06CRBA0003/6003CB0005/0887960055		4,761	4,761
		07HQSA0114; REQ #0779010086/0001		10,413	10,413
		1435-02-03-CA-40391		74,705	74,705
		1448-20181-03-G912		1,055,519	1,055,519
		2122080015/R2122080015/H5000030518		11,368	11,368
		H1200070001/TSK #J1242070026/UT-01		5,253	5,253
		H5000030518/J2360075179/R360075179		1,945	1,945
		H5000030518/Tsk#J7100070036		52,494	52,494
		J124080007		17,785	17,785
		J2122077006/H5000030518/R2122077006		20,995	20,995
		J2122080017/H5000070520/R2122080017		2,586	2,586
		J7100600020/REQ #PR71006020/UTA06-455		25,061	25,061
Cultural Resource Management	15.224			27,783	27,783
National Fire Plan - Wildland Urban Interface Community Fire Assistance	15.228			5,000	5,000
Fish, Wildlife and Plant Conservation Resource Management	15.231			26,638	26,638
National Fire Plan - Rural Fire Assistance	15.242			3,009	3,009
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250			1,066,546	1,066,546
Abandoned Mine Land Reclamation (AMLR) Program	15.252			1,351,673	1,351,673
Minerals Management Service (MMS) Environmental Studies Program (ESP)	15.423		162,168	215,268	377,436
Marine Minerals Activities	15.424			11,480	11,480
Coastal Impact Assistance Program (CIAP)	15.426			150,234	150,234
Water 2025	15.507			38,084	38,084
Fish and Wildlife Management Assistance	15.608			(162)	(162)
Coastal Wetlands Planning, Protection, and Restoration Act	15.614			149,143	149,143
Cooperative Endangered Species Conservation Fund	15.615			4,637,342	4,637,342
Clean Vessel Act	15.616			263,420	263,420
Sportfishing and Boating Safety Act	15.622			1,076,129	1,076,129
North American Wetlands Conservation Fund	15.623			9,000	9,000
Wildlife Conservation and Restoration	15.625			139,182	139,182
Coastal Program	15.630			21,186	21,186
Pass-Through from Scenic Galveston		760511886		42,487	42,487
Landowner Incentive Program	15.633			291,570	291,570
State Wildlife Grants	15.634			2,810,853	2,810,853
Challenge Cost Share	15.642			19,800	19,800
Earthquake Hazards Reduction Program	15.807			48,071	48,071
U.S. Geological Survey--Research and Data Acquisition	15.808			69,932	69,932
National Cooperative Geologic Mapping Program	15.810			47,501	47,501

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of the Interior (continued)					
Historic Preservation Fund Grants-In-Aid	15.904			4,023,433	4,023,433
Pass-Through from Cane River National Heritage Area		CG200701-D		10,531	10,531
National Natural Landmarks Program	15.910			4,997	4,997
Outdoor Recreation--Acquisition, Development and Planning	15.916			3,687,755	3,687,755
Save America's Treasures	15.929			20,992	20,992
Total - U.S. Department of the Interior			162,168	21,562,755	21,724,923
U.S. Department of Justice					
U.S. Department of Justice	16.XXX	2003UMWX0162		46,193	46,193
		2005-DD-BS-1127		(25,488)	(25,488)
		2005-DD-BX-1235		20,421	20,421
		2006-BJ-CX-K005		396	396
		2006-DD-BX-0288		277,623	277,623
		2006DDBX0589		49,977	49,977
		ISVG/D777		(16,555)	(16,555)
		TXQNGCD13		266,275	266,275
Pass-Through from ITT Corporation		210023		559,366	559,366
Pass-Through from New Mexico Institute of Mining and Technology		S-INLEC-01-CA-0005		345,994	345,994
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202			281,564	281,564
Juvenile Accountability Block Grants	16.523		2,522,951	265,028	2,787,979
Grants to Combat Domestic Violence, Dating Violence, Sexual Assault and Stalking on Campus	16.525		12,321	63,661	75,982
Education, Training and Enhanced Services to End Violence Against Women with Disabilities	16.529			1,556	1,556
Juvenile Justice and Delinquency Prevention--Allocation to States	16.540		3,958,360	1,177,240	5,135,600
Part E - Developing, Testing, and Demonstrating Promising New Programs	16.541			252,760	252,760
Missing Children's Assistance	16.543			296,894	296,894
Title V--Delinquency Prevention Program	16.548		232,538		232,538
National Criminal History Improvement Program (NCHIP)	16.554			345,310	345,310
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560			725,527	725,527
Pass-Through from University of Arkansas		SA0701217		25,937	25,937
Crime Laboratory Improvement--Combined Offender DNA Index System Backlog Reduction	16.564			276,493	276,493
Crime Victim Assistance	16.575		27,288,811	1,249,629	28,538,440
Crime Victim Compensation	16.576			17,800,000	17,800,000
Edward Byrne Memorial Formula Grant Program	16.579		265,365	1,585,433	1,850,798
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580			1,264,032	1,264,032
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586			37,383	37,383
Violence Against Women Formula Grants	16.588		6,367,261	220,573	6,587,834
Pass-Through from Tarrant County		OR 07-121		31,985	31,985
Local Law Enforcement Block Grants Program	16.592		(1,951)	178,487	176,536
Residential Substance Abuse Treatment for State Prisoners	16.593		1,541,435		1,541,435
Corrections--Technical Assistance/Clearinghouse	16.603			28,616	28,616
State Criminal Alien Assistance Program	16.606			19,348,827	19,348,827
Bulletproof Vest Partnership Program	16.607			174,963	174,963
Community Prosecution and Project Safe Neighborhoods	16.609			1,145,137	1,145,137
Public Safety Partnership and Community Policing Grants	16.710			36,640	36,640
Enforcing Underage Drinking Laws Program	16.727		176,961	187,530	364,491
Protecting Inmates and Safeguarding Communities	16.735			441,055	441,055

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Justice (continued)					
Edward Byrne Memorial Justice Assistance Grant Program	16.738		9,721,949	6,678,457	16,400,406
Statewide Automated Victim Information Notification (SAVIN) Program	16.740			93,879	93,879
Forensic DNA Capacity Enhancement Program	16.741		1,230,580		1,230,580
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		857,266		857,266
Forensic Casework DNA Backlog Reduction Program	16.743		788,300		788,300
Anti-Gang Initiative	16.744			646,679	646,679
Convicted Offender and/or Arrestee DNA Backlog Reduction Program (In-House Analysis and Data Review)	16.748			288,753	288,753
Total - U.S. Department of Justice			54,962,147	56,674,230	111,636,377
U.S. Department of Labor					
U.S. Department of Labor	17.XXX	135H44C566		3,195	3,195
Pass-Through from North Central Texas College		G72123		11,734	11,734
Pass-Through from Wired Skills Development Project		2308SDF000		12,394	12,394
Pass-Through from Workforce Solutions for Tarrant County		G72260		41,858	41,858
Labor Force Statistics	17.002			3,341,675	3,341,675
Compensation and Working Conditions	17.005			244,095	244,095
Unemployment Insurance	17.225		783,349	1,581,539,073	1,582,322,422
Senior Community Service Employment Program	17.235		4,412,868	48,494	4,461,362
Trade Adjustment Assistance	17.245		7,139,061	234,090	7,373,151
WIA Pilots, Demonstrations, and Research Projects	17.261		392,174	1,555,320	1,947,494
Pass-Through from South Texas College		UTPA/WR-15999-07		254,744	254,744
Work Incentive Grants	17.266		655,496	88,335	743,831
Incentive Grants_WIA Section 503	17.267			48,205	48,205
Pass-Through from South Texas Workforce Development		05-2005		2,907	2,907
Pass-Through from South Texas Workforce Development		05-2008		81,267	81,267
Pass-Through from Workforce Solutions Middle Rio Grande		05-2008		6,368	6,368
Community Based Job Training Grants	17.269			707,737	707,737
Work Opportunity Tax Credit Program (WOTC)	17.271		1,845	1,206,864	1,208,709
Temporary Labor Certification for Foreign Workers	17.273		10,296	828,354	838,650
Occupational Safety and Health--Susan Harwood Training Grants	17.502		14,857	409,211	424,068
Consultation Agreements	17.504			2,548,723	2,548,723
Women's Bureau	17.700			(66)	(66)
Transition Assistance Program	17.807			230,063	230,063
Total - U.S. Department of Labor			13,409,946	1,593,444,640	1,606,854,586
U.S. Department of State					
U.S. Department of State	19.XXX	SMX56008GR006		1,461	1,461
Pass-Through from World Learning		UTA08-730		48,083	48,083
Program for Study of Eastern Europe and the Independent States of the Former Soviet Union	19.300				
Pass-Through from American Council of Learned Societies		Ltr Dtd 04/20/07		25,000	25,000
Educational Exchange--University Lecturers (Professors) and Research Scholars	19.401				
Pass-Through from Fulbright Scholar Program		Ltr Dtd 02/06/07		16,678	16,678
Professional Exchange--Annual Open Grant	19.415				
Pass-Through from Higher Education for Development		HNE-A-00-9		68,107	68,107
Exchange-English Language Fellow Program	19.421				
Pass-Through from International Research Exchanges		S-ECAAE-07-CA-023		21,735	21,735
Educational Exchange Scholar-in-Residence (U.S. Institutions of Higher Education Host Lecturing Faculty From Abroad)	19.431			81,377	81,377
Total - U.S. Department of State			0	262,441	262,441

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Transportation					
U.S. Department of Transportation	20.XXX	Bike Hub Project		73,626	73,626
		DDEGRD-07-X-00412		6,500	6,500
		DDEGRD-07-X-00413		4,925	4,925
		DDEGRD-07-X-00426		1,500	1,500
		DDEGRD-07-X-00429		1,500	1,500
		DDEGRD-07-X-00440		1,500	1,500
		DDEGRD-07-X-00441		1,500	1,500
		DDEGRD-07-X-00442		1,500	1,500
		DDEGRD-07-X-00459		1,500	1,500
		DDEHBC-05X-00103		14,735	14,735
		HSTS0208HSLR057		42,202	42,202
Boating Safety Financial Assistance	20.005			(137,915)	(137,915)
Airport Improvement Program	20.106			53,138,620	53,138,620
Aviation Research Grants	20.108			5,063	5,063
Highway Training and Education	20.215			52,211	52,211
National Motor Carrier Safety	20.218			8,896,466	8,896,466
Recreational Trails Program, Revised	20.219			2,420,421	2,420,421
Performance And Registration Information Systems Management	20.231			238,455	238,455
Commercial Driver License State Programs	20.232		43,584	754,022	797,606
Border Enforcement Grants	20.233			16,046,208	16,046,208
Commercial Vehicle Information Systems and Networks	20.237			55,266	55,266
Federal Transit--Metropolitan Planning Grants	20.505		5,960,530		5,960,530
Formula Grants for Other Than Urbanized Areas	20.509		27,512,791	4,023,332	31,536,123
Public Transportation Research	20.514		24,295	10,271	34,566
State Planning and Research	20.515		906,437	1,303,174	2,209,611
National Highway Transportation Safety Admin (NHTSA) Discretionary Safety Grants	20.614			157,349	157,349
Pipeline Safety	20.700			1,104,343	1,104,343
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		99,990	517,422	617,412
U.S. Merchant Marine Academy	20.807			365,161	365,161
Total - U.S. Department of Transportation			34,547,627	89,100,857	123,648,484
U.S. Department of Treasury					
Low-Income Taxpayer Clinics	21.008			38,543	38,543
Total - U.S. Department of Treasury			0	38,543	38,543
Office of Personnel Management					
Intergovernmental Mobility of Federal, State, and Local Employees	27.011			339,263	339,263
Total - Office of Personnel Management			0	339,263	339,263
General Services Administration					
Donation of Federal Surplus Personal Property	39.003		11,119,913	171,308	11,291,221
Election Reform Payments	39.011		298,999	678,174	977,173
Total - General Services Administration			11,418,912	849,482	12,268,394

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
National Aeronautics and Space Administration					
National Aeronautics and Space Administration	43.XXX	NNG05GL28H, SUPP2		31,307	31,307
		NNX07AV15H		28,758	28,758
		NNX08AK27G		17,954	17,954
Pass-Through from Science Applications International Corporation		4400156333/27		20,004	20,004
Pass-Through from Spellman College		NCC8-227		84,373	84,373
Pass-Through from The Boeing Company		6H08651		51,052	51,052
Pass-Through from The Boeing Company		6H08658		811	811
Pass-Through from United Negro College Fund Special Programs		NASA/UNCFSPC		5,821	5,821
Aerospace Education Services Program	43.001			202,617	202,617
Pass-Through from United Negro College Fund Special Programs		05152007		102,945	102, 945
Technology Transfer	43.002			35,450	35,450
Total - National Aeronautics and Space Administration			0	581,092	581,092
National Foundation on the Arts and the Humanities					
National Foundation on the Arts and the Humanities	45.XXX	2008-3608		1,500	1,500
Promotion of the Arts--Grants to Organizations and Individuals	45.024			158,531	158,531
Pass-Through from Arts Midwest		24190		7,200	7,200
Promotion of the Arts--Partnership Agreements	45.025			878,200	878,200
Pass-Through from Mid-America Arts Alliance		FY09-0057		1,200	1,200
Promotion of the Humanities--Federal/State Partnership	45.129			13,254	13,254
Pass-Through from Humanities Texas		2006-3209		1,097	1,097
Pass-Through from Humanities Texas		2006-3299		(58)	(58)
Pass-Through from Humanities Texas		2007-3354		5,000	5,000
Pass-Through from Humanities Texas		8000000477/715/822/855		3,393	3,393
Pass-Through from Humanities Texas		G72155		6,281	6,281
Pass-Through from Humanities Texas		G72174		964	964
Promotion of the Humanities--Challenge Grants	45.130			2,119	2,119
Promotion of the Humanities--Division of Preservation and Access	45.149			215,965	215,965
Promotion of the Humanities--Fellowships and Stipends	45.160			23,543	23,543
Promotion of the Humanities--Collaborative Research	45.161			13,514	13,514
Pass-Through from College of Holy Cross		RZ-50723-07		39,994	39,994
Promotion of the Humanities--Teaching and Learning Resources and Curriculum Development	45.162			53,524	53,524
Promotion of the Humanities--Public Programs	45.164			281,958	281,958
Promotion of Humanities-We the People	45.168				
Pass-Through from Humanities Texas		2007-3443		3,968	3,968
Pass-Through from Humanities Texas		8000000861		9,427	9,427
Museum for American Grants	45.301			100,187	100,187
Museum Assessment Program	45.302			526	526
Conservation Project Support	45.303				
Pass-Through from Michigan State University		61-3334		4,273	4,273
State Library Program	45.310		7,976,917	2,587,295	10,564,212
National Leadership Grants	45.312			347,618	347,618
Pass-Through from Institute of Museum and Library Services		RE-01-03-0056-03		68,258	68,258
Laura Bush 21st Century Librarian Program	45.313		185,029	598,982	784,011
Pass-Through from Institute of Museum and Library Services		RE-01-04-0031-04		84,675	84,675
Pass-Through from Institute of Museum and Library Services		RE-01-07-0100-07		34,746	34,746
Pass-Through from Institute of Museum and Library Services		RE-02-07-0014-07		3,978	3,978
Total - National Foundation on the Arts and the Humanities			8,161,946	5,551,112	13,713,058

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
National Science Foundation					
National Science Foundation	47.XXX	CHAUTAUQUA FUNDING		64,050	64,050
		CMMI-0827113		70,732	70,732
Engineering Grants	47.041			173,156	173,156
Pass-Through from Jackson State University		EEC-0634279		4,219	4,219
Pass-Through from San Jacinto College District		NSF 0649713		52,129	52,129
Pass-Through from Vanderbilt University		14656-S1-A4 / EEC-9876363		3,669	3,669
Pass-Through from Vanderbilt University		14656-S9		35,966	35,966
Mathematical and Physical Sciences	47.049			851,369	851,369
Pass-Through from Brigham Young University		DMS 0636648		4,489	4,489
Pass-Through from Institute for Advanced Study		8000000650		85,264	85,264
Pass-Through from University of Notre Dame		PHY-0715396		20,435	20,435
Astronomical, Atmospheric, Earth and Ocean Sciences	47.050			208,849	208,849
Pass-Through from Institute for Global Environmental Strategies, Inc.		429010		20,000	20,000
Computer and Information Science and Engineering	47.070			275,208	275,208
Pass-Through from American Statistical Association		SRS-NSF-2006		1,580	1,580
Biological Sciences	47.074			948,811	948,811
Social, Behavioral, and Economic Sciences	47.075			264,053	264,053
Pass-Through from National Bureau of Economic Research		20345400079555-7700		5,334	5,334
Education and Human Resources	47.076		68,177	4,498,103	4,566,280
Pass-Through from Harrisburg University of Science and Technology		0618432 SSI 2007		698	698
Pass-Through from Houston Independent School District		HU-LINC		230	230
Pass-Through from New Mexico State University		Q01143		75,982	75,982
Pass-Through from Rice University		R39292-2460005		439,069	439,069
Pass-Through from University of Alabama at Birmingham		DRL-0353440		230,009	230,009
International Science and Engineering (OISE)	47.079			187,550	187,550
Office of Cyberinfrastructure	47.080			242,104	242,104
Total - National Science Foundation			68,177	8,763,058	8,831,235
Securities and Exchange Commission					
Securities--Investigation of Complaints and SEC Information	58.001			100,676	100,676
Total - Securities and Exchange Commission			0	100,676	100,676
Small Business Administration					
Small Business Administration	59.XXX	HQ-07-B-0002		60,593	60,593
Internet-Based Technical Assistance	59.005		545,104	551,731	1,096,835
Small Business Development Centers	59.037		650,389	2,639,240	3,289,629
Pass-Through from Dallas County Community College		8-603001-Z-0046-22		75,799	75,799
Pass-Through from Iowa State University		435-08-06		103	103
Veterans Entrepreneurial Training and Counseling	59.044			158,969	158,969
Total - Small Business Administration			1,195,493	3,486,435	4,681,928
U.S. Department of Veterans Affairs					
U.S. Department of Veterans Affairs	64.XXX	V257P0111/WIATROWSKI		64,771	64,771
		V671P4083		68,248	68,248

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Veterans affairs (continued)					
		V674P-3841; 674-C80110; 674-08-1-315-0001		120,881	120,881
		VA257-P-0159/674-C80271/674-08-2-3150037		8,648	8,648
		VA-REDDICK-V671P3816		(11,266)	(11,266)
		VA-REDDICK-V671P3991		215,498	215,498
		VP671P3986		7,195	7,195
		WIATROWSKI-V671P4092		12,719	12,719
Grants to States for Construction of State Home Facilities	64.005			108,965	108,965
Veterans State Nursing Home Care	64.015			19,803,807	19,803,807
Veterans State Hospital Care	64.016			8,280	8,280
Burial Expenses Allowance for Veterans	64.101			168,300	168,300
Veterans Compensation for Service-Connected Disability	64.109			31,933	31,933
All-Volunteer Force Educational Assistance	64.124			1,057,259	1,057,259
Vocational and Educational Counseling for Service members and Veterans	64.125			16,873	16,873
State Cemetery Grants	64.203			3,657,733	3,657,733
Total – U.S. Department of Veterans Affairs			0	25,339,844	25,339,844
Environmental Protection Agency					
Environmental Protection Agency	66.XXX	C-4800010506	20,568,979	702,271	21,271,250
Air Pollution Control Program Support	66.001		12,252	31,487	43,739
State Indoor Radon Grants	66.032			59,833	59,833
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034			1,779,912	1,779,912
Pass-Through from National Environmental Education and Training		XA83311501		7,997	7,997
Pass-Through from South Central Area Health Education Center		MILLER-AHEC/EPA		265	265
Congressionally Mandated Projects	66.202			21,368	21,368
Water Pollution Control State, Interstate, and Tribal Program Support	66.419		122,044	5,391,438	5,513,482
State Underground Water Source Protection	66.433			568,500	568,500
Water Quality Management Planning	66.454		231,009	34,732	265,741
National Estuary Program	66.456		178,229	226,457	404,686
Capitalization Grants for Clean Water State Revolving Funds	66.458		15,706,061	47,744,453	63,450,514
Nonpoint Source Implementation Grant	66.460		1,150,010	7,784,518	8,934,528
Pass-Through from Industrial Economics, Inc.		446490		19,135	19,135
Wastewater Operator Training Grant Program (Technical Assistance)	66.467			14,870	14,870
Capitalization Grants for Drinking Water State Revolving Funds	66.468		78,750,811	12,421,861	91,172,672
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471			1,756,027	1,756,027
Beach Monitoring and Notification Program Implementation Grants	66.472		107,079	529,449	636,528
Water Protection Coordination Grants to States	66.474			857,063	857,063
Gulf of Mexico Program	66.475			82,354	82,354
Environmental Protection Consolidated Research	66.500			136,580	136,580
Science To Achieve Results (STAR) Fellowship Program	66.514			66,703	66,703

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
Environmental Protection Agency (continued)					
Performance Partnership Grants	66.605		949,242	28,114,469	29,063,711
Surveys, Studies, Investigations and Special Purpose Grants	66.606			106,366	106,366
Pass-Through from HARC		20-23014-TARC122005		3,350	3,350
Pass-Through from Water Environment Research Foundation		427008		10,922	10,922
Pass-Through from Water Environment Research Foundation		427009	5,731		5,731
Pass-Through from Water Environment Research Foundation		427010	6,673		6,673
Pass-Through from Water Environment Research Foundation		427011	30,381		30,381
Pass-Through from Water Environment Research Foundation		427160		77,055	77,055
Pass-Through from Water Environment Research Foundation		427350		41,767	41,767
Environmental Information Exchange Network Grant Program and Related Assistance	66.608			649,900	649,900
Consolidated Pesticide Enforcement Cooperative Agreements	66.700			1,598,147	1,598,147
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701		(4,200)	118,887	114,687
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707			273,591	273,591
Pollution Prevention Grants Program	66.708			251,137	251,137
Multi-Media Capacity Building Grants for States and Tribes	66.709			21,013	21,013
Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	66.716			41,757	41,757
Source Reduction Assistance	66.717			33,611	33,611
Superfund State Political Subdivision, and Indian Tribe Site--Specific Cooperative Agreements	66.802			1,092,847	1,092,847
Leaking Underground Storage Tank--Trust Fund	66.805			2,723,190	2,723,190
Superfund State and Indian Tribe Core Program--Cooperative Agreements	66.809			220,493	220,493
State and Tribal Response Program Grants	66.817			475,060	475,060
International Financial Assistance Projects	66.931			46,163	46,163
Environmental Education Grants	66.951			21,520	21,520
Total - Environmental Protection Agency			117,825,223	116,147,596	233,972,819
Nuclear Regulatory Commission					
Nuclear Regulatory Commission	77.XXX	NRC-27-07-311		102,615	102,615
		NRC-38-07-708		26,582	26,582
U. S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006			512,654	512,654
U.S. Nuclear Regulatory Commission Minority Serving Institutions Program (MISP)	77.007			18,385	18,385
U.S. Nuclear Regulatory Commission Scholarship And Fellowship Program	77.008			26,133	26,133
Total - Nuclear Regulatory Commission			0	686,369	686,369
U.S. Department of Energy					
U.S. Department of Energy	81.XXX	DE-FG52-05NA27036		1,078	1,078
Pass-Through from Baylor University		G72285		922	922
Pass-Through from Sandia National Labs		Ltr dtd 10/11/06		25,000	25,000
State Energy Program	81.041		471,583	755,387	1,226,970
Weatherization Assistance for Low-Income Persons	81.042		5,405,408	343,660	5,749,068
Office of Science Financial Assistance Program	81.049			108,411	108,411
Renewable Energy Research and Development	81.087				
Pass-Through from Southern Forest Research Partnership, Inc.		68-3A75-4-143		1,093	1,093
Fossil Energy Research and Development	81.089			97,978	97,978

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Energy (continued)					
Office of Technology Development and Deployment for Environmental Management	81.104			112,967	112,967
States and Tribal Concerns, Proposed Solutions	81.106			309,023	309,023
Epidemiology and Other Health Studies Financial Assistance Program	81.108				
Pass-Through from Drexel University		23-1352630		77,112	77,112
University Nuclear Science and Reactor Support	81.114			23,426	23,426
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		65,791		65,791
State Energy Program Special Projects	81.119		754,337	(6,920)	747,417
Miscellaneous	81.502		246,786	1,048,225	1,295,011
Total - U.S. Department of Energy			6,943,905	2,897,362	9,841,267
Federal Emergency Management Agency					
Federal Emergency Management Agency	83.XXX	1257-UN	2,206,984		2,206,984
Individual and Family Grants	83.543			(27,136)	(27,136)
Total - Federal Emergency Management Agency			2,206,984	(27,136)	2,179,848
U.S. Department of Education					
U.S. Department of Education	84.XXX	22-4-1-450510		1,660	1,660
		22-8-1-604180		28,139	28,139
		81111		22,833	22,833
		T195N070068		87,596	87,596
		T195N070232		271,749	271,749
Pass-Through from Howard College		G72161		3,152	3,152
Pass-Through from IDRA Project Texas		S350B20027-03		14,676	14,676
Pass-Through from National Writing Project Corporation		02-TX11		86,261	86,261
Pass-Through from National Writing Project Corporation		06-TX17		36,056	36,056
Pass-Through from Education Service Center Region V		A484		183,015	183,015
Adult Education--State Grant Program	84.002		41,007,889	3,474,332	44,482,221
Title I Grants to Local Educational Agencies	84.010		1,153,861,249	12,163,231	1,166,024,480
Pass-Through from Austin Independent School District		DC-AM40; #P174296		74,995	74,995
Pass-Through from Houston Independent School District		DC-SPD34		33,074	33,074
Migrant Education--State Grant Program	84.011		55,834,879	1,500,927	57,335,806
Title I Program for Neglected and Delinquent Children	84.013		8,117	3,837,653	3,845,770
National Resource Centers and Fellowships Program for Language and Area or Language and International Studies	84.015			564,120	564,120
Undergraduate International Studies and Foreign Language Programs	84.016			182,571	182,571
Overseas--Group Projects Abroad	84.021		12,450	39,915	52,365
Overseas--Doctoral Dissertation	84.022			125,786	125,786
Higher Education--Institutional Aid	84.031		455,093	18,713,431	19,168,524
Pass-Through from Houston Community College		31S030010		127,818	127,818
Pass-Through from Palo Alto College		0315020038		63,102	63,102
Federal Family Education Loans - Loaner	84.032		837,552	1,769,079	2,606,631
Perkins Loan Cancellations	84.037			165,113	165,113
Career and Technical Education--Basic Grants to States	84.048		81,409,369	10,794,618	92,203,987
Pass-Through from Austin Community College		741742036		24,591	24,591
Pass-Through from Carl Perkins 07-08		54246		685,821	685,821
Pass-Through from Houston Community College		T226		60,815	60,815

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Education (continued)					
Leveraging Educational Assistance Partnership	84.069			3,796,038	3,796,038
		22-8-1-604050		8,501	8,501
		22-8-1-604060		6,410	6,410
Women's Educational Equity Act Program	84.083			215,049	215,049
Fund for the Improvement of Postsecondary Education	84.116		(11,331)	579,891	568,560
Pass-Through from Brigham Young University		06LM050994F1H		3,076	3,076
Pass-Through from CSU-Chico Research Foundation		S07-035		11,207	11,207
Pass-Through from Howard University		523010-H041776		1,149	1,149
Pass-Through from IDRA Project Texas		408-MASS-TSU1		25,454	25,454
Pass-Through from University of Arizona		Y413921		10,729	10,729
Pass-Through from University of California - Davis		K07-000181-UH		7,438	7,438
Minority Science and Engineering Improvement	84.120			674,466	674,466
Pass-Through from InterAmerican University		08092007		3,324	3,324
Pass-Through from InterAmerican University		11242007		53,819	53,819
Rehabilitation Services--Vocational Rehabilitation Grants to States	84.126			229,157,250	229,157,250
Rehabilitation Long-Term Training	84.129			1,881,430	1,881,430
Migrant Education--High School Equivalency Program	84.141			3,443,881	3,443,881
Migrant Education--Coordination Program	84.144			638,630	638,630
Migrant Education--College Assistance Migrant Program	84.149			2,332,443	2,332,443
Business and International Education Projects	84.153			172,246	172,246
Independent Living--State Grants	84.169			896,532	896,532
Javits Fellowships	84.170			154,654	154,654
Rehabilitation Services--Independent Living Services for Older Individuals Who are Blind	84.177			1,886,151	1,886,151
Special Education--Grants for Infants and Families with Disabilities	84.181		40,020,959	3,381,326	43,402,285
Safe and Drug-Free Schools and Communities--National Programs	84.184			102,214	102,214
Byrd Honors Scholarships	84.185			3,450,945	3,450,945
Pass-Through from Robert C. Byrd Scholarship		22-8-1-006400		3,000	3,000
Safe and Drug-Free Schools and Communities--State Grants	84.186		26,430,239	1,096,691	27,526,930
Supported Employment Services for Individuals with Severe Disabilities	84.187			2,038,901	2,038,901
Bilingual Education-Professional Development	84.195			1,839,209	1,839,209
Education for Homeless Children and Youth	84.196		6,037,019		6,037,019
Graduate Assistance in Areas of National Need	84.200			604,780	604,780
Javits Gifted and Talented Students Education Grant Program	84.206		181,201	90,253	271,454
Even Start--State Educational Agencies	84.213		6,997,241	820,808	7,818,049
Fund for the Improvement of Education	84.215			252,549	252,549
Pass-Through from Education Service Center Region II		601330		12,524	12,524
Pass-Through from Education Service Center Region II		602300		(3)	(3)
Pass-Through from Hays Consolidated Independent School District		8000000547		45,005	45,005
Pass-Through from Northside Independent School District		8000000763		49,594	49,594
Pass-Through from Education Service Center Region VI		A483		96,586	96,586
Centers for International Business Education	84.220			699,731	699,731
Tech-Prep Education	84.243		6,826,783	1,491,878	8,318,661
Pass-Through from Deep East Texas College Tech Prep Partnership		1833-1		3,752	3,752
Pass-Through from Deep East Texas College Tech Prep Partnership		81720-2		20,716	20,716
Pass-Through from UT System Pickle Research		22-500660		2,000	2,000
Rehabilitation Training--Continuing Education	84.264			449,102	449,102
Rehabilitation Training--State Vocational Rehabilitation Unit In-Service Training	84.265			342,545	342,545
Goals 2000-State and Local Education Systemic Improvement Grants	84.276		(1)		(1)

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Education (continued)					
Eisenhower Professional Development State Grants	84.281		(1,002)		(1,002)
Charter Schools	84.282		5,318,601	451,983	5,770,584
Twenty-First Century Community Learning Centers	84.287		70,525,306	3,154,376	73,679,682
Foreign Language Assistance	84.293			190,410	190,410
State Grants for Innovative Programs	84.298		9,630,565	180,295	9,810,860
Pass-Through from Houston Independent School District		G090404		6,908	6,908
Pass-Through from National Writing Project Corporation		04-TX14		17,932	17,932
Education Research, Development and Dissemination	84.305				
Pass-Through from Vanderbilt University		17476-S2 AMD 4		236,085	236,085
Capacity Building for Traditionally Underserved Populations	84.315			235,613	235,613
Education Technology State Grants	84.318		22,883,325	469,965	23,353,290
Pass-Through from Irving Independent School District		G72178		8,775	8,775
Research in Special Education	84.324			9,702	9,702
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325			2,473,966	2,473,966
Pass-Through from Pennsylvania College of Optometry		57201/57202		97,883	97,883
Special Education--Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326			561,460	561,460
Special Education--Technology and Media Services for Individuals with Disabilities	84.327				
Pass-Through from Teachers College, Columbia University		511125		141,576	141,576
Advanced Placement Program	84.330			1,335,608	1,335,608
Grants to States for Incarcerated Youth Offenders	84.331			1,709,343	1,709,343
Comprehensive School Reform Demonstration	84.332		(1,473,858)	13,545	(1,460,313)
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		993,864	13,595,268	14,589,132
Pass-Through from Baylor University		P334A060157		348,288	348,288
Pass-Through from Houston Independent School District		5-55112		2,333	2,333
Pass-Through from San Antonio Independent School District		P334A050145-07		56,989	56,989
Pass-Through from Washington State University		503701		13,621	13,621
Pass-Through from Washington State University		503702		9,496	9,496
Child Care Access Means Parents in School	84.335			936,944	936,944
Teacher Quality Enhancement Grants	84.336			2,297,448	2,297,448
Reading Excellence	84.338		(142,327)		(142,327)
Early Childhood Educator Professional Development	84.349			1,991,889	1,991,889
Transition to Teaching	84.350			2,893,616	2,893,616
Pass-Through from Fort Worth Independent School District		U2350A060006		45,410	45,410
Pass-Through from Intercultural Development Research Association		G72099		2,400	2,400
Credit Enhancement for Charter School Facilities	84.354			10,936,522	10,936,522
Reading First State Grants	84.357		75,241,567	16,526,464	91,768,031
Rural Education	84.358		7,149,295	370,045	7,519,340
Early Reading First	84.359				
Pass-Through from Tehama Independent School District		S359B030606		5,081	5,081
Dropout Prevention Programs	84.360			1,266,258	1,266,258
School Leadership	84.363			727,921	727,921
English Language Acquisition Grants	84.365		87,253,894	2,243,916	89,497,810
Mathematics and Science Partnerships	84.366		8,813,917	6,819,608	15,633,525
Pass-Through from Education Service Center Region XIII		STEM		13,048	13,048
Improving Teacher Quality State Grants	84.367		233,905,548	6,312,605	240,218,153
Pass-Through from BISD Sabel Palms Writing Project		27233.00		49,382	49,382
Grants for State Assessments and Related Activities	84.369		3,797,131	15,544,992	19,342,123
Special Education Technical Assistance on State Data Collection	84.373			60,968	60,968
Teacher Incentive Fund	84.374			660,063	660,063
School Improvement Grants	84.377		2,892,702	98,589	2,991,291

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
National Writing Project	84.928			104,605	104,605
U.S. Department of Education (continued)					
Pass-Through from National Writing Project Corporation		00-TX09		47,630	47,630
Pass-Through from National Writing Project Corporation		06-TX15		43,000	43,000
Pass-Through from National Writing Project Corporation		CENTRAL TEXAS WRITING PROJECT		137,118	137,118
Pass-Through from National Writing Project Corporation		G72200		64,001	64,001
Pass-Through from University of California - Berkeley		425335		30,000	30,000
Pass-Through from University of California - Berkeley		92-TX06		48,361	48,361
Hurricane Education Recovery	84.938		75,357	2,940,770	3,016,127
Total - U.S. Department of Education			1,946,874,807	416,427,863	2,363,302,670
Scholarship Foundations					
Woodrow Wilson Center Fellowships in the Humanities and Social Sciences	85.300				
Pass-Through from Woodrow Wilson International Center		Ltr Dtd 04/26/07		38,399	38,399
Total - Scholarship Foundations			0	38,399	38,399
National Archives and Records Administration					
National Historical Publications and Records Grants	89.003			2,084,017	2,084,017
Total - National Archives and Records Administration			0	2,084,017	2,084,017
Election Assistance Commission					
HAVA Requirements	90.401		1,969,210	2,910,260	4,879,470
Total - Election Assistance Commission			1,969,210	2,910,260	4,879,470
U.S. Department of Health and Human Services					
U.S. Department of Health and Human Services	93.XXX	8X637NDI		(4,001)	(4,001)
		07ET040065F2		28,545	28,545
		1HPPWH060004-01-00	7,000	79,108	86,108
		200-2007-M-20636		51,776	51,776
		223-05Q-SIT		31,490	31,490
		23-05-4443		364,873	364,873
		467-MZ-501805		5,578	5,578
		5 U13DP000655 02		105,135	105,135
		5 F31 HD055151-01,02		24,854	24,854
		5 T32 ES007247-16		8,061	8,061
		5 T32 HD007081-30		170,567	170,567
		G72741		14	14
		H54RH08676		182,568	182,568
		HHSH 230200432032C		(1,939)	(1,939)
		HHSH230200532004C		(3)	(3)
		HHSH230200532046C	171,090	146,752	317,842
		HHSH-258200730012C	82,393	237,618	320,011
		HHSP23320042206TC		(1,696)	(1,696)
		HHSP233200600826P		34,191	34,191
		N00014-04-1-0660/570230		10,112	10,112
		N01 CM-62202 07		7,314	7,314
		N02 CO-51110 16		215,952	215,952
		US MEX BORDER COE		(685)	(685)

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Health and Human Services (continued)					
Pass-Through from American Academy of Pediatrics		ACP/US4/CCU524947-01		5,926	5,926
Pass-Through from Booz Allen Hamilton, Inc.		1435-04-04-CT73980		3,188	3,188
Pass-Through from Harrington Medical Foundation		08AM080998FNH		36,068	36,068
Pass-Through from Harris County Public Health and Environmental Services		07GEN0236		222,117	222,117
Pass-Through from Houston Academy of Medicine - Texas Medical Center Library		HHSN276/N01LM6350		5,788	5,788
Pass-Through from Houston Academy of Medicine - Texas Medical Center Library		N01-LM-6-3505		23,840	23,840
Pass-Through from Houston Academy of Medicine -Texas Medical Center Library		N01LM13515		755	755
Pass-Through from Houston Academy of Medicine -Texas Medical Center Library		N01LM63505		12,552	12,552
Pass-Through from Houston Academy of Medicine -Texas Medical Center Library		N01LM63525		637	637
Pass-Through from Macro International, Inc.		33179-7s-873		36,337	36,337
Pass-Through from McFarland and Associates, Inc.		280-02-0505		58,420	58,420
Pass-Through from Respite Care of San Antonio		SALDANA:RESPITE CARE		46,263	46,263
Pass-Through from Rice University		5 52003917 04		560	560
Pass-Through from Rice University		5 T15 LM07093 14		1,813	1,813
Pass-Through from Saic-Frederick, Inc.		25XS108		2,193	2,193
Pass-Through from Houston Academy of Medicine -Texas Medical Center Library		G72095		2,168	2,168
Pass-Through from University Health System		DELGADO-UHS2507403LS		13,484	13,484
Pass-Through from University of California - San Francisco		1 DPA 86424-444938 01		57,442	57,442
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006		(5,997)	321,771	315,774
Public Awareness Campaigns on Embryo Adoption	93.007			(1,811)	(1,811)
Community-Based Abstinence Education (CBAE)	93.010		186,936	664,813	851,749
Strengthening Public Health Services at the Outreach Offices of the U.S.-Mexico Border Health Commission	93.018			19,280	19,280
Special Programs for the Aging--Title VII, Chapter 3--Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		256,415		256,415
Special Programs for the Aging--Title VII, Chapter 2--Long Term Care Ombudsman Services for Older Individuals	93.042		958,260		958,260
Pass-Through from City of Houston		FC38331		(79)	(79)
Pass-Through from City of Houston		FC55472		284,856	284,856
Special Programs for the Aging--Title III, Part D--Disease Prevention and Health Promotion Services	93.043		1,260,657		1,260,657
Pass-Through from Harris County Hospital District		1-25-0707-HSP-055-LRJ		2,506	2,506
Special Programs for the Aging--Title IV--and Title II--Discretionary Projects	93.048		75,243	193,136	268,379
Alzheimer's Disease Demonstration Grants to States	93.051			117,741	117,741
National Family Caregiver Support, Title III, Part E	93.052		7,258,078	130,645	7,388,723
Pass-Through from Harris County Hospital District		21413-LPN		11,901	11,901
Laboratory Training, Evaluation, and Quality Assurance Programs	93.064			120,604	120,604
Public Health Emergency Preparedness	93.069		12,647,602	16,916,045	29,563,647
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086			883,833	883,833
Pass-Through from Admin for Children and Families		8000000596/748		418,585	418,585
Health Disparities in Minority Health	93.100			18,899	18,899
Food and Drug Administration--Research	93.103			304,567	304,567

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Health and Human Services (continued)					
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104			1,412	1,412
Model State-Supported Area Health Education Centers	93.107		287,795	468,157	755,952
Maternal and Child Health Federal Consolidated Programs	93.110		40,000	1,508,012	1,548,012
Environmental Health	93.113			421,718	421,718
Biometry and Risk Estimation--Health Risks from Environmental Exposures	93.115			38,574	38,574
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		1,530,844	3,577,688	5,108,532
Pass-Through from University of California - San Diego		N01 HR-36157		34,772	34,772
Oral Diseases and Disorders Research	93.121		4,094	1,196,191	1,200,285
Nurse Anesthetist Traineeships	93.124			3,259	3,259
Emergency Medical Services for Children	93.127			84,538	84,538
Primary Care Services Resource Coordination and Development	93.130			300,091	300,091
Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135				
Pass-Through from Association for Prevention Teaching and Research		APTR-08		9,378	9,378
Injury Prevention and Control Research and State and Community Based Programs	93.136		1,711,800	15,680	1,727,480
NIEHS Hazardous Waste Worker Health and Safety Training	93.142				
Pass-Through from Dillard University		7840		723	723
AIDS Education and Training Centers	93.145				
Pass-Through from Howard University		DORAN: HA00066/HRSA		212,846	212,846
Projects for Assistance in Transition from Homelessness (PATH)	93.150		3,373,364	285,396	3,658,760
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153		814,869	395,297	1,210,166
Geriatric Training for Physicians, Dentists and Behavioral/Mental Health Professionals	93.156			383,835	383,835
Centers of Excellence	93.157			55,685	55,685
Grants To States for Loan Repayment Program	93.165			229,873	229,873
Research Related to Deafness and Communication Disorders	93.173			172,218	172,218
Nursing Workforce Diversity	93.178			504,013	504,013
Health Education and Training Centers	93.189			2,210	2,210
Childhood Lead Poisoning Prevention Projects--State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197		136,848	493,025	629,873
Surveillance of Hazardous Substance Emergency Events	93.204			210,808	210,808
Telehealth Network Grants	93.211			(20,058)	(20,058)
Research and Training in Complementary and Alternative Medicine	93.213			230,145	230,145
Hansen's Disease National Ambulatory Care Program	93.215			(4,770)	(4,770)
Family Planning--Services	93.217		14,851,180	3,328,246	18,179,426
Research on Healthcare Costs, Quality and Outcomes	93.226			433,115	433,115
Pass-Through from Agency for Healthcare Research		1 R03 HS016802-01		10,631	10,631
Pass-Through from Research Triangle Institute		37-312-0211557		36,595	36,595
Consolidated Knowledge Development and Application (KD&A) Program	93.230			76	76
Pass-Through from Center for Health Care Services		CHAMPION-MHMR		39,343	39,343
Pass-Through from Center for Health Care Services		LEWIS: CSAT		52,353	52,353
Pass-Through from McFarland and Associates, Inc.		12132005		15,833	15,833
Traumatic Brain Injury State Demonstration Grant Program	93.234			53,548	53,548
Abstinence Education Program	93.235		2,311,464	904,369	3,215,833
Pass-Through from El Paso Alliance		UTA06-889		26,683	26,683
Grants for Dental Public Health Residency Training	93.236			86,901	86,901

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Health and Human Services (continued)					
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238		71,561	160,089	231,650
State Capacity Building	93.240			329,927	329,927
State Rural Hospital Flexibility Program	93.241			1,541,503	1,541,503
Mental Health Research Grants	93.242		2,261	975,008	977,269
Pass-Through from Dartmouth College		5-30676.5700		9,964	9,964
Pass-Through from Southern Methodist University		G72036		1,461	1,461
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		4,129,143	4,171,253	8,300,396
Pass-Through from Bexar County - General		FAMILY DRUG COURT		16,586	16,586
Pass-Through from Bexar County - General		FAML DRUG COURT 07		1,038	1,038
Pass-Through from Drug Prevention Resources, Inc.		SCOTT-DPR-M79SP10513		27,644	27,644
Pass-Through from Family Service Association		1H79TI0872301/FSA		17,871	17,871
Pass-Through from Hope Action Care		AMODEIS/G TI-14529		1,870	1,870
Pass-Through from Hope Action Care		TI18286-01		73,797	73,797
Pass-Through from Por Vida Academy		AMODEIPOR VIDA		69,823	69,823
Advanced Education Nursing Grant Program	93.247			861,715	861,715
Public Health Training Centers Grant Program	93.249		130	119,251	119,381
Universal Newborn Hearing Screening	93.251			109,222	109,222
Poison Control Stabilization and Enhancement Grants	93.253		14,396	310,944	325,340
Infant Adoption Awareness Training	93.254				
Pass-Through from National Council for Adoption		90-CG-2662		51,451	51,451
Rural Access to Emergency Devices Grant	93.259			115,013	115,013
Occupational Safety and Health Program	93.262		31,203	1,929,976	1,961,179
Pass-Through from Colorado State University		8460000545		3,864	3,864
Nurse Faculty Loan Program (NFLP)	93.264			108,869	108,869
Comprehensive Geriatric Education Program (CGEP)	93.265			183,558	183,558
Immunization Grants	93.268		11,617,487	240,260,122	251,877,609
Alcohol National Research Service Awards for Research Training	93.272			439,250	439,250
Substance Abuse and Mental Health Services-Access to Recovery	93.275		4,811,965	1,280,600	6,092,565
Drug Abuse National Research Service Awards for Research Training	93.278			31,830	31,830
Drug Abuse and Addiction Research Programs	93.279		3,627	128,808	132,435
Pass-Through from University of Alabama		R01DA12215		3,627	3,627
Mental Health National Research Service Awards for Research Training	93.282			247,639	247,639
Centers for Disease Control and Prevention--Investigations and Technical Assistance	93.283		3,254,472	19,552,046	22,806,518
Pass-Through from American Academy of Pediatrics		6H04MC00009		4,167	4,167
Pass-Through from Hispanic Serving Health Professions		325128-UTHSCSA-01-0		3,034	3,034
Pass-Through from Hispanic Serving Health Professions		MILLER / USMEXICO		3,635	3,635
Pass-Through from SW Center for Pediatric Environmental Health		521553060		130,793	130,793
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286			228,845	228,845
Improving Health Education Outcomes of Young People	93.293			6,088	6,088
National Center for Health Workforce Analysis	93.300				
Pass-Through from University of Medicine and Dentistry of New Jersey		5 R25 RR018490 05		40,676	40,676
Small Rural Hospital Improvement Grant Program	93.301			916,663	916,663
Minority Health and Health Disparities Research	93.307		161,874	914,105	1,075,979
Clinical Research	93.333			255,391	255,391

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Health and Human Services (continued)					
Advanced Education Nursing Traineeships	93.358			833,206	833,206
Nurse Education, Practice and Retention Grants	93.359			862,564	862,564
Nursing Research	93.361			25,341	25,341
Pass-Through from University of Missouri at Kansas City		7087/9376/NR008565		303,623	303,623
Minority Biomed	93.375			428,743	428,743
National Center for Research Resources	93.389		20,500	1,298,141	1,318,641
Pass-Through from West Virginia University		SEPA/3R25RR023274-02		105,857	105,857
Cancer Cause and Prevention Research	93.393			152,087	152,087
Pass-Through from Saint Louis University		5 R21 CA126326 02		2,455	2,455
Cancer Detection and Diagnosis Research	93.394			18,540	18,540
Pass-Through from Duke University		5 U01 CA076001 12 A5		14,723	14,723
Cancer Treatment Research	93.395			415,513	415,513
Pass-Through from Axis Healthcare Communications, LLC		7 R44 CA088088 02		1,823	1,823
Pass-Through from Duke University		5 U10 CA076001 12		1,383	1,383
Pass-Through from Frontier Science and Technology Research Foundation		5 U10 CA02115 34		7,618	7,618
Pass-Through from Gynecologic Oncology Group (GOG)		U10 CA027469		40,634	40,634
Pass-Through from National Childhood Cancer Foundation		5 U10 CA098543 03		26,661	26,661
Pass-Through from Radiation Therapy Oncology Group		5 U10 CA021661 32		3,313	3,313
Cancer Biology Research	93.396			31,771	31,771
Cancer Centers Support Grants	93.397			963,563	963,563
Cancer Research Manpower	93.398			4,820,985	4,820,985
Pass-Through from University of Washington - Seattle		5 R25 CA119012 03		6,170	6,170
Cancer Control	93.399			60,971	60,971
Pass-Through from University of California - Davis		5 U01 CA086322 05		(451)	(451)
Food Safety and Security Monitoring Project	93.448			98,308	98,308
Promoting Safe and Stable Families	93.556		10,286,068	26,898,391	37,184,459
Pass-Through from Lubbock Regional Health Retardation		CYD79415		70,419	70,419
Temporary Assistance for Needy Families	93.558		114,800,804	451,902,857	566,703,661
Child Support Enforcement	93.563		2,888,338	163,796,808	166,685,146
Child Support Enforcement Research	93.564			114,532	114,532
Refugee and Entrant Assistance--State Administered Programs	93.566		1,946,135	21,873,699	23,819,834
Low-Income Home Energy Assistance	93.568		49,641,232	1,508,340	51,149,572
Community Services Block Grant	93.569		27,907,270	1,206,408	29,113,678
Community Services Block Grant--Discretionary Awards	93.570				
Pass-Through from National Youth Sports Program		601300		3,091	3,091
Refugee and Entrant Assistance--Discretionary Grants	93.576		42,900	2,773,799	2,816,699
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584			2,114,751	2,114,751
State Court Improvement Program	93.586			1,482,706	1,482,706
Pass-Through from Texas Center for The Judiciary		0601TXSCID		59,577	59,577
Community-Based Child Abuse Prevention Grants	93.590		819,842	915,595	1,735,437
Grants to States for Access and Visitation Programs	93.597		604,461	125,121	729,582
Chafee Education and Training Vouchers Program	93.599			1,546,293	1,546,293
Head Start	93.600			1,046,366	1,046,366
Pass-Through from Brazos Valley Community Action Agency		08-13-08 426053		2,007	2,007
Pass-Through from Brazos Valley Community Action Agency		07-29-07 - 426042		44,189	44,189
Pass-Through from Galveston County Comm Action Council		06CH5301		922	922
Pass-Through from Greater Opportunity of Permian Basin		DHHS H-5616		71	71
Pass-Through from Gulf Coast Project Head Start		06CH0016		5,724	5,724
Pass-Through from Gulf Coast Project Head Start		06CH5061		16,433	16,433
Pass-Through from Harris County Department of Education		06CH6998		4,975	4,975
Pass-Through from National Headstart		07OHSIPA1		74,999	74,999
Pass-Through from Parent/Child Incorporated		0107-28		32,634	32,634
Child Support Enforcement Demonstrations and Special Projects	93.601			240,894	240,894
Pass-Through from Family Service Association		SG/2006ACFOCSEFI005		16,952	16,952
Adoption Incentive Payments	93.603			1,414,404	1,414,404

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Health and Human Services (continued)					
Voting Access for Individuals with Disabilities Grants to States	93.617			455,639	455,639
Developmental Disabilities Basic Support and Advocacy Grants	93.630		2,563,952	1,765,120	4,329,072
Pass-Through from Texas Council for Developmental Disabilities		Award 06/10/08		2,692	2,692
Child Welfare Services--State Grants	93.645			22,305,817	22,305,817
Social Services Research and Demonstration	93.647			70,223	70,223
Child Welfare Services Training Grants	93.648			299,256	299,256
Foster Care--Title IV-E	93.658		4,913,361	226,770,474	231,683,835
Adoption Assistance	93.659			65,148,868	65,148,868
Social Services Block Grant	93.667		5,013,031	180,342,005	185,355,036
Child Abuse and Neglect State Grants	93.669			2,278,902	2,278,902
Child Abuse and Neglect Discretionary Activities	93.670			150,378	150,378
Family Violence Prevention and Services/Grants for Battered Women's Shelters--Grants to States and Indian Tribes	93.671			4,564,216	4,564,216
Chafee Foster Care Independence Program	93.674			7,271,800	7,271,800
State Children's Insurance Program	93.767			676,287,710	676,287,710
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768			189,581	189,581
Demonstration to Maintain Independence and Employment	93.769		3,361,775	1,670,665	5,032,440
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779		36,193	3,945,537	3,981,730
Medicaid Transformation Grants	93.793			639,333	639,333
Health Careers Opportunity Program	93.822		9,439	(403)	9,036
Basic/Core Area Health Education Centers	93.824		578,509	506,264	1,084,773
Cardiovascular Diseases Research	93.837			1,115,861	1,115,861
Lung Diseases Research	93.838			23,588	23,588
Blood Diseases and Resources Research	93.839			1,978,135	1,978,135
Arthritis, Musculoskeletal and Skin Diseases Research	93.846			110,142	110,142
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		421,189	233,284	654,473
Digestive Diseases and Nutrition Research	93.848			(7,673)	(7,673)
Kidney Diseases, Urology and Hematology Research	93.849		324,100	293,839	617,939
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853			580,122	580,122
Allergy, Immunology and Transplantation Research	93.855		241,667	141,612	383,279
Microbiology and Infectious Diseases Research	93.856		28,100	129,369	157,469
Biomedical Research and Research Training	93.859		23,309	1,071,995	1,095,304
Pass-Through from Baylor College of Medicine		5T32GM008280		38,495	38,495
Pass-Through from Carnegie Mellon University		1090155-184427		32,551	32,551
Child Health and Human Development Extramural Research	93.865			377,388	377,388
Aging Research	93.866			589,394	589,394
Pass-Through from University of Pittsburgh		UPITT 110202-1		23,720	23,720
Vision Research	93.867			52,501	52,501
Medical Library Assistance	93.879				
Pass-Through from Rice University		5T15LMO7093		140,565	140,565
Pass-Through from Society of Teachers of Family Medicine		USATINE-NLM/STFM		19,509	19,509
Grants for Training in Primary Care Medicine and Dentistry	93.884			973,753	973,753
Health Care and Other Facilities	93.887				
Pass-Through from Harris County Hospital District		D1BTH05537		446	446
Pass-Through from Piney Woods Regional Advisory Council		752603041		10,689	10,689
National Bioterrorism Hospital Preparedness Program	93.889		30,672,309	6,186,692	36,859,001
Family and Community Violence Prevention Program	93.910			261,204	261,204
Rural Health Care Services Outreach and Rural Health Network Development Program	93.912			17,408	17,408
Grants to States for Operation of Offices of Rural Health	93.913			137,930	137,930
HIV Emergency Relief Project Grants	93.914				
Pass-Through from Harris County Public Health and Environmental Services		07GEN0156		76,065	76,065

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Health and Human Services (continued)					
Pass-Through from Harris County Public Health and Environmental Services		08GEN0134		76,041	76,041
Pass-Through from Harris County Public Health and Environmental Services		6H12HA000390		165,401	165,401
Pass-Through from University Health System		PROJECT SEEK-UHS		33,572	33,572
Pass-Through from University Health System		UHS RYAN WHITE AGMT		54,793	54,793
Pass-Through from University Health System		UHS-RYAN WHITE/BULLO		54,505	54,505
HIV Care Formula Grants	93.917		20,036,988	64,328,290	84,365,278
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918				
Pass-Through from Harris County Hospital District		07-HSP-0373		16,609	16,609
Pass-Through from Harris County Hospital District		H76HA00128		38	38
Ryan White HIV/AIDS Dental Reimbursements\Community Based Dental Partnership	93.924			111,407	111,407
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		263,934	332	264,266
HIV Prevention Activities--Non-Governmental Organization Based	93.939			441,677	441,677
HIV Prevention Activities--Health Department Based	93.940		8,477,306	4,291,144	12,768,450
Pass-Through from Harris County Health Department		4600008916		11,086	11,086
Pass-Through from Harris County Health Department		6H12HA000390		279,771	279,771
HIV Demonstration, Research, Public and Professional Education Projects	93.941			299,280	299,280
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943			(14,732)	(14,732)
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		20,085	2,502,142	2,522,227
Assistance Programs for Chronic Disease Prevention and Control	93.945			324,259	324,259
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946			92,499	92,499
Block Grants for Community Mental Health Services	93.958		20,872,731	6,747,630	27,620,361
Block Grants for Prevention and Treatment of Substance Abuse	93.959		114,300,421	19,746,756	134,047,177
Health Administration Traineeships Program	93.962			17,162	17,162
Public Health Traineeships	93.964			93,132	93,132
Geriatric Education Centers	93.969		28,582	513,589	542,171
Pass-Through from Baylor College of Medicine		1 D31 DP08821		23,024	23,024
Pass-Through from Baylor College of Medicine		100678999		25,489	25,489
Pass-Through from Baylor College of Medicine		1D31HP0882101		4,682	4,682
Pass-Through from Baylor College of Medicine		741613878		23,607	23,607
Family Planning--Service Delivery Improvement Research Grants	93.974		266,699	(8,406)	258,293
Preventive Health Services--Sexually Transmitted Diseases Control Grants	93.977		4,341,568	2,254,425	6,595,993
Preventive Health Services--Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	93.978		174,073	715,046	889,119
Mental Health Disaster Assistance and Emergency Mental Health	93.982		(11,916)	(317,766)	(329,682)
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988		148,106	415,731	563,837
International Research and Research Training	93.989		97,828	678,865	776,693
Preventive Health and Health Services Block Grant	93.991		2,675,495	2,030,140	4,705,635

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Health and Human Services (continued)					
Maternal and Child Health Services Block Grant to the States	93.994		6,795,486	21,006,385	27,801,871
Adolescent Family Life--Demonstration Projects	93.995				
Pass-Through from Lifeworks		UTA05-820		56,501	56,501
Pass-Through from The Children's Shelter		SALDANA/TCS/DHHS		45,687	45,687
Bioterrorism Training and Curriculum Development Program	93.996		35,766	221,993	257,759
Total - U.S. Department of Health and Human Services			507,725,690	2,340,521,398	2,848,247,088
Corporation for National and Community Service					
Retired and Senior Volunteer Program	94.002			86,318	86,318
Pass-Through from Corporation for National and Community Service		06SRWTX001		48,927	48,927
Pass-Through from Corporation for National and Community Service		06SRWTX004		1,059	1,059
Pass-Through from Corporation for National and Community Service		07RZWTX028		20,409	20,409
Learn and Serve America--School and Community Based Programs	94.004		1,317,264		1,317,264
Learn and Serve America--Higher Education	94.005				
Pass-Through from Morehouse School of Medicine		SG/06LHHGA/BERGGREN		5,584	5,584
AmeriCorps	94.006			364,988	364,988
Pass-Through from A T Still University		04NDHMO002		12,337	12,337
Pass-Through from A T Still University		CON17634		55,653	55,653
Pass-Through from One Star Foundation		410120		6,435	6,435
Pass-Through from One Star Foundation		410130		215,914	215,914
Pass-Through from One Star Foundation		TIMBOE-CNCS/TXCVCS		5,950	5,950
Planning and Program Development Grants	94.007			45	45
Total - Corporation for National and Community Service			1,317,264	823,619	2,140,883
Executive Office of the President					
High Intensity Drug Trafficking Program	95.001			855,513	855,513
Total - Executive Office of the President			0	855,513	855,513
Social Security Administration					
Social Security Administration	96.XXX	8X650BIRTH		(32,039)	(32,039)
		0600-03-60023		993,096	993,096
		0600-03-60153		(76,536)	(76,536)
Social Security--Research and Demonstration	96.007			178,937	178,937
Total - Social Security Administration			0	1,063,458	1,063,458
Department of Homeland Security					
Department of Homeland Security	97.XXX	QUITUGUA-DHS-IPAA		87,005	87,005
State and Local Homeland Security Training Program	97.005			20,981,223	20,981,223
Homeland Security Preparedness Technical Assistance Program	97.007			503,689	503,689
Urban Areas Security Initiative	97.008		4,744,675	85,939	4,830,614
Boating Safety Financial Assistance	97.012			4,923,062	4,923,062
Pre-Disaster Mitigation (PDM) Competitive Grants	97.017		2,564,093	76,548	2,640,641

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
Department of Homeland Security (continued)					
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023			384,351	384,351
National Urban Search & Rescue (US&R) Response System	97.025			897,874	897,874
Flood Mitigation Assistance	97.029		6,455,993	71,646	6,527,639
Crisis Counseling	97.032		(16,954)	23,116	6,162
Disaster Unemployment Assistance	97.034			4,098	4,098
National Dam Safety Program	97.041			257,080	257,080
State Fire Training Systems Grants	97.043			24,000	24,000
Assistance to Firefighters Grant	97.044			(1,309)	(1,309)
Cooperating Technical Partners	97.045			1,873,554	1,873,554
Fire Management Assistance Grant	97.046			1,396,334	1,396,334
Pre-Disaster Mitigation	97.047		19,554		19,554
Presidential Declared Disaster Assistance to Individuals and Households - Other Needs	97.050			5,802,469	5,802,469
Centers for Homeland Security	97.061			248,346	248,346
Competitive Training Grants	97.068			590,329	590,329
Rail and Transit Security Grant Program	97.075		1,349,166		1,349,166
Buffer Zone Protection Program (BZPP)	97.078		3,009,025	29,890	3,038,915
Alternative Housing Pilot Program	97.087		190,268	93,755	284,023
Homeland Security Biowatch Program	97.091			2,365,391	2,365,391
Repetitive Flood Claims	97.092		338,232	3,074	341,306
Total - Department of Homeland Security			18,654,052	40,721,464	59,375,516
United States Agency for International Development					
United States Agency for International Development	98.XXX				
Pass-Through from Mexican Association of Small Business Development		3980-01	61,582	76,921	138,503
USAID Foreign Assistance for Programs Overseas	98.001		67,087	847,110	914,197
USAID Development Partnerships for University Cooperation and Development	98.012				
Pass-Through from American Council on Education		523-A-00-06-00009-00		58,753	58,753
Pass-Through from American Council on Education		G72168		78,052	78,052
Pass-Through from Association Liaison Office University Coop. Dev.		GARCIA-ALOUCD-TIES		18,037	18,037
Pass-Through from Higher Education for Development		523-A0-00-06-00009-00		58,658	58,658
Pass-Through from Western Michigan University		G094561		21,694	21,694
Total - United States Agency for International Development			128,669	1,159,225	1,287,894
Total Non-Clustered Programs			3,339,871,365	5,620,623,200	8,960,494,565
RESEARCH AND DEVELOPMENT CLUSTER					
U.S. Department of Agriculture					
U.S. Department of Agriculture	10.XXX	58-3148-5-048		7,476	7,476
		58-6204-8-055		49,803	49,803
Pass-Through from US Egypt Science and Technology Joint Fund		58-3148-5-106, YR 3 FUNDS		11,027	11,027
Agricultural Research--Basic and Applied Research	10.001		182,210	3,887,095	4,069,305
Pass-Through from Almond Board of California		503609		50,508	50,508
Pass-Through from Auburn University		06-PS-361825-TX		31,851	31,851
Pass-Through from California Almond Board		503463		(554)	(554)
Pass-Through from Dartmouth College		500572.5000. L00406		5,437	5,437
Pass-Through from University of Arkansas		503517		16,049	16,049

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Agriculture (continued)					
Plant and Animal Disease, Pest Control, and Animal Care	10.025			1,258,812	1,258,812
Wildlife Services	10.028			77,608	77,608
Grants for Agricultural Research, Special Research Grants	10.200		341,071	7,604,693	7,945,764
Pass-Through from Idaho State University		433410		826	826
Pass-Through from Iowa State University		716-25-20B		38,397	38,397
Pass-Through from Kansas State University		07-38624-18571		161,442	161,442
Pass-Through from Kansas State University		503314		56	56
Pass-Through from Kansas State University		503466		163,865	163,865
Pass-Through from Kansas State University		503703		4,909	4,909
Pass-Through from Mississippi State University		010500-32099502		14,470	14,470
Pass-Through from New Mexico State University		503242		27,944	27,944
Pass-Through from New Mexico State University		503243		467	467
Pass-Through from New Mexico State University		503247		8,754	8,754
Pass-Through from New Mexico State University		503470		24,655	24,655
Pass-Through from New Mexico State University		503471		77	77
Pass-Through from New Mexico State University		503472		31,433	31,433
Pass-Through from New Mexico State University		503473		23,324	23,324
Pass-Through from New Mexico State University		503475		17,517	17,517
Pass-Through from New Mexico State University		503476		43,083	43,083
Pass-Through from New Mexico State University		503492		3,717	3,717
Pass-Through from New Mexico State University		570276		27,479	27,479
Pass-Through from New Mexico State University		570369		5,024	5,024
Pass-Through from New Mexico State University		J54 Q01096		39,069	39,069
Pass-Through from Ohio State University Research		USDA 60010819		7,018	7,018
Pass-Through from Oklahoma State University		503419		6,979	6,979
Pass-Through from Oklahoma State University		503682		20,053	20,053
Pass-Through from Southern Regional Aquaculture Center		454150		35,275	35,275
Pass-Through from Southern Regional Aquaculture Center		454190		10,281	10,281
Pass-Through from Southern Regional Aquaculture Center		454430		2,008	2,008
Pass-Through from Southern Regional Aquaculture Center		454510		2,368	2,368
Pass-Through from The Oceanic Institute		503253		144	144
Pass-Through from The Oceanic Institute		503406		38,893	38,893
Pass-Through from University of California - Davis		503206		(4)	(4)
Pass-Through from University of California - Davis		8000000869		6,432	6,432
Pass-Through from University of Florida		00065426 (0002596); AMD 001		32,267	32,267
Pass-Through from University of Florida		420340		(619)	(619)
Pass-Through from University of Florida		420370		1,716	1,716
Pass-Through from University of Florida		433720		21,615	21,615
Pass-Through from University of Florida		433740		15,662	15,662
Pass-Through from University of Florida		437560		9,797	9,797
Pass-Through from University of Florida		502751		345	345
Pass-Through from University of Florida		503521		52,023	52,023
Pass-Through from University of Florida		503621		13,389	13,389
Pass-Through from University of Florida		503633		3,000	3,000
Pass-Through from University of Florida		503655		14,282	14,282
Pass-Through from University of Florida		503677		2,152	2,152
Pass-Through from University of Florida		503705		13,338	13,338
Pass-Through from University of GA Research Foundation		RD3090673500978		1,099	1,099
Pass-Through from University of Georgia		437520		4,009	4,009
Pass-Through from University of Georgia		503259		23,423	23,423
Pass-Through from University of Georgia		570273	8,145		8,145
Pass-Through from University of Georgia		570274	13,264		13,264
Pass-Through from University of Georgia		570275	9,939		9,939
Pass-Through from University of Georgia		570297	10,614		10,614

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Agriculture (continued)					
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203			7,197,399	7,197,399
Grants for Agricultural Research--Competitive Research Grants	10.206		214,430	3,953,214	4,167,644
Pass-Through from Albert Einstein College of Medicine		503345		867	867
Pass-Through from Baylor College of Medicine		430240		60,889	60,889
Pass-Through from George Mason University		503548		32,313	32,313
Pass-Through from Houston Advanced Research Center		503376		6,167	6,167
Pass-Through from Iowa State University		503737		24,213	24,213
Pass-Through from Michigan State University		61-4280B		74,101	74,101
Pass-Through from Mississippi State University		503298		4,692	4,692
Pass-Through from Purdue University		Sub 591-0588-01		118,950	118,950
Pass-Through from University of Arkansas		503730		37,836	37,836
Pass-Through from University of California - Davis		503368		79,115	79,115
Pass-Through from University of Illinois		503560		13,510	13,510
Pass-Through from University of Maryland		503205		77,727	77,727
Pass-Through from University of Maryland		503563		14,018	14,018
Pass-Through from University of Minnesota		503365		35,832	35,832
Pass-Through from University of Minnesota		503386		212	212
Pass-Through from University of Missouri		503315		2,570	2,570
Pass-Through from University of Nebraska - Lincoln		UNL-25-6242-0086-005		10,717	10,717
Animal Health and Disease Research	10.207		1,838,329	1,998,158	3,836,487
Pass-Through from Battelle National Biodefense Institute		503554		639	639
Small Business Innovation Research	10.212			33,944	33,944
Pass-Through from Advanced Materials and Processes		8000000578		41,017	41,017
Pass-Through from Bee Power, LP		503620		23,357	23,357
Pass-Through from Muscadine Products Corporation		503565		23,181	23,181
Sustainable Agriculture Research and Education	10.215				
Pass-Through from University of Georgia		503569		26,535	26,535
Pass-Through from University of Georgia		503636		2,673	2,673
1890 Institution Capacity Building Grants	10.216				
Pass-Through from North Carolina Agricultural and Tech State University		503592		77,856	77,856
Pass-Through from West Virginia University		503350		38,749	38,749
Higher Education Challenge Grants	10.217		29,493	69,245	98,738
Pass-Through from University of Wisconsin		503524		3,018	3,018
Pass-Through from University of Wisconsin-Madison		2006-38411-17036		1,479	1,479
Higher Education Multicultural Scholars Program	10.220			4,500	4,500
Hispanic Serving Institutions Education Grants	10.223			244,652	244,652
Pass-Through from Southwest Texas Junior College		503663		51,347	51,347
Community Food Projects	10.225		76,421	1,440,340	1,516,761
Agricultural and Rural Economic Research	10.250		32,407	139,705	172,112
Initiative for Future Agriculture and Food Systems	10.302		24,134		24,134
Integrated Programs	10.303		47,958	441,158	489,116
Pass-Through from North Carolina State University		2004-1501-03		23,935	23,935
Pass-Through from Regents of University of California		06511003735P		42,887	42,887
Pass-Through from University of Arizona		503522		104,958	104,958
Pass-Through from University of Nebraska		503667		7,500	7,500
Homeland Security_Agricultural	10.304			153	153
Pass-Through from Kansas State University		503657		66,972	66,972
International Science and Education Grants	10.305			14,464	14,464
Value-Added Producer Grants	10.352				
Pass-Through from Franklin Martin Farms, Inc.		07-0512		13,708	13,708
Crop Insurance	10.450		3,520	3,233,087	3,236,607
Pass-Through from Grazinglands Conservation Initiative		503015		25,836	25,836
Pass-Through from Grazinglands Conservation Initiative		503016		48,092	48,092
Pass-Through from Grazinglands Conservation Initiative		503109		1,878	1,878

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Agriculture (continued)					
Partnership Agreements to Develop Non-Insurance Risk Management Tools for Producers	10.456		4,652	9,984	14,636
Cooperative Extension Service	10.500		427,428	677,689	1,105,117
Pass-Through from North Carolina State University		503429		2,555	2,555
Pass-Through from North Carolina State University		503574		41,662	41,662
Pass-Through from Pennsylvania State University		503396		2	2
Pass-Through from Pennsylvania State University		503796		2,680	2,680
Pass-Through from Southern Regional Aquaculture Center		454870		(140)	(140)
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557			185,637	185,637
Foreign Market Development Cooperator Program	10.600			80,543	80,543
Forestry Research	10.652			1,097,035	1,097,035
Cooperative Forestry Assistance	10.664			394,739	394,739
Rural Business Opportunity Grants	10.773				
Pass-Through from Texas Citrus Mutual		503343		(244)	(244)
Resource Conservation and Development	10.901		10,000	668,919	678,919
Pass-Through from Southern Forest Research Partnership		503115		44,340	44,340
Pass-Through from Southern Forest Research Partnership		570266	9,696		9,696
Soil and Water Conservation	10.902			82,769	82,769
Pass-Through from National Fish and Wildlife Foundation		2006-0019-000		47,992	47,992
Soil Survey	10.903			212,880	212,880
Plant Materials for Conservation	10.905			50,943	50,943
Watershed Surveys and Planning	10.906			634	634
Environmental Quality Incentives Program	10.912		85,768	636,715	722,483
Pass-Through from Boilingstone Energy, Inc.		503319		15,092	15,092
Wildlife Habitat Incentive Program	10.914			(158)	(158)
Pass-Through from Mississippi State University		503104		8,274	8,274
Grassland Reserve Program	10.920			1,274	1,274
Agricultural Statistics Reports	10.950			22,468	22,468
Technical Agricultural Assistance	10.960			136,303	136,303
Pass-Through from Research Corporation of The University of Hawaii		503647		103,003	103,003
Scientific Cooperation and Research	10.961			25,860	25,860
Pass-Through from CIMMYT		503142		(3,341)	(3,341)
Pass-Through from CIMMYT		503264		3,642	3,642
Cochran Fellowship Program-International Training-Foreign Participant	10.962		443,772	867,067	1,310,839
Pass-Through from Michigan State University		502694		19,532	19,532
Pass-Through from University of California - Davis		503449		795,012	795,012
Pass-Through from University of California - Davis		503499		74,623	74,623
Pass-Through from University of California - Davis		503500		17,301	17,301
Pass-Through from University of California - Davis		503652		21,454	21,454
Pass-Through from University of California - Davis		503670		255,477	255,477
Pass-Through from University of California - Davis		503754		59,798	59,798
Pass-Through from University of California - Davis		570372	26,414		26,414
Pass-Through from University of California - Davis		570375	298,735		298,735
Pass-Through from University of California - Davis		570423	38,238		38,238
Pass-Through from University of California - Davis		570479	20,904		20,904
Pass-Through from University of California - Davis		570480	15,338		15,338
Total – U.S. Department of Agriculture			4,212,880	40,622,638	44,835,518
U.S. Department of Commerce					
U.S. Department of Commerce	11.XXX	DG133E06SE5750		4,282	4,282

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Commerce (continued)					
		EA133C-02-CN-0036		(951)	(951)
		EAR-0413265	907	1,288	2,195
		EL133E07SE3168		9,995	9,995
		SB134107SE0623 P001		9,416	9,416
		WC133F-06-SE-5661		10	10
Pass-Through from Northrop Grumman Corporation		83547DDM3S,CN 9		67,879	67,879
Census Bureau Data Products 11.001				2,760	2,760
Economic Development--Technical Assistance	11.303			90,649	90,649
Economic Adjustment Assistance	11.307			10,454	10,454
Geodetic Surveys and Services (Geodesy and Applications of the National Geodetic Reference System)	11.400			408,381	408,381
Interjurisdictional Fisheries Act of 1986	11.407			179,193	179,193
Sea Grant Support	11.417		22,959	1,929,432	1,952,391
Pass-Through from California Department of Fish and Game		8000000700		13,854	13,854
Pass-Through from Mote Marine Lab		MML-185 33A		40,599	40,599
Pass-Through from South Carolina Sea Grant Consortium		RA3A		5,807	5,807
Pass-Through from South Carolina Sea Grant Consortium		RA4A - YR.2		57,871	57,871
Pass-Through from State of South Carolina Dept. of Natural Resources		503529		8,240	8,240
Pass-Through from University of Mississippi		606300		52,916	52,916
Pass-Through from University of Southern Mississippi		USM-GR02720-C10		2,293	2,293
Coastal Zone Management Administration Awards	11.419		1,162	564,428	565,590
Pass-Through from Coastal Bend Bays and Estuaries		722		45,872	45,872
Coastal Zone Management Estuarine Research Reserves	11.420			1,218,886	1,218,886
Financial Assistance for National Centers for Coastal Ocean Science	11.426			837,893	837,893
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427			2,473	2,473
Undersea Research	11.430				
Pass-Through from University of Georgia		606030		3,051	3,051
Climate and Atmospheric Research	11.431		3,118	159,826	162,944
Office of Oceanic and Atmospheric Research (OAR) Joint and Cooperative Institutes	11.432				
Pass-Through from University of Oklahoma		503062		36,925	36,925
Marine Fisheries Initiative	11.433			76,698	76,698
Cooperative Fishery Statistics	11.434			83,050	83,050
Southeast Area Monitoring and Assessment Program	11.435			87,533	87,533
Marine Mammal Data Program	11.439				
Pass-Through from Alaska Sealife		R1921-07		(398)	(398)
Environmental Sciences, Applications, Data, and Education	11.440			66,418	66,418
Unallied Management Projects	11.454			117,600	117,600
Special Oceanic and Atmospheric Projects	11.460		39,998	231,681	271,679
Habitat Conservation	11.463				
Pass-Through from Nanohmics, Inc.		8000000560		96,208	96,208
Meteorologic and Hydrologic Modernization Development	11.467				
Pass-Through from University Corporation for Atmospheric Research		S06-58383		529	529
Applied Meteorological Research	11.468		16,376	31,983	48,359
Coastal Services Center	11.473			301	301
Center for Sponsored Coastal Ocean Research--Coastal Ocean Program	11.478		54,101	650,935	705,036
Pass-Through from Woods Hole Oceanographic Institute		A100471		4,561	4,561
Pass-Through from Woods Hole Oceanographic Institute		A100489		36,712	36,712
Educational Partnership Program	11.481			(11,756)	(11,756)
Pass-Through from Florida A&M University		606210		20,422	20,422

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Commerce (continued)					
Pass-Through from Florida A&M University		606480		154,895	154,895
Pass-Through from Howard University		631017-H04		157,990	157,990
Measurement and Engineering Research and Standards	11.609			492,445	492,445
Manufacturing Extension Partnership	11.611		786,227	3,107,883	3,894,110
Advanced Technology Program	11.612				
Pass-Through from Molecular Imprints, Inc.		70NANB4H3012, AMD 5		182,594	182,594
Pass-Through from Nanospectra Biosciences, Inc.		70NANB4H3040		11,938	11,938
Pass-Through from Receptor Logic, Ltd.		06AP050017F1H		2,878	2,878
Pass-Through from Stellar Micro Devices, Inc.		70NANB7H7030		26,498	26,498
Congressionally Identified Projects	11.617			15,601	15,601
Total - U.S. Department of Commerce			924,848	11,408,921	12,333,769
U.S. Department of Defense					
U.S. Department of Defense	12.XXX	08LM070034F1		2,347	2,347
		08LM070034FN		40,139	40,139
		08LM07003F1H		32	32
		08LM07003FNH		29,379	29,379
		2008*0511512*000/4013 08770012-0		24,836	24,836
		26-3907-2562		78,158	78,158
		449005	382,122		382,122
		503599		167,177	167,177
		6LM050061FNH		78,557	78,557
		6LM050076FNH		27,060	27,060
		CEM-0605 (R00905)		19,556	19,556
		CHALFIN/IPAA/NAVY		87,288	87,288
		DAAA21-93-C-0101		(1)	(1)
		DAAA21-93C-0101		(1)	(1)
		DAMD17-03-C-0088, Increment		20,108	20,108
		EDGE112007 Letter Agrmt		83,185	83,185
		FA2517-07-P-7002		18,709	18,709
		FA4626-07-P-0024		92,680	92,680
		FA7014-07-C-0034/MEL	1,984	223,839	225,823
		FA7014-07-C-0036/PET	54,313	140,811	195,124
		FA8650-07-C-7736	459,700	40,016	499,716
		FAU/9402	39,666		39,666
		FOX-DARPA	1,336	1,294,632	1,295,968
		GLICKMAN/NAVY IPAA		11,917	11,917
		H10006-08		427,223	427,223
		H98230-06-1-0124		213,343	213,343
		H98230-06-C0443		111,168	111,168
		H98230-07-C-0453;REQ #R40700110000		102,054	102,054
		H9C104-07-C-0014	46,505	175,994	222,499
		HR0011-08-1-0050		22,972	22,972

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Defense (continued)					
		HR0011-08-C-0109		30,271	30,271
		IPA-Aden		214,579	214,579
		IPA-Cobb-Croach, Yr 1		170,364	170,364
		IPA-Mcpheeters		186,609	186,609
		M67854-07-P-6015, MOD 1		68,937	68,937
		N00014-05-C-0149, P00012	61,172	79,785	140,957
		N00014-08-1-0193	76,315	131,840	208,155
		N00024-01-D-6600; DO 0144 CLN/SLN 0001		149	149
		N00024-01-D-6600; DO 0475		895,595	895,595
		N00039-96-D-0051, DO 0273		(1)	(1)
		N00039-96-D-0051/0063		(1)	(1)
		N00039-96-D-0051/0173		14	14
		N00039-96-D-0051/0182		(6)	(6)
		N00039-96-D-0051/0288		600	600
		N00167-06-C-0007		854,853	854,853
		N00173-07-P-0546; REQ#63-0028-07		6,493	6,493
		N3946707GOIPA03		18,597	18,597
		N3946708G0IPA05		5,170	5,170
		N61339-00D-0709		222,650	222,650
		N61339-04-C-0080, MOD 12		101,345	101,345
		N61339-04-C-0080, P00027		3,069,234	3,069,234
		N61339-05-C-0127, 0001, 000101/2, AA/AB		(1,488)	(1,488)
		N61339-05-C-0127, 0006, 000601, AC		96,386	96,386
		N61339-05-C-0127, 0006, 000602, AC		104,294	104,294
		N61339-05-C-0127, 0006, 000603, AC		11,422	11,422
		N61339-05-C-0127, 0007, 000704, AF		48,863	48,863
		N61339-05-C-0127, 0007, 000705, AG		170,979	170,979
		N61339-05-C-0127, 0007, 000706, AG		128,011	128,011
		N61339-05-C-0127, 0007, 000707, AG		120,763	120,763
		N61339-05-C-0127, 0007, 000708, AH		180,568	180,568
		N66604-07-M-4884; REQ #72074342		14,356	14,356

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Defense (continued)		N68936-06-C-0055,P0002		84,940	84,940
		NAG9-01476, SUPP 22	6,774	333,289	340,063
		R00905		26,400	26,400
		UTA05-120		(228)	(228)
		UTA05-811		2,080	2,080
		UTA07-382		15,506	15,506
		UTA07-459		68,529	68,529
		W15QKN-04-C-1091, INCREMENT		458,314	458,314
		W15QKN-04-C-1091, MOD P00010	490,304	207,228	697,532
		W15QKN-08-D-0426, DO 0002		149,809	149,809
		W81XWH-04-1-0218		62,549	62,549
		W81XWH-07-P-0592		37,118	37,118
		W81XWH-08-C-0062		100,190	100,190
		W9113M-05-1-0016, P00003		152,850	152,850
		W9113M-05-1-0017, P00003		109,475	109,475
		W9113M-05C-0166	19,167	1,266,742	1,285,909
		W911KB-08-P-0041		36,716	36,716
		W911KB-08-P-0044		25,361	25,361
		W911NF-04-2-0006		98,221	98,221
		W911NF-05-1-0544		118,692	118,692
		W911NF-08-2-0015		233,188	233,188
		W911NF-08-2-0015; UTA08-309		60,130	60,130
		W911NF-08-2-0015;UTA08-309		137,395	137,395
		W911NF-08-2-0015;UTA08-311		37,881	37,881
		W911QX-07-D-0002, DO 0005		19,749	19,749
		W911SR07-C0069		1,181,735	1,181,735
		W911SR-08-C-0024		117,109	117,109
		W912HQ-07-P-0039 MOD NO. P00001		48,296	48,296
		W912HZ-07-2-0010		207,916	207,916
		W912HZ-08-P-0171		11,338	11,338
		W914HQ06C0058		322,809	322,809
		W91CRB-07-C-0125		94,426	94,426
		W91WAW-07-C-0029		83,796	83,796
		WOLF-USISR/IPAA-WU		29,180	29,180
		WU/IPAA		14,660	14,660
Pass-Through from 21st Century Technologies		UTA07-126, Inc.		183,090	183,090
Pass-Through from Advanced Ceramics Research, Inc.		W81XWH-07-C-0130		58,590	58,590
Pass-Through from Alaska Sealife		R1921-07		70,840	70,840
Pass-Through from American Maglev, Inc.		UTA07-799		41,989	41,989
Pass-Through from Anteon Corporation		USAF5212-STICS-0021		18,637	18,637
Pass-Through from BAE Systems		66238		151,044	151,044
Pass-Through from BAE Systems		69141		64,503	64,503

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Defense (continued)					
Pass-Through from Booz Allen Hamilton, Inc.		BP3982		162,593	162,593
Pass-Through from California Institute of Technology Jet Propulsion Lab		1264792		(299)	(299)
Pass-Through from California Institute of Technology Jet Propulsion Lab		1264796		(419)	(419)
Pass-Through from Cougar Software, Inc.		CSI-2007-037		25,994	25,994
Pass-Through from Curtiss Wright Electro-Mechanical Corporation		419875		2,175,621	2,175,621
Pass-Through from Echo Technical		UTA05-914, MOD 002		47,083	47,083
Pass-Through from Florida State University		#CEM-0208, AMD 5; ROO431B		81,547	81,547
Pass-Through from Florida State University		A03860 / N00014-02-0-0623		166,725	166,725
Pass-Through from Florida State University		A03860 / N00014-02-1-0623		179,370	179,370
Pass-Through from Florida State University		A03860 / N00014-02-1-0623, AMD 8		149,439	149,439
Pass-Through from Florida State University		A03860 / N00014-02-1-0623_LOA		76	76
Pass-Through from Florida State University		A03860 / N00014-02-1-0623-LOA		23,088	23,088
Pass-Through from Florida State University		R00905		456,583	456,583
Pass-Through from General Atomics		KJ410301 / 4500001178	5,719	145,111	150,830
Pass-Through from General Dynamics		80013J		107,491	107,491
Pass-Through from General Dynamics		80006J		3,878	3,878
Pass-Through from Georgia Institute of Technology		R8251-S3, AMD 1		80,725	80,725
Pass-Through from Griffin Technologies, Inc.		UTA07-582, Con. #W912HZ-07-P-0294		26,939	26,939
Pass-Through from Hem Technologies		4100 006		142,281	142,281
Pass-Through from Homeland Protection Institute		W9113M-08-		423,192	423,192
Pass-Through from Hyperion Biotechnology		W911SR-07-C-0006		105,428	105,428
Pass-Through from Infoscitex Corporation		1129-1S2, MOD 2		15,319	15,319
Pass-Through from Innovative Scientific Solutions, Inc.		SB05033, UTA06-401		233	233
Pass-Through from Institute of International Education		NSEP-U631006-UT-ARA, IIE480731		636,865	636,865
Pass-Through from Institute of International Education		NSEP-U631006-UT-HIN, IIE480731		970,019	970,019
Pass-Through from Institute of International Education		NSEP-U631006-UT-LS		137,858	137,858
Pass-Through from Institute of International Education		U634000-W9137B-06-P-0145-3		142,613	142,613
Pass-Through from Intelligent Automation, Inc.		654-3		53,646	53,646
Pass-Through from ITT Corp/AES		303653		39,278	39,278
Pass-Through from Jacobs/Huitt-Zollars		R2W30855-S08-0001		23,193	23,193
Pass-Through from KJV Incorporated		G72172		18,592	18,592
Pass-Through from Knexient, Inc.		UTA07-788		25,708	25,708
Pass-Through from L-3 Communications Electronic Sys, Inc.		23064 SWA REV H		574,208	574,208
Pass-Through from Level Set Systems, Inc.		UTA06-522		4,496	4,496
Pass-Through from Lockheed Martin Corporation		4300287558		29,539	29,539
Pass-Through from Lockheed Martin Corporation		TT0698138 EXPORT CONTROL CASE PO1		32,935	32,935
Pass-Through from Mantech SRS Technologies, Inc.		WG-08-S-005		22,876	22,876
Pass-Through from Mississippi State University		060808-01090729, CO 2, TSK 5, MOD 2		2,860	2,860

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Defense (continued)					
Pass-Through from Mississippi State University		060808-01090729, CWO-KY7-SP1		35,824	35,824
Pass-Through from Mississippi State University		060808-01090729, CO 3, TSK 3,MOD 27;301400		143,254	143,254
Pass-Through from Mississippi State University		060808-01090729-07, CO 3, TSK 3, MOD 22		356,193	356,193
Pass-Through from Mississippi State University		060808-01090729-07, MOD. 1 TO OPM		131,959	131,959
Pass-Through from Mississippi State University		060808-01090729-07, MOD. 5 TO OPM; 301377		73,868	73,868
Pass-Through from Mississippi State University		060808-01090729-08 360180 DO4THZ97074500		147,213	147,213
Pass-Through from Mississippi State University		060808-01090729-08 360181 DO4THZ97074500		40,806	40,806
Pass-Through from Mississippi State University		060808-01090729-08 360182 DO4THZ97074500		51,549	51,549
Pass-Through from Mississippi State University		060808-01090729-08 CO3 TSK4,M24; 301402		163,664	163,664
Pass-Through from Mississippi State University		060808-01090729-08 EQM KY7 SP1		30,613	30,613
Pass-Through from Mississippi State University		060808-01090729-08 EQMKY8001 ; 360265		31,054	31,054
Pass-Through from Mississippi State University		060808-01090729-08, CO3, TSK11,M9		19,477	19,477
Pass-Through from Mississippi State University		060808-01090729-08,CO3,TSK11,M26		118,667	118,667
Pass-Through from Mississippi State University		060808-01090729-08,CO3,TSK11,M28;301380		38,886	38,886
Pass-Through from Mississippi State University		060808-01090729-08,CO3,TSK4,M19		151,749	151,749
Pass-Through from Mississippi State University		060808-01090729-08,CO3,TSK4,TRNG,m8		3,515	3,515
Pass-Through from Mississippi State University		060808-01090729-08EQMKY8002 360264		51,592	51,592
Pass-Through from Mississippi State University		080100-330632-01 Sub. Awd.		49,484	49,484
Pass-Through from Mississippi State University		4QFZ97084502, 360262 CWO-KY8-001		37,412	37,412
Pass-Through from Mississippi State University		DO 4THZ97074500		139,002	139,002
Pass-Through from Modern Technology Solutions, Inc.		UPS-R477A9		2,175	2,175
Pass-Through from Monopole Research		RESEARCH AGREEMENT, MOD 1		(216)	(216)
Pass-Through from Monopole Research		RESEARCH AGREEMENT, PHASE II		116,396	116,396
Pass-Through from Montana Polysaccharides		G72235		5,699	5,699

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Defense (continued)					
Pass-Through from NDI Engineering		42-3489		21,896	21,896
Pass-Through from Noblis, Inc.		W9128F-06-D-0015		39,460	39,460
Pass-Through from Northrop Grumman Corporation		D0104506-2000		12,500	12,500
Pass-Through from Northrop Grumman Corporation		DO118283-2000		94,405	94,405
Pass-Through from Northrop Grumman Corporation		DO79726-2000		10,740	10,740
Pass-Through from Old Dominion University Research		MELTZ:OLD DOM:AFOSR		6,814	6,814
Pass-Through from Oldenburg Group, Inc.		130589		123,512	123,512
Pass-Through from Omega Optics		UTA05-803, AMD 2		127,333	127,333
Pass-Through from Omega Optics		UTA05-804		115,095	115,095
Pass-Through from Omega Optics		UTA06-244, AMD 1		202,424	202,424
Pass-Through from OrganicID		UTA05-685		3,704	3,704
Pass-Through from Peregrine Pharmaceuticals		HDTRA108C0003		42,412	42,412
Pass-Through from Rockwell Collins, Inc.		4502517064		79,850	79,850
Pass-Through from Rockwell Collins, Inc.		4502521514		56,519	56,519
Pass-Through from Science Applications International Corporation		4400131840		149,796	149,796
Pass-Through from Science Research Laboratory		C0078-377		76,002	76,002
Pass-Through from Scimitar Technologies, LLC		UTA05-828, INC		37,273	37,273
Pass-Through from Signal Technology		D140609		62,181	62,181
Pass-Through from Southwest Research Institute		3965-25		(93)	(93)
Pass-Through from Southwest Research Institute		799133L, MOD 2		185,661	185,661
Pass-Through from Southwest Research Institute		SWRI 399847P		2,352	2,352
Pass-Through from Southwest Sciences		UTA07-867		32,818	32,818
Pass-Through from Spec		UTA06-587, AMD 001		(720)	(720)
Pass-Through from SRI International		27-001249		403,386	403,386
Pass-Through from Stanford University		20042150-36644-B		68,967	68,967
Pass-Through from Telcordia Technologies, Inc.		10092632, AMD 4		(263)	(263)
Pass-Through from Test Devices, Inc.		11156		41,934	41,934
Pass-Through from Texas Research Institute Austin, Inc.		A7731-300-08-SC1448		15,981	15,981
Pass-Through from The Boeing Company		173311		42,736	42,736
Pass-Through from Tulane University		G72147		61,927	61,927
Pass-Through from Tulane University		G72148		174,825	174,825
Pass-Through from UES Corporation		S-783-000-002/B, UTA05-413		34,547	34,547
Pass-Through from UES Corporation		S-821-000-001 FA8650-07-M-5411		2,457	2,457
Pass-Through from Unisys Corporation		G72231		54,913	54,913
Pass-Through from University of California - Berkeley		SA4840-78134		75,832	75,832
Pass-Through from University of Maryland		Z994701		73,441	73,441
Pass-Through from University of Notre Dame		201296		14,446	14,446
Pass-Through from Vanderbilt University		19192-S3		173,000	173,000
Pass-Through from Vax Design		70003-UTMBM		115,885	115,885
Pass-Through from Weston Solutions, Inc.		0048944		133,341	133,341
Pass-Through from Wright Materials Research Co		06-UTA01, HQ0006-06-C-7386		150,632	150,632
Pass-Through from Zyvex		BAA0519F10		852	852
Procurement Technical Assistance for Business Firms	12.002			132,556	132,556
Pass-Through from BBN Technology Corporation		ICITA-2		86,988	86,988
Pass-Through from Oak Ridge National Laboratory		4000061475		79,191	79,191
Aquatic Plant Control	12.100			59,729	59,729
Pass-Through from City of Lewisville		G72212		220,077	220,077
Pass-Through from Denton County		G72212		11,387	11,387
Emergency Operations Flood Response and Post Flood Response	12.103				

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Defense (continued)					
Pass-Through from Moffatt and Nichol		07-1173		24,801	24,801
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		32,000	49,748	81,748
Collaborative Research and Development	12.114		90,254	3,326,251	3,416,505
Pass-Through from Science Application International Corporation		4400154132		5,415	5,415
Pass-Through from Signal Processing, Inc.		001-1		10,518	10,518
Pass-Through from University of South Florida		6415-1006-01-A		142,969	142,969
Pass-Through from Wingler and Sharp, Inc.		06-0273	57,775	31,563	89,338
Civil Defense- Architect/Engineer Faculty Development	12.300		2,719,206	92,922,771	95,641,977
		26-0783-01,MOD P00008		1,501,128	1,501,128
		26-0784-01		1,637,322	1,637,322
		26-0791-19		405,655	405,655
		26-0791-20		38,088	38,088
		26-0791-21		188,483	188,483
		26-0791-22		29,155	29,155
		26-0791-23		158,670	158,670
		26-0791-24		27,853	27,853
		26-0791-25		576,035	576,035
		26-0791-26		553,153	553,153
		26-0791-27		48,204	48,204
		26-0791-28		187,261	187,261
		26-0791-29		328,519	328,519
		26-0791-30		16,757	16,757
		26-0791-31		126,390	126,390
		26-0796-06		113,911	113,911
		07-273		17,993	17,993
Pass-Through from Acree Technologies, Inc.		N00014-07-M0419		19,539	19,539
Pass-Through from Applied Research Associates		S-16616.1,MOD 6		747	747
Pass-Through from Aspen Systems, Inc.		08-0538		4,022	4,022
Pass-Through from BAE Systems		A0291		35,255	35,255
Pass-Through from BAE Systems		08-0333		11,375	11,375
Pass-Through from Battelle		208683		98,583	98,583
Pass-Through from Bennington Microtechnology Center		N00014-05-1-0587		7,267	7,267
Pass-Through from California Institute of Technology		68-1077901		105,627	105,627
Pass-Through from Calnetix		05-0647		82,994	82,994
Pass-Through from Custom Manufacturing and Engineering, Inc.		06-0168		6,997	6,997
Pass-Through from Drexel University		204080		96,677	96,677
Pass-Through from Florida State University		R00905		185,423	185,423
Pass-Through from Florida State University		R00905-S1		57,412	57,412
Pass-Through from Genexpress Informatics, Inc.		M67854-07-C-6527		19,695	19,695
Pass-Through from Infoscitex Corporation		8000000864		7,157	7,157
Pass-Through from In-Q-Tel		ARL:UT-001		5,235	5,235
Pass-Through from Institute for The Study of Learning and Expertise		AUSTIN-01, AMD 4		143,787	143,787
Pass-Through from Johns Hopkins University		JHU/APL-923128, TASK 3, AMENDMENT 2		2	2
Pass-Through from Johns Hopkins University		JHU/APL-927381		91,859	91,859
Pass-Through from Johns Hopkins University		JHU-901763		1,315	1,315
Pass-Through from Johns Hopkins University		JHU-901763 PRIME N0002403D6606		12,377	12,377
Pass-Through from Johns Hopkins University		N0002403D6606 883152		84	84

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Defense (continued)					
Pass-Through from Lynntech, Inc.		W81XWH08C0018		658	658
Pass-Through from Management Consulting, Inc.		53800		(58,646)	(58,646)
Pass-Through from Marlow Industries		Agr. No. 04-0575		72,000	72,000
Pass-Through from Mississippi State University		CE-KY7-002		110,801	110,801
Pass-Through from Penn State University		2795-UT-ONR-0683, AMD 4		48,784	48,784
Pass-Through from Penn State University		S05-03 PRIME N0001405G0106/8		892,111	892,111
Pass-Through from Rice University		4F-01541, M0001-SUB#:R14501-72000004		18,646	18,646
Pass-Through from Rutgers State University of New Jersey		8000000678		(1,328)	(1,328)
Pass-Through from Rutgers University		3094		12,790	12,790
Pass-Through from Sandia National Labs		SNL 752589		69,883	69,883
Pass-Through from Scientific Applications and Research Association		NAVY32.SC1		565	565
Pass-Through from Southern University and A&M College - Baton Rouge		P804652		17,895	17,895
Pass-Through from Stanford University		18412450-35520-B AMD 01		412,328	412,328
Pass-Through from Stanford University		21631480-40531-B, UTA08-461		60,079	60,079
Pass-Through from Systems and Materials Research Corporation		8000000365/621/873		85,873	85,873
Pass-Through from University of Illinois		2007-05430-01		22,662	22,662
Pass-Through from University of Minnesota		503505		2,222	2,222
Pass-Through from University of Minnesota		570373	10,947		10,947
Pass-Through from University of Montana		PG-4853-02		117	117
Pass-Through from University of New Mexico		SUBAWARD 798122-874F PRIME N0001407C0147		429,063	429,063
Pass-Through from University of Notre Dame		200978		51,653	51,653
Pass-Through from University of South Florida		SUBAGRMT 2500-0041-00-A USF		169,464	169,464
Pass-Through from Utah State University		70185001		55,569	55,569
Pass-Through from Virginia Tech University		CR-19433-430229, MOD 2		16,801	16,801
Pass-Through from Washington Savannah River Company, LLC		SRNS-AC512780		1,454	1,454
Pass-Through from Washington Savannah River Company, LLC		SRNS-AC512780; CHANGE NOTICE 4		45,760	45,760
Pass-Through from Washington Savannah River Company, LLC		SRNS-AC543010		25,274	25,274
Pass-Through from Williams Pyro, Inc.		N65538-06-M-0104		3,002	3,002
Pass-Through from Williams Pyro, Inc.		07-0224		68,855	68,855
Pass-Through from Wyle Laboratories		08-0381		596,853	596,853
Basic Scientific Research - Combating Weapons of Mass Destruction	12.351			89,290	89,290
Pass-Through from Agiltron, Inc.		HDTRA1-08-P-0034 DTRA08Ë005		8,443	8,443
Readiness Sustainment Maintenance Program	12.402			99,998	99,998
Military Medical Research and Development	12.420		1,857,834	32,441,471	34,299,305
Pass-Through from Fred Hutchinson Cancer Research		DAMD17-02-1-0691		23,387	23,387
Pass-Through from House Ear Institute		DAMD17-01-1-0710		307	307

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Defense (continued)					
Pass-Through from Illinois State University		UTA04-078 151002412009433		3,766	3,766
Pass-Through from Johns Hopkins University		W81XWH-04-1-0595 04		517,549	517,549
Pass-Through from Memorial Hermann Hospital System		DAMD 17-03-C-97		(24)	(24)
Pass-Through from Mission Hospitals		W81XWH-07-2-0108		63,349	63,349
Pass-Through from National Medical Technology Test Bed		200171UTMB-ESENALIEV		(206)	(206)
Pass-Through from Oklahoma State University		AA-5-75063-A		(1,340)	(1,340)
Pass-Through from PLX Pharma Inc.		A072-142-0602		7,815	7,815
Pass-Through from PLX Pharma, Inc.		A072-142-0602		6,445	6,445
Pass-Through from Portage Environmental, Inc.		PEI-2106S07		68,290	68,290
Pass-Through from Rice University		DAMD17-03-1-0384 04		290,117	290,117
Pass-Through from Rice University		W81XWH-07-1-0428 01		111,741	111,741
Pass-Through from Science Applications International		N00173-03-C-2013 4400130704		66,938	66,938
Pass-Through from T.R.U.E. Research Foundation		W81XWH-06-2-0033		1,130,807	1,130,807
Pass-Through from Temple University		W91ZSQ-5309-N7		247,398	247,398
Pass-Through from The Scripps Research Institute		07LM40054F2H		61,258	61,258
Pass-Through from True Research Foundation		06AP050072FNL		521,371	521,371
Pass-Through from University of California - San Francisco		W81XWH0510265		75,024	75,024
Pass-Through from University of Oklahoma		DAMD17020702		(697)	(697)
Pass-Through from University of Pittsburgh		DAMD17-01-0373		113,158	113,158
Basic Scientific Research	12.431		2,362,825	11,096,554	13,459,379
Pass-Through from Academy of Applied Science		#08-22		2,758	2,758
Pass-Through from Academy of Applied Science		07-27 & 07-28		11,754	11,754
Pass-Through from Brown University		08691		19,607	19,607
Pass-Through from California Institute of Technology		68-1077891		21,283	21,283
Pass-Through from Fibertek, Inc.		224058-50407		150,048	150,048
Pass-Through from Harvard University		133463-08		80,848	80,848
Pass-Through from Honeywell, Inc.		07-0812		148,687	148,687
Pass-Through from Jorge Scientific Corporation		07-900-D6A		45,840	45,840
Pass-Through from Lynntech, Inc.		07-0695		15,683	15,683
Pass-Through from Massachusetts Institute of Technology		5710002240		120,751	120,751
Pass-Through from Perl Research, LLC		2007-01		32,047	32,047
Pass-Through from Science Applications International		4400138109		499,530	499,530
Pass-Through from Signal Processing, Inc.		105-1		82,873	82,873
Pass-Through from SRI International		71-000106, MOD 2		37,483	37,483
Pass-Through from Telcordia		20002503		47,648	47,648
Pass-Through from University of California - Berkeley		SA4485-32449_W911NF0410304		4,482	4,482
Pass-Through from University of Dayton Research Institute		RSC05016		42,345	42,345
Pass-Through from University of Illinois at Urbana-Champaign		2007-00748-02		117,121	117,121
Pass-Through from University of Kansas		FY2008-083		26,312	26,312
Pass-Through from University of Minnesota		S5226679301		1,544	1,544
Pass-Through from University of Missouri		C00006389-3		25,528	25,528
Pass-Through from University of South Carolina		07-1410; 72634-13060-FA35		125,099	125,099
Pass-Through from University of Southern California		125819		56,328	56,328
Pass-Through from VW International, Inc.		VWI 6170-039A	2,086,946	570,848	2,657,794
National Flagship Language Program Grants To U.S. Institutions Of Higher Education	12.550			16,123	16,123
Community Economic Adjustment	12.600			328,082	328,082
Basic, Applied, and Advanced Research in Science and Engineering	12.630		699,268	3,361,947	4,061,215

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Defense (continued)					
Pass-Through from 3TEX, Inc.		R000061-1		21,000	21,000
Pass-Through from Advanced Materials and Processes		8000000865		8,268	8,268
Pass-Through from Center for Rotocraft Innovation		W911W6-052003 MOD P00006 2007C13011A10		30,666	30,666
Pass-Through from Georgia Institute of Technology		R7443-S4		201	201
Pass-Through from High Performance Technologies		2273-133-		359,496	359,496
Pass-Through from Implicit Bioscience Pty, Ltd.		HDTRA1-07-9-0003		160,460	160,460
Pass-Through from Leland Stanford Junior University		21030240-40031-A		3,111	3,111
Pass-Through from Northwestern University		0650 300 F416 415		5	5
Pass-Through from Ohio State University		60014145/ RF01100805		13,504	13,504
Pass-Through from Planning Systems, Inc.		C08-00428		59,048	59,048
Pass-Through from Progeny Systems Corporation		PSC-0049, TASK 1_MOD 10		109,000	109,000
Pass-Through from SRI International		8000000595		186,133	186,133
Pass-Through from Unisys West Coast Research Cente		FST-000009		156,861	156,861
Pass-Through from University of Illinois at Urbana-Champaign		2005-03031-01, AMD 02		69,429	69,429
Pass-Through from University of Maryland - Baltimore County		0000005312		49,381	49,381
Pass-Through from Virginia Polytechnic Institute		CR-19642-425689		3,061	3,061
Air Force Defense Research Sciences Program	12.800		1,594,958	16,936,851	18,531,809
Pass-Through from Aeroastro, Inc.		2622-02		(29,437)	(29,437)
Pass-Through from Aeroprobe Corporation		06-0151		97,703	97,703
Pass-Through from Clarkson Aerospace, Inc.		UHH 06-S567-06-C2		51,293	51,293
Pass-Through from Clarkson Aerospace, Inc.		UHM 06-S567-06-C2		74,693	74,693
Pass-Through from Clarkson Aerospace, Inc.		FA8650-05-D1912		64,512	64,512
Pass-Through from Clarkson Aerospace, Inc.		TSU06-S56706C2		154,744	154,744
Pass-Through from Clarkson Aerospace, Inc.		PVUAM 05-0003-C1		1,113,660	1,113,660
Pass-Through from Duke University		07-SC-AFSOR-1004		76,352	76,352
Pass-Through from General Dynamics Information		USAF-0203-SC-0021		31,722	31,722
Pass-Through from General Dynamics Information		F33615-03-D-5408		9,594	9,594
Pass-Through from Integrated Micro Sensors		G095302		65,784	65,784
Pass-Through from Irvine Sensors		25518		22,189	22,189
Pass-Through from Knowledge Based Systems, Inc.		5274-200 TAMU		1,226	1,226
Pass-Through from Massachusetts Institute of Technology		5710001865		57,439	57,439
Pass-Through from Massey University		AOARD-07-4		1,995	1,995
Pass-Through from Nextgen Aeronautics		08-0166		11,981	11,981
Pass-Through from Northrop Grumman Corporation		65016QOD5A		528,100	528,100
Pass-Through from Portage Environmental, Inc.		PEI 2106S07		365,580	365,580
Pass-Through from PPG Industries, Inc.		FA8650-05-C-5010		38,483	38,483
Pass-Through from Rice University		FA8650-07-2-5061		133,700	133,700
Pass-Through from Rice University		R15901		144,975	144,975
Pass-Through from Rice University		R15904		64,152	64,152
Pass-Through from Signal Labs, Inc.		G72125		30,061	30,061
Pass-Through from Universal Technology Corporation		06S568-018-C1		39,529	39,529
Pass-Through from University of Dayton Research Institute		RSC05003		36,966	36,966
Pass-Through from University of Illinois		2006-02197-02	49,808	52,862	102,670
Pass-Through from University of Michigan		3000587486, AMD 1		121,992	121,992
Pass-Through from University of Wisconsin		A867075		299,395	299,395
Language Grant Program	12.900			71,598	71,598
Mathematical Sciences Grants Program	12.901			443,955	443,955
Information Security Grant Program	12.902			663,288	663,288
Pass-Through from Unisys West Coast Research Center		321946		69,897	69,897
Research and Technology Development	12.910		1,076,079	4,090,477	5,166,556
Pass-Through from Baylor College of Medicine		HR001-08-1-0010		1,852	1,852
Pass-Through from Caci Technologies, Inc.		DAAB07-03-D-C214		51	51

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Defense (continued)					
Pass-Through from Electronic Biosciences, LLC		FA9550-06-C-0006		395,255	395,255
Pass-Through from Hanson Pipe and Precast		FA8750-07-C-0206(DARPA)		132,623	132,623
Pass-Through from Intelligent Automation, Inc.		FA9101-04-C-0032		12,024	12,024
Pass-Through from Rice University		HR0011-08-1-0010 01		70,932	70,932
Pass-Through from Rice University		R7B531		12,740	12,740
Pass-Through from Science Applications International Corporation		08-0473		20,325	20,325
Pass-Through from Smart Information Flow Technologies		DG-TEES-01		85,610	85,610
Pass-Through from Teledyne Instruments, Inc.		B7K546708		18,584	18,584
Pass-Through from Toyon Research Corporation		SC06-6531-1	24,720	11,893	36,613
Pass-Through from United Negro College Fund Special Programs		05012006		160	160
Pass-Through from University of California - Riverside		S-0000200		5,729	5,729
Pass-Through from University of California - Riverside		S-0000270		16,756	16,756
Pass-Through from University of California - Irvine		07-0060		68,011	68,011
Pass-Through from University of Colorado		154-3160		27,033	27,033
Pass-Through from University of Southern California		10581		116,138	116,138
Pass-Through from University of Virginia		GG10739-124925 AMD No. 02		98,835	98,835
Pass-Through from Versatilis, LLC		UTA08-251		55,278	55,278
Pass-Through from Williams Pyro, Inc.		14484 GCS#06.413		329	329
Total - U.S. Department of Defense			14,307,697	217,934,842	232,242,539
U.S. Department of Housing and Urban Development					
Community Development Block Grants/Brownfields Economic Development Initiative	14.246			2,568	2,568
Demolition and Revitalization of Severely Distressed Public Housing (HOPE IV)	14.866				
Pass-Through from City of El Paso Housing Authority		TX21URD003		56,767	56,767
Pass-Through from Housing Authority of The City of Dallas		5451 OR#04-051		5,143	5,143
Total - U.S. Department of Housing and Urban Development			0	64,478	64,478
U.S. Department of the Interior					
U.S. Department of the Interior	15.XXX	0105CT39388		23,390	23,390
		03FC601786		4,215	4,215
		0404CT32805		1,400,966	1,400,966
		06HQSA0165/REQ #06HQPR1498		33,540	33,540
		1406-04-06-GT-60336		(1,805)	(1,805)
		201814J881		9,403	9,403
		H-1248-02-0015/TSK #J1242060009/UT-10		444	444
		H5000030518/J2124070026/R2124070026		10,323	10,323
		J2124080024/H5000070520/R2124080024		14,860	14,860
		J760006002A		2,619	2,619
		J7600080002		1,202	1,202
		J76007SAAN3		69,709	69,709
		J76007SAAN4		5,109	5,109
		J7600SAAN801		18,749	18,749

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of the Interior (continued)					
		J7700066025;H5000020271		6,270	6,270
Pass-Through from Arizona State University		201814J881		49,759	49,759
Pass-Through from LGL Alaska Research Association, Inc.		UTA04-574 - TASK ORDER 006		71,402	71,402
Pass-Through from Mississippi State University		330544-08030008		22,457	22,457
Pass-Through from National Fish and Wildlife Foundation		2007-0036-000		21,336	21,336
Pass-Through from SRI International		03-000224 TASK ORD 4		51,488	51,488
Pass-Through from SRI International		27-001056 LOA dtd 3-16-07		338,646	338,646
Pass-Through from Stanford University		20110350-3		22,191	22,191
Fish, Wildlife, and Parks Programs on Indian Lands	15.039				
Pass-Through from New Mexico Game and Fish		503232		(3,379)	(3,379)
Cultural Resource Management	15.224			18,657	18,657
Recreation Resource Management	15.225			69,738	69,738
National Fire Plan - Wildland Urban Interface Community Fire Assistance	15.228			70	70
Offshore Research Technology Center (OTRC) Texas Engineering Experiment Station (TEES)	15.425			368,149	368,149
Water Reclamation and Reuse Program	15.504		10,000	59,775	69,775
Water Desalination Research and Development Program	15.506			19,311	19,311
Water 2025	15.507				
Pass-Through from El Paso Water Utilities		570296	33,343		33,343
Providing Water to At-Risk Natural Desert Terminal Lakes	15.508				
Pass-Through from University of Nevada - Reno		503762		4,239	4,239
Fish and Wildlife Coordination Act	15.517				
Pass-Through from Coastal Bend Bays and Estuaries		827		19,104	19,104
Conservation Law Enforcement Training Assistance	15.602			23,654	23,654
Fish and Wildlife Management Assistance	15.608			287,176	287,176
Pass-Through from Austin Community Foundation		OR 04-419		24,613	24,613
Pass-Through from Baylor University		TPWD T-23 BAYLOR 185248		29,562	29,562
Pass-Through from Pacific States Marine Fisheries		OR# 06-68		6,254	6,254
Cooperative Endangered Species Conservation Fund	15.615			81,255	81,255
Coastal Program	15.630			2,284	2,284
Conservation Grants Private Stewardship for Imperiled Species	15.632				
Pass-Through from The Nature Conservancy		TXF0-01-01-2008-01		4,011	4,011
State Wildlife Grants	15.634			10,700	10,700
Migratory Bird Joint Ventures	15.637			41,558	41,558
Pass-Through from Ducks Unlimited, Inc.		US-LA-96-1		940	940
Pass-Through from Ducks Unlimited, Inc.		US-LA-96-2		41,145	41,145
Wildlife Without Borders- Latin America and the Caribbean	15.640			59,028	59,028
Challenge Cost Share	15.642			9,493	9,493
Migratory Bird Conservation	15.647			5,393	5,393
Assistance to State Water Resources Research Institutes	15.805		21,416	368,424	389,840
Pass-Through from Texas Water Resources Institute		570464		62	62
Earthquake Hazards Reduction Program	15.807			137,610	137,610
U.S. Geological Survey--Research and Data Acquisition	15.808		3,888	1,151,964	1,155,852
Pass-Through from Intuvision, Inc.		INTUNBCHC060170		34,411	34,411
National Spatial Data Infrastructure Cooperative Agreements Program	15.809			56,461	56,461
Pass-Through from City of Lubbock		13524B780		2,000	2,000
National Cooperative Geologic Mapping Program	15.810			9,903	9,903
Cooperative Research Units Program	15.812			297,363	297,363
Historic Preservation Fund Grants-In-Aid	15.904			186,793	186,793
Pass-Through from Kacyra Family Foundation		MT22210-06-NC-06		3,550	3,550

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of the Interior (continued)					
National Natural Landmarks Program	15.910			60,072	60,072
National Historic Landmark	15.912			2,546	2,546
National Register of Historic Places	15.914			7,007	7,007
Technical Preservation Services	15.915			16,908	16,908
Outdoor Recreation--Acquisition, Development and Planning	15.916			107	107
Urban Park and Recreation Recovery Program	15.919		264	42,530	42,794
Pass-Through from Parent Project Sponsor		502598		10,869	10,869
Rivers, Trails and Conservation Assistance	15.921		35,108	239,017	274,125
Save America's Treasures	15.929			62,615	62,615
Total - U.S. Department of the Interior			104,019	6,049,215	6,153,234
U.S. Department of Justice					
U.S. Department of Justice	16.XXX	2004-DN-BX-K213		77,146	77,146
		2005-DA-BX-K095		(216)	(216)
		2005-DN-BX-K127		7,679	7,679
		2006-DN-BX-K129		421,890	421,890
		2007-DN-BX-K088		33,567	33,567
		2007-DN-BX-K200		826,335	826,335
		2007-IJ-CX-K234		472,496	472,496
		W911SR-07-C-0050		828,751	828,751
Service for Trafficking Victims	16.320				
Pass-Through from Refugee Services of Texas		UTA08-649		797	797
Pass-Through from Upper Midwest Community Policing Institute		B170		11,451	11,451
Grants to Combat Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525			42,804	42,804
Juvenile Justice and Delinquency Prevention--Allocation to States	16.540			225,549	225,549
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		417,107	2,487,371	2,904,478
Pass-Through from Police Executive Research Forum		8000000837		2,357	2,357
Pass-Through from University of Virginia		GG10676-126303		12,589	12,589
Criminal Justice Research and Development--Graduate Research Fellowships	16.562			18,618	18,618
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580			324,944	324,944
Crime Victim Assistance/Discretionary Grants	16.582				
Pass-Through from Catholic Charities USA		UTA08-383		6,993	6,993
Corrections--Research and Evaluation and Policy Formulation	16.602		951	39,748	40,699
Community Prosecution and Project Safe Neighborhoods	16.609		591,716	68,320	660,036
Pass-Through from Greater Dallas Crime Commission		2006-PG-BX-0094		66,258	66,258
Public Safety Partnership and Community Policing Grants	16.710			14,312	14,312
Special Data Collection and Statistical Studies	16.734				
Pass-Through from American Statistical Association		05-2008		27,733	27,733
Total - U.S. Department of Justice			1,009,774	6,017,492	7,027,266
U.S. Department of Labor					
U.S. Department of Labor	17.XXX	E4R6004040		1,347	1,347
		E4R7004040, MOD 1		122,200	122,200
		MS-17095-08-55-R-48		397,637	397,637
Pass-Through from University of Baltimore		UTA98-0350, EXT		10,080	10,080
WIA Pilots, Demonstrations, and Research Projects	17.261			(375)	(375)

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Labor (continued)					
Pass-Through from Community Learning Center		FY07-DOLAML-01 PRIME:DOL	47,739		47,739
Pass-Through from Manufacturing Skills Standards Council		FY07-DOLAML-01 PRIME:DOL	234,612		234,612
Pass-Through from North Central Texas Council of Government		FY07-DOLAML-01 PRIME:DOL		113,810	113,810
Total - U.S. Department of Labor			282,351	644,699	927,050
U.S. Department of State					
U.S. Department of State	19.XXX				
Pass-Through from Council for International Exchange of Scholars		UTA07-281		14,945	14,945
Pass-Through from Council of American Overseas Research Centers		ECA/CAORC/UT-AIMS-200406		(1,161)	(1,161)
Program for Study of Eastern Europe and the Independent States of the Former Soviet Union	19.300				
Pass-Through from SRI International		8000000701		146,045	146,045
International Education Training and Research	19.430			59,883	59,883
Total - U.S. Department of State			0	219,712	219,712
U.S. Department of Transportation					
U.S. Department of Transportation	20.XXX	05-G-003, 1ST YEAR		105,766	105,766
		DTFH61-07-H-00030		122,445	122,445
		DTFR53-99-H00006		47,545	47,545
		DTFR53-99-H-00006 MOD 4		799	799
		DTFR53-99-H-00006 MOD 2		5	5
		DTFR53-99-H-00006 MOD 3		2	2
		DTFR53-99-H-00006, MOD 5		665	665
		DTOS59-04-G-00010		15,049	15,049
		JPA07006T		22,739	22,739
		P1999013		(25,039)	(25,039)
Pass-Through from Applied Research Associates		18227-UT-00		11,662	11,662
Pass-Through from Center for Transportation and the Environment		UTA08-527		2,124	2,124
Pass-Through from National Academy of Science		HR 12-72 MOD NO. 4	279,757	193,160	472,917
Pass-Through from North Central Texas Council of Governments		S080033, 476660-00060		3,635	3,635
Pass-Through from North Central Texas Council of Governments		S080033, 476660-00060/ ACTIVITY MODEL RE		39,589	39,589
Pass-Through from North Central Texas Council of Governments		S080033, 476660-00060/LAND USE MODEL DEV		21,311	21,311
Pass-Through from PB Consult, Inc.		160558		49,698	49,698
Pass-Through from The Transtec Group, Inc.		TASK ORDER 07-001		34,809	34,809
Pass-Through from Center for Transportation and Environment		UTA07-188		33,221	33,221
Pass-Through from Transtec Group, Inc.		UTA05-286		269,219	269,219
Pass-Through from University of California		SA5405-15811		9	9

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Transportation (continued)					
Aviation Education	20.100				
Pass-Through from Michigan State University		995B676		45,469	45,469
Aviation Research Grants	20.108		102,506	538,580	641,086
Pass-Through from Auburn University		08-APTP-2		26,393	26,393
Pass-Through from Southwest Research Institute		SWRI599775L		12,686	12,686
Highway Planning and Construction	20.205			157,044	157,044
		T-051-TRB-2007-001		10,000	10,000
		T-051-TRB-2007-002		10,000	10,000
		TRB-P280254		6,431	6,431
Pass-Through from Engineering and Software Consultants		1008		39,010	39,010
Pass-Through from Florida Department of Transportation		503129		42,207	42,207
Pass-Through from Oklahoma Historical Society		OHS 455589-455590		82,158	82,158
Highway Training and Education	20.215			109,340	109,340
		C2006351		2,500	2,500
Pass-Through from North Central Texas Council of Government		OR 06-076		15,731	15,731
National Motor Carrier Safety	20.218			1,578	1,578
Border Enforcement Grants	20.233			199,346	199,346
Public Transportation Research	20.514			773,854	773,854
State and Community Highway Safety	20.600			1,198,819	1,198,819
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601			316,219	316,219
Safety Belt Performance Grants	20.609			526,915	526,915
Pipeline Safety	20.700		30,000	94,381	124,381
University Transportation Centers Program	20.701				
Pass-Through from University of Cincinnati		DTRS99-G0005		30,843	30,843
Biobased Transportation Research	20.761			3,486	3,486
Pass-Through from Oklahoma State University		503627		44,852	44,852
Pass-Through from Oklahoma State University		503699		18,906	18,906
Pass-Through from Oklahoma State University		503704		30,322	30,322
Pass-Through from Oklahoma State University		503707		20,558	20,558
Pass-Through from Oklahoma State University		570430	11,552		11,552
Pass-Through from Oklahoma State University		570432	6,077		6,077
Pass-Through from Oklahoma State University		570433	4,906		4,906
Pass-Through from Oklahoma State University		570434	6,920		6,920
Pass-Through from Oklahoma State University		AB-5-61170		13,554	13,554
Transportation, Planning, Research and Education	20.931			304,472	304,472
Total - U.S. Department of Transportation			441,718	5,624,067	6,065,785
U.S. Department of Treasury					
U.S. Department of Treasury	21.XXX	UTA07-302		(4,903)	(4,903)
Community Development Financial Institutions Program	21.020				
Pass-Through from ABT Associates, Inc.		503692		83,782	83,782
Total - U.S. Department of Treasury			0	78,879	78,879
Office of Personnel Management					
Intergovernmental Mobility of Federal, State, and Local Employees	27.011			409,834	409,834
Total - Office of Personnel Management			0	409,834	409,834

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
General Services Administration					
Donation of Federal Surplus Personal Property	39.003			36,953	36,953
Total - General Services Administration			0	36,953	36,953
Library of Congress					
Library of Congress	42.XXX	39636		33,190	33,190
		39637		10,622	10,622
		CRS #07-06		16,969	16,969
		CRS BCM-01		6,500	6,500
		CRS NO 07-10		7,459	7,459
		CRS NO 07-12		4,368	4,368
Total - Library of Congress			0	79,108	79,108
National Aeronautics and Space Administration					
National Aeronautics and Space Administration	43.XXX	4200259593		3,461	3,461
		ATP03-0001-0027		102,013	102,013
		C08-00389		136,317	136,317
		NAG 2-1505 03		17,131	17,131
		NAG2-1586		4,674	4,674
		NAG5-12693, AMD 1		1,569	1,569
		NAG5-13057, SUPP 7		6,328	6,328
		NAG5-13070		69,353	69,353
		NAG5-13070, SUPP. 9		28,168	28,168
		NAG5-13147		39,643	39,643
		NAG5-13147, SUPP 7		1,062	1,062
		NAS5-97213, Amd 16		478	478
		NCC 9-165		1,101,462	1,101,462
		NCC5-13396		434,391	434,391
		NCC-9-165		59,454	59,454
		NNC04AA04A, Increment		11,468	11,468
		NNG04G060G		84,573	84,573
		NNG04G124G		51,810	51,810
		NNG04G124G, SUPP 5		10,052	10,052
		NNG04G162G, SUPP 4		53,065	53,065
		NNG04G177G, SUPP 4		19,778	19,778
		NNG04GF10G, SUPP 3		20,411	20,411
		NNG04GF11G, SUPP 3		1,388	1,388
		NNG04GG24G		115,563	115,563
		NNG04GG24G, Supp 1		116	116
		NNG04GL00G		5,496	5,496
		NNG04GP70G		393	393
		NNG04GQ65G		3,498	3,498
		NNG05GE96H--PRIME; TSGC-0602 LOA		4,649	4,649
		NNG05GE96H--PRIME; TSGC-0603 LOA		3,037	3,037
		NNG06DA07C, PR# 4200140202, MOD 6		568,846	568,846

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
National Aeronautics and Space Administration (continued)					
		NNG06GC45G, SUPP 00004		109,284	109,284
		NNG94GD52G		30,235	30,235
		NNH04CC16C		47,610	47,610
		NNJ04HB05G 04		192,057	192,057
		NNJ06HA40G		18,795	18,795
		NNJ06HA50G, SUPP 5		63,495	63,495
		NNJ07HH36P		18,944	18,944
		NNX06AH47G		293,232	293,232
		NNX07AB97G		461,252	461,252
		NNX07AC96A	93,260	162,597	255,857
		NNX07AD24G		196,427	196,427
		NNX07AF74G		2,328	2,328
		NNX07AI83G		11,045	11,045
		NNX07AI83G, 000001		4,368	4,368
		NNX07AJ72G, SUP 000001 INC		920	920
		NNX07AL70G		121,467	121,467
		NNX07AL79G		279,706	279,706
		NNX07AP92G		47,688	47,688
		NNX07AR46G		92,529	92,529
		NNX07AV59G		24,991	24,991
		NNX08AB27A		64,882	64,882
		NNX08AB41A, INC		87,321	87,321
		NNX08AC48G		110,358	110,358
		NNX08AD03A		56,876	56,876
		NNX08AE72G		41,543	41,543
		NNX08AE99G		34,882	34,882
		NNX08AF62G		31,799	31,799
		NNX08AG32G		20,848	20,848
		NNX08AJ84G		26,090	26,090
		NNX08AK11G		48,671	48,671
		NNX08AL43G		72,190	72,190
		NNX08AP77G		13,501	13,501
		NNX08AQ49G		25,499	25,499
		NNX08AT06G		338	338
		NNX08AT41H		693	693
		TRMM - NNX07AD25G		53,392	53,392
Pass-Through from Adnet Systems, Inc.		UTA07-140		48,672	48,672
Pass-Through from Advanced Fuel Research, Inc.		019714		14,407	14,407
Pass-Through from Balconies Technologies, LLC		UTA08-205		17,406	17,406
Pass-Through from Baylor College of Medicine		NAG9-1569 02		(52,658)	(52,658)
Pass-Through from California Institute of Technology Jet Propulsion Lab		1278677		20,744	20,744
Pass-Through from California Institute of Technology Jet Propulsion Lab		1202932, MOD # 1-20		13,799	13,799
Pass-Through from California Institute of Technology Jet Propulsion Lab		1202932, MOD #21		82,365	82,365
Pass-Through from California Institute of Technology Jet Propulsion Lab		1258314, MOD 3 INC		120,742	120,742
Pass-Through from California Institute of Technology Jet Propulsion Lab		1270402, MOD 5		22,242	22,242
Pass-Through from California Institute of Technology Jet Propulsion Lab		1283339		17,203	17,203

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
National Aeronautics and Space Administration (continued)					
Pass-Through from California Institute of Technology Jet Propulsion Lab		1288617		10,302	10,302
Pass-Through from California Institute of Technology Jet Propulsion Lab		1293232, MOD NO 01		23,194	23,194
Pass-Through from California Institute of Technology Jet Propulsion Lab		1294294		91,174	91,174
Pass-Through from California Institute of Technology Jet Propulsion Lab		1295103		22,944	22,944
Pass-Through from California Institute of Technology Jet Propulsion Lab		1308608		19,638	19,638
Pass-Through from California Institute of Technology Jet Propulsion Lab		1310392		74,862	74,862
Pass-Through from California Institute of Technology Jet Propulsion Lab		1322795		1,354	1,354
Pass-Through from California Institute of Technology Jet Propulsion Lab		1333831		3,569	3,569
Pass-Through from California Institute of Technology Jet Propulsion Lab		1335605		32,915	32,915
Pass-Through from California Institute of Technology Jet Propulsion Lab		RSA 1276003		53,233	53,233
Pass-Through from Colorado State University		NAG9-1569 05		(11,569)	(11,569)
Pass-Through from Genexpress Informatics, Inc.		GENEXPRESS		35,560	35,560
Pass-Through from Georgia Institute of Technology		G-35-C14-G4, AMD 4		23,232	23,232
Pass-Through from Harvard University		131167-01		(4)	(4)
Pass-Through from Jacobs Engineering Group, Inc.		34-020002-69 AUTHO TO PROCEED		42,250	42,250
Pass-Through from Johns Hopkins University		8605-06865		5,770	5,770
Pass-Through from Lynntech, Inc.		007NAS35C-001		40,075	40,075
Pass-Through from Smithsonian Astrophysical Observatory		TM8-9009X		46,187	46,187
Pass-Through from Southwest Research Institute		599969Q, MOD 1		8,133	8,133
Pass-Through from Space Telescope Science Institute		HST-AR-10981.01-A		26,166	26,166
Pass-Through from Space Telescope Science Institute		HST-ED-90312.01-A		22,249	22,249
Pass-Through from Space Telescope Science Institute		HST-EO-10861.35-A		31,425	31,425
Pass-Through from Space Telescope Science Institute		HST-EO-11210.08-A		16,333	16,333
Pass-Through from Space Telescope Science Institute		HST-G0-10803.01-A		43,728	43,728
Pass-Through from Space Telescope Science Institute		HST-G0-10861.20-A,INC.		8,856	8,856
Pass-Through from Space Telescope Science Institute		HST-GO-06099.07-A		(410)	(410)
Pass-Through from Space Telescope Science Institute		HST-GO-10236.01-A		(40)	(40)
Pass-Through from Space Telescope Science Institute		HST-GO-10432.01-A		36,029	36,029
Pass-Through from Space Telescope Science Institute		HST-GO-10535.01-A		18,355	18,355
Pass-Through from Space Telescope Science Institute		HST-GO-10634.01-A		17,751	17,751
Pass-Through from Space Telescope Science Institute		HST-GO-10775.10-A		28,295	28,295
Pass-Through from Space Telescope Science Institute		HST-GO-10929.02-A, AMD 3		18,341	18,341
Pass-Through from Space Telescope Science Institute		HST-GO-11128.01-A		31,919	31,919
Pass-Through from Space Telescope Science Institute		HST-GO-11190.01-A		11,308	11,308
Pass-Through from Space Telescope Science Institute		HST-GO-11210.01-A, INC 1		103,410	103,410
Pass-Through from Space Telescope Science Institute		HST-GO-11211.01-A, INC 1		89,127	89,127
Pass-Through from Space Telescope Science Institute		HST-GO-11309.02-A		19,652	19,652

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
National Aeronautics and Space Administration (continued)					
Pass-Through from Space Telescope Science Institute		HST-HF-01190.01-A, AMD 2 INC		91,334	91,334
Pass-Through from SRI International		HDTRA1-07-C-0083		204,923	204,923
Pass-Through from Stanford University		20570500-37433-A		21,258	21,258
Pass-Through from United Negro College Fund Special Programs		NASA/UNCF		3,874	3,874
Pass-Through from United Negro College Fund Special Programs		8012007		90,551	90,551
Pass-Through from United Space Alliance		POR 6000146748		79,391	79,391
Pass-Through from Universities Space Research Association		08521-06		37,259	37,259
Pass-Through from Universities Space Research Association		2502.001		4,732	4,732
Pass-Through from University of Arizona		Y432854		8,996	8,996
Pass-Through from University of California - Irvine		2005-1655, AMD 3		58,563	58,563
Pass-Through from University of Maryland		Z634012		141,911	141,911
Pass-Through from University of Maryland		Z689208		(127)	(127)
Pass-Through from University of South Carolina		51769 06-1190		2,472	2,472
Pass-Through from Wyle Laboratories		CON15825		2,000	2,000
Pass-Through from Zyvex Corporation		122105		4,668	4,668
Aerospace Education Services Program	43.001		596,364	9,833,768	10,430,132
Pass-Through from Analytical Mechanics Associates, Inc.		08-0936		36,575	36,575
Pass-Through from Baylor College of Medicine		NCC 9-58-73		132	132
Pass-Through from California Institute of Technology Jet Propulsion Lab		1224608 / NAS7-1224723	(235)		(235)
Pass-Through from Columbia University		NNX08AF13G-001 / 569262		40,888	40,888
Pass-Through from Defense Contract Management Agency		NCC 9-150		74,177	74,177
Pass-Through from Electron Energy Corporation		11307		13,777	13,777
Pass-Through from Georgia State University		BLF57-02,AMD NO 9		45,397	45,397
Pass-Through from Jacobs Sverdrup		503669		48,724	48,724
Pass-Through from National Space Biomedical Research Institute		NCCR-48-94		34,344	34,344
Pass-Through from National Space Biomedical Research Institute		NCC-9-58/NPFR00403		17,310	17,310
Pass-Through from National Space Biomedical Research Institute		NCC95849		6,662	6,662
Pass-Through from Optimal Synthesis, Inc.		NNAOUBC55C		81,540	81,540
Pass-Through from Smithsonian Astrophysical Observatory		G04-5071A		21,831	21,831
Pass-Through from Smithsonian Astrophysical Observatory		SV8-78015		32,197	32,197
Pass-Through from Southwest Research Institute		3965-XX		154,928	154,928
Pass-Through from Space Telescope Science Institute		HSTED930304.01-A		3,367	3,367
Pass-Through from Space Telescope Science Institute		HST-GO-10552.03-A		8,856	8,856
Pass-Through from Space Telescope Science Institute		HST-GO-10610.01-A		126,494	126,494
Pass-Through from Space Telescope Science Institute		HST-GO-10611.01-A		2,656	2,656
Pass-Through from Teledyne Instruments, Inc.		00063111		15,884	15,884
Pass-Through from Texas Space Grants Consortium		606220		393	393
Pass-Through from Texas Space Grants Consortium		43001		1,108	1,108
Pass-Through from United Negro College Fund Special Programs		NAFP		25,162	25,162
Pass-Through from United Space Alliance		6000152395		10,686	10,686
Pass-Through from Universities Space Research Association		NNJ06HG25A		130,574	130,574
Pass-Through from Universities Space Research Association		09940-020		14,986	14,986
Pass-Through from University of California		0150 G FB259		914	914
Pass-Through from University Space Research Association		8500-98-008 / NAS2-97001, MOD 15		46,070	46,070
Pass-Through from Villanova University		EPO-05-566		806	806
Pass-Through from Wyle Laboratories		T71169		34,762	34,762
Pass-Through from Wyle Laboratories		T701950001		95,526	95,526

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
National Aeronautics and Space Administration (continued)					
Pass-Through from Wyle Laboratories		T701950005		74,876	74,876
Pass-Through from Wyle Laboratories		T701950006		111,585	111,585
Pass-Through from Wyle Laboratories		T701950007		157,183	157,183
Pass-Through from Wyle Laboratories		T701950008		102,077	102,077
Pass-Through from Wyle Laboratories		T701950009		34,733	34,733
Pass-Through from Wyle Laboratories		T701950010		68,016	68,016
Pass-Through from Wyle Laboratories		T701950011		146,153	146,153
Pass-Through from Wyle Laboratories		T701950012		150,327	150,327
Pass-Through from Wyle Laboratories		T701950013		44,229	44,229
Pass-Through from Wyle Laboratories		T701950014		79,099	79,099
Technology Transfer	43.002		515,452	6,497,240	7,012,692
Pass-Through from California Institute of Technology Jet Propulsion Lab		1288658		25,733	25,733
Pass-Through from California Institute of Technology Jet Propulsion Lab		1288661		7,756	7,756
Pass-Through from California Institute of Technology Jet Propulsion Lab		1288664		43,519	43,519
Pass-Through from California Institute of Technology Jet Propulsion Lab		1298350		15,556	15,556
Pass-Through from California Institute of Technology Jet Propulsion Lab		JPL-125921		4,351	4,351
Pass-Through from Colorado State University		NAG9-1569G19413		164,472	164,472
Pass-Through from Engineering and Science Contract Group		UTEP003-05		167,255	167,255
Pass-Through from Houston Advanced Research Center		20-52022-UH0507	36,149	214,524	250,673
Pass-Through from Houston Advanced Research Center		20-52022-UT0507		145,386	145,386
Pass-Through from Jacobs Esc Group		N732111FMS		7,046	7,046
Pass-Through from Lockheed Martin		46030814		1,141,991	1,141,991
Pass-Through from National Space Biomedical Research Institute		RE01302		134,760	134,760
Pass-Through from NSBRI/NASA		NCC95849	419,265	242,612	661,877
Pass-Through from Southwest Research Institute		792007BT		44,883	44,883
Pass-Through from The Boeing Company		8H09981		237,477	237,477
Pass-Through from University of Colorado		154-1571		11,185	11,185
Pass-Through from University of Colorado		SPO#000046490/UCB REF NO.154-0919 MOD 3		69,254	69,254
Pass-Through from University of Colorado		UCB 154-3897		43,346	43,346
Total - National Aeronautics and Space Administration			1,660,255	29,076,658	30,736,913
National Foundation on the Arts and the Humanities					
Promotion of the Humanities--Federal/State Partnership	45.129				
Pass-Through from Humanities Texas		CON17008		7,998	7,998
Promotion of the Humanities--Division of Preservation and Access	45.149			280,673	280,673
Pass-Through from George Mason University		E201233-1		119,031	119,031
Promotion of the Humanities--Fellowships and Stipends	45.160			68,334	68,334
Promotion of the Humanities--Teaching and Learning Resources and Curriculum Development	45.162			(34)	(34)
Promotion Of The Humanities_Digital Humanities Initiative	45.169			25,879	25,879
National Leadership Grants	45.312			217,090	217,090
Pass-Through from California Digital Library		G72142		98,353	98,353
Pass-Through from Institute of Museum and Library Services		LG-06-05-0003-05		32,534	32,534
Pass-Through from Institute of Museum and Library Services		LG-30-04-0266-04	47,191		47,191
Laura Bush 21st Century Librarian Program	45.313			67,959	67,959

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
National Foundation on the Arts and the Humanities (continued)					
Pass-Through from Institute of Museum and Library Services		RE-02-04-0002-04		93,469	93,469
Pass-Through from Institute of Museum and Library Services		RE-02-05-0048-05		94,090	94,090
Pass-Through from Institute of Museum and Library Services		RE-04-08-0034-08		743	743
Pass-Through from Institute of Museum and Library Services		RE-05-04-0009-04		32,331	32,331
Total - National Foundation on the Arts and the Humanities			47,191	1,138,450	1,185,641
National Science Foundation					
National Science Foundation	47.XXX	08-01		51,250	51,250
		734800		717,647	717,647
		7-MOR-1381		4,167	4,167
		AST-0307495		675	675
		AST-0401547		(3)	(3)
		AST-0617995		149,062	149,062
		BCS-0226449		49,564	49,564
		BCS-0749926		104,601	104,601
		BES-0529340		69,882	69,882
		BES-0548577		36,939	36,939
		CCF-0448181		73,446	73,446
		CCF-0514194		105,194	105,194
		CNS-0509024		50,704	50,704
		CNS-0509354, AMD 003		55,126	55,126
		CNS-0519401		75,509	75,509
		CNS-0520250, AMD 002		38,868	38,868
		CNS-0540033		240,840	240,840
		CNS-0540063 02		59,005	59,005
		CNS-0540372		71,741	71,741
		CTS-0515425		98,313	98,313
		DEB-0120709	20,785		20,785
		DEB-0344116		11,686	11,686
		DEB-0508698		5,120	5,120
		DEB-0528416		349	349
		DMI-0522176		87,893	87,893
		DMI-0555851		99,677	99,677
		DMR-0404252, AMD 003		176,577	176,577
		DMR-0551195	446,748	202,849	649,597
		DMS-0417431, AMD 1		100,831	100,831
		DMS-0456118		77,187	77,187
		DMS-0500747		40,824	40,824
		DMS-0503753		11,209	11,209
		DMS-0505920		13,884	13,884
		DMS-0513394		16,604	16,604
		EAR-0345864		46,234	46,234
		EAR-0510365		5,917	5,917
		ECS-0210698		(948)	(948)
		ECS-0424169		83,982	83,982
		EIA-0303609, AMD 001		228,634	228,634
		EIA-0331453, AMD 004		35,268	135,268
		HRD-0523046		17,791	17,791
		IIS-0325116		89,978	89,978
		IIS-0531767		297,642	297,642
		IOB-0517328		81,186	81,186
		ITR-0218988		450	450
		MCB-0237651, 004		2,091	2,091

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
National Science Foundation (continued)					
		NSF-0242114		1,707	1,707
		OCE-0221101		45	45
		OCE-0526412		83,529	83,529
		OCE-0542479		117,792	117,792
		SES-0519168		244	244
Pass-Through from Association of University for Research In Astronomy		C10483A		(11,687)	(11,687)
Pass-Through from California Institute of Technology Jet Propulsion Lab		1265416, MOD 3		1,885	1,885
Pass-Through from Chiral Photonics		UTA07-547		29,919	29,919
Pass-Through from Field Museum of Natural History		50100-1 AMD. 1		12,199	12,199
Pass-Through from Joint Oceanographic Institute Inc		JSA 7-03		9,298	9,298
Pass-Through from Joint Oceanographic Institute Inc		T310A59		3	3
Pass-Through from Joint Oceanographic Institute Inc		T312A59		17,879	17,879
Pass-Through from Joint Oceanographic Institute Inc		T314A59		28,865	28,865
Pass-Through from Joint Oceanographic Institute Inc		T314B59		18,368	18,368
Pass-Through from Joint Oceanographic Institute Inc		T316A59		31,354	31,354
Pass-Through from Omega Optics		UTA08-012		330	330
Pass-Through from Pinon Technologies		UTA08-102		15,905	15,905
Pass-Through from Tennessee Technical University		UTA05-041		2,735	2,735
Pass-Through from Ues Corporation		S-815-000-002		4,791	4,791
Pass-Through from University of North Carolina at Chapel		5-54660		22,701	22,701
Pass-Through from University of North Carolina at Chapel		UNC-CH #5-37497		165,439	165,439
Pass-Through from University of North Carolina at Chapel		UNC-CH #5-37497, AMD 9		281,069	281,069
Pass-Through from University of North Carolina at Chapel		UNC-CH 5 37497 (K. Sokolov)		4,123	4,123
Pass-Through from University of North Carolina at Chapel		UNC-CH 5-37497		24,234	24,234
Pass-Through from University of Tennessee		OR6280-001.04		17,433	17,433
Pass-Through from Xidex Corporation		UTA07-568		13,788	13,788
Engineering Grants	47.041		579,676	16,879,200	17,458,876
Pass-Through from Advanced Materials and Processes		8000000784		29,981	29,981
Pass-Through from Agile Mind, Inc.		AM06-050		2,361	2,361
Pass-Through from Arizona State University		07-806		32,418	32,418
Pass-Through from Auburn University		502905		3,155	3,155
Pass-Through from Carnegie Mellon University		1120855-18		36,938	36,938
Pass-Through from Carnegie Mellon University		1120855-186141		98,828	98,828
Pass-Through from Colorado State University		G-3371-1		185,050	185,050
Pass-Through from Cornell University		44771-7476, AMD 4		1,196,708	1,196,708
Pass-Through from Cornell University		52120-8459		14,070	14,070
Pass-Through from Georgia Institute of Technology		E-20-L05-G2		130,187	130,187
Pass-Through from Jackson State University		EEC-0634279		5,189	5,189
Pass-Through from Lynntech, Inc.		IIP0712398		9,384	9,384
Pass-Through from Massachusetts Institute of Tech		5710002218		46,507	46,507
Pass-Through from Michigan Tech University		Agr No. 030216Z		654	654
Pass-Through from Missouri University of Science and Technology		R0001733-02		625	625
Pass-Through from Nanogreen Solutions Corporation		810026		10,188	10,188
Pass-Through from Nanomems Research, LLC		07-0685		9,378	9,378
Pass-Through from NEES Consortium, Inc.		OMSA-2006 AMD 10 UTA05-055		206,180	206,180
Pass-Through from NEES Consortium, Inc.		OMSA-2007-SSL-UTA AMD 11		703,403	703,403
Pass-Through from North Carolina State University		2006-0651-01		28,643	28,643

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
National Science Foundation (continued)					
Pass-Through from Performance Polymer Solutions, Inc.		Sub Agr under Prime DMI-0419218		49,978	49,978
Pass-Through from Princeton University		00001217		202,653	202,653
Pass-Through from Purdue University		4101-19562		7,878	7,878
Pass-Through from Purdue University		4101-19919		34,028	34,028
Pass-Through from Purdue University		4101-21432		14,869	14,869
Pass-Through from Rice University		R3B121		13,335	13,335
Pass-Through from Rutgers State University of New Jersey		8000000790		49,512	49,512
Pass-Through from Sentorix, Inc.		G093472		25,834	25,834
Pass-Through from University of California - Berkeley		SA4514-10252PG		112,952	112,952
Pass-Through from University of California - Riverside		S00000165		1,510	1,510
Pass-Through from University of Illinois		98-269		57,277	57,277
Pass-Through from University of Illinois at Urbana-Champaign		A7886; 2003-01053-08		12,194	12,194
Pass-Through from University of Maryland		Z460801, MOD C (CTS-0506988)		91,034	91,034
Pass-Through from University of Massachusetts - Amherst		07-004000 A 00		62,914	62,914
Pass-Through from University of Missouri - Columbia		C00011524-1		50,477	50,477
Pass-Through from University of South Carolina		06-1239 15540 FA59		22,920	22,920
Pass-Through from University of South Carolina		51769		25,035	25,035
Pass-Through from Vanderbilt University		14656-S1/EEC-9876363 AMD 14		69,101	69,101
Pass-Through from Virginia Tech University		CR-19433-477685		141,355	141,355
Mathematical and Physical Sciences	47.049		277,907	17,317,020	17,594,927
Pass-Through from BYU/MAA/UR		07-0232		70,855	70,855
Pass-Through from California Institute of Technology		68-1074604		81,657	81,657
Pass-Through from Case Western Reserve University		UTA06-623, MOD #002		731,084	731,084
Pass-Through from Columbia University		PHY-0301292		617,931	617,931
Pass-Through from Gemini Observatory		0525280-GEM00474		20,248	20,248
Pass-Through from Georgia Institute of Technology		G-37-A65-G1, AMD 1		21,337	21,337
Pass-Through from Harvard University		133485-01		45,027	45,027
Pass-Through from Ohio State University Research		G72173		35,331	35,331
Pass-Through from Oklahoma University		PHY-0301292	85,183		85,183
Pass-Through from Rice University		R3A831		12,959	12,959
Pass-Through from Southwest Research Institute		8000000116		9,281	9,281
Pass-Through from University of California - Davis		002865-UTSA		83,113	83,113
Pass-Through from University of California		KK5110		4,587	4,587
Pass-Through from University of California		S0177062		47,898	47,898
Pass-Through from University of Illinois at Urbana-Champaign		G72210		(345)	(345)
Pass-Through from University of Illinois at Urbana-Champaign		G72217		41,386	41,386
Pass-Through from University of Maryland		Z484801		19,970	19,970
Pass-Through from University of Michigan		F005739, AMD 6		179,282	179,282
Pass-Through from University of Michigan		F005739, AMD 7		50,672	50,672
Pass-Through from University of Notre Dame		CK#01198489		3,405	3,405
Pass-Through from University of Notre Dame		PHY-0715396		1,994	1,994
Pass-Through from University of Tennessee		4649-001.01		34,545	34,545
Pass-Through from University of Washington		G72158		59,943	59,943
Astronomical, Atmospheric, Earth and Ocean Sciences	47.050		596,950	7,322,381	7,919,331
Pass-Through from Boston University		ATM-0120950		196,649	196,649
Pass-Through from Carnegie Mellon University		1120475-179095, AMD 1		293,337	293,337
Pass-Through from Cornell University		53031-8362		20,361	20,361
Pass-Through from Incorporated Research Institute for Seismology		04-PAS		197,664	197,664
Pass-Through from Incorporated Research Institute for Seismology		480-14		37,719	37,719

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
National Science Foundation (continued)					
Pass-Through from Incorporated Research Institute for Seismology		SUB 480-13		39,525	39,525
Pass-Through from Joint Oceanographic Institutions		JSAF603		13,591	13,591
Pass-Through from Joint Oceanographic Institutions		JSAF703		18,107	18,107
Pass-Through from Joint Oceanographic Institutions		JSFA7-05		25,693	25,693
Pass-Through from Joint Oceanographic Institutions		T309A42		5,474	5,474
Pass-Through from Northwestern University		0830 310 A649 1305		12,333	12,333
Pass-Through from Southeastern Universities Research Association		OCE-0607431 SUBAWARD 2006-102		32,082	32,082
Pass-Through from Southwest Research Institute		792020BT		69,780	69,780
Pass-Through from Stanford University		12982340-30242-C		32,191	32,191
Pass-Through from Unavco, Inc.		EAR-0350028-18		41,883	41,883
Pass-Through from University of Arizona		Y482945		2,646	2,646
Pass-Through from University of California - San Diego		10281519		32,572	32,572
Pass-Through from University of Georgia		RR100-300-7512087		1,193	1,193
Pass-Through from University of Georgia		RR100-500/3504298		40,816	40,816
Pass-Through from University of Minnesota		T5366216013		1,523	1,523
Pass-Through from University of Minnesota		T5366216013, AMD 3		131,738	131,738
Pass-Through from University of Oklahoma		2007-34		636	636
Pass-Through from University of Southern California		127048		3,573	3,573
Pass-Through from Utah State University		7047301		10,264	10,264
Pass-Through from Woods Hole Oceanographic Institute		A100466		31,219	31,219
Pass-Through from Woods Hole Oceanographic Institute		A100467,MOD.1		17,046	17,046
Computer and Information Science and Engineering	47.070		221,538	19,074,447	19,295,985
Pass-Through from Boston University		IIS-0705749		38,416	38,416
Pass-Through from Brigham Young University		06-0154		159,312	159,312
Pass-Through from Georgia Institute of Technology		C-49-648-G1		(97)	(97)
Pass-Through from New Mexico State University		HRD-0420407		(464)	(464)
Pass-Through from Purdue University		501-0563-3, AMD 6		41,652	41,652
Pass-Through from Rice University		R38718-73900004		143,096	143,096
Pass-Through from Rice University		R3A595		16,513	16,513
Pass-Through from Rice University		R3A595 AMD NO. R3A59G		3,000	3,000
Pass-Through from Rice University		R3A595 AMD NO. R3A59G MOD3		6,400	6,400
Pass-Through from San Diego State University Research Foundation		53651A P3448 7801 211 SJT		(43)	(43)
Pass-Through from University of Arizona		Y482906		39,422	39,422
Pass-Through from University of California - San Diego		10232493		2,533	2,533
Pass-Through from University of Chicago		30085-L		674,585	674,585
Pass-Through from University of Florida		UF00116		(1,570)	(1,570)
Pass-Through from University of Kentucky Research Foundation		UKRF 4-68409-05-204, AMD 4		72,614	72,614
Pass-Through from University of Missouri - Columbia		8000000823		30,904	30,904
Biological Sciences	47.074		1,089,673	8,581,165	9,670,838
Pass-Through from Biotex, Inc.		1 R41 ES016478-01		138,696	138,696
Pass-Through from Ch2m Hill Polar Services		412293-ARC		192,252	192,252
Pass-Through from Institute of Ecosystem Studies		2911/200589		6,537	6,537
Pass-Through from Lowell Observatory		2008-71542		40,333	40,333
Pass-Through from Lumina Foundation for Education		IBN-0418653		67,365	67,365
Pass-Through from Miami University Ohio		DEB-0210972 03		(6,154)	(6,154)
Pass-Through from Mississippi State University		503009		45,128	45,128
Pass-Through from Portland State University		207RUE038		13,616	13,616
Pass-Through from Purdue University		503651		80,386	80,386
Pass-Through from Rice University		503403		(266)	(266)

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
National Science Foundation (continued)					
Pass-Through from University of California - Davis		07-001597-UTA		119,651	119,651
Pass-Through from University of Iowa		40000524452		47,366	47,366
Pass-Through from University of Missouri - St. Louis		G72202		46,040	46,040
Pass-Through from Washington State University		G001591/OGRD#101070-001		1,934	1,934
Pass-Through from Washington University		2904341A		88,690	88,690
Social, Behavioral, and Economic Sciences	47.075		18,205	3,249,111	3,267,316
Pass-Through from Civilian Research and Dev Foundation		GEP2-3340-TB-06		25	25
Pass-Through from Columbia University		SES-07-29253, NO 1		27,853	27,853
Pass-Through from SRI International		66-000032		(20)	(20)
Pass-Through from University of Washington		346723		79,477	79,477
Pass-Through from US Civilian Research and Development Foundation		MOC2-3064-CS-03		225	225
Pass-Through from US Civilian Research and Development Foundation		RUE1-2690-TO-05		3,874	3,874
Pass-Through from US Civilian Research and Development Foundation		RUP2-2683-NO-05		7,465	7,465
Pass-Through from Virginia Tech		CR-19733-477692		35,817	35,817
Education and Human Resources	47.076		98,694	18,789,217	18,887,911
Pass-Through from Association of American Geographers		8000000785		11,299	11,299
Pass-Through from Botanical Society of America		01-TX-0733280		46,274	46,274
Pass-Through from Botanical Society of America		01-TX-0737669		94,752	94,752
Pass-Through from City College-Research Foundation of CUNY		40652-00 01 A		16,772	16,772
Pass-Through from Howard University		634143-H00		94,402	94,402
Pass-Through from New Mexico State University		Q00939		23,799	23,799
Pass-Through from Northwestern University		0830 520 T		87,160	87,160
Pass-Through from SRI International		11-000114		158,416	158,416
Pass-Through from SRI International		11-000115; NON-COMP CONT.; MOD	22,079	130,157	152,236
Pass-Through from SRI International		66-000144		60,328	60,328
Pass-Through from University of Virginia		GA10647-128468		22,386	22,386
Polar Programs	47.078		72,985	1,022,606	1,095,591
Pass-Through from Georgia Institute of Technology		E-20-K32-G3		11,955	11,955
Pass-Through from Marine Biological Lab		28457 INCREMENT; AMD 2		31,539	31,539
Pass-Through from Michigan State University		61-248OUT		87,959	87,959
Pass-Through from San Diego University Fnd		53702AP152		92,120	92,120
International Science and Engineering (OISE)	47.079			233,048	233,048
Pass-Through from Rensselaer Polytechnic Institute		B10537		10,464	10,464
Pass-Through from Us Civilian Research and Development Foundation		AZB1-3121-BA-08		3,500	3,500
Pass-Through from Us Civilian Research and Development Foundation		RUP2-2843-NN-06		1,242	1,242
Office Of Cyberinfrastructure	47.080		2,860,562	32,073,730	34,934,292
Pass-Through from Indiana University		#344546 48-124-31, 84830 (OCI-0721656)		74,599	74,599
Pass-Through from University of Chicago		37130-A		238,470	238,470
Total - National Science Foundation			6,390,985	140,157,952	146,548,937

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
Securities and Exchange Commission					
Securities and Exchange Commission	58.XXX	M05-0947		188,836	188,836
Securities--Investigation of Complaints and SEC Information	58.001			387,069	387,069
Total - Securities and Exchange Commission			0	575,905	575,905
U.S. Department of Veterans Affairs					
U.S. Department of Veterans Affairs	64.XXX	ABBOUD/IPAA/BOS TANJI		(764)	(764)
		ABBOUD/IPAA/GON ZALEZ		47,259	47,259
		AHUJA/IPAA/CAMARGO		37,584	37,584
		AHUJA/IPAA/GORNALUSS		6,560	6,560
		AHUJA/IPAA/MARTINEZ		39,278	39,278
		AHUJA/IPAA/SHAH		(877)	(877)
		AHUJA/IPAA/VALERA		6,626	6,626
		AHUJA/VA/IPAA/MAMTAN		36,386	36,386
		BARNES/IPAA/BONDI		36,511	36,511
		BASLER/IPAA/HENSLEY		14,296	14,296
		BASLER\IPAA\VON MERVE		20,268	20,268
		BOLDT/IPAA/ALCANTARA		61,114	61,114
		BOLDT/IPAA/KARANTI		(418)	(418)
		CASADA/IPAA/BENSON		7,616	7,616
		CASADA/IPAA/HARGITA		3,316	3,316
		CASADA/IPAA/JAVORS		2,989	2,989
		CASADA/IPAA/MURFF		15,725	15,725
		CASADA/IPAA/NER		(332)	(332)
		CASADA/IPAA/POLANCO		14,518	14,518
		CAVAZOS/IPAA/CROSS		6,588	6,588
		CHANDRESAKAR/IPAA/LI		25,766	25,766
		CHATERJEE/IPAA/CRUZ		(560)	(560)
		CHATTERJEE/IPAA/AHN		26,490	26,490
		CHATTERJEE/IPAA/CHO		(1,177)	(1,177)
		CHATTERJEE/IPAA/KIM		34,450	34,450
		CHATTERJEE/IPAA/KO		11,039	11,039
		CHATTERJEE/IPAA/PATE		5,618	5,618
		CHATTERJEE-VA-CHO		(634)	(634)
		CHAUDHURI/IPAA/LEONA		34,902	34,902
		CHAUDHURI/IPAA/PIERC		34,123	34,123
		CLARK/IPAA/IMAM		27,243	27,243
		CUSI/IPAA/CHANG		3,993	3,993
		CUSI/IPAA/MATHE		(1,896)	(1,896)
		DEFRONZ/IPAA/GRANATO		2,315	2,315
		DEFRONZO/IPAA/KINCAD		77,913	77,913
		DEFRONZO/IPAA/KING		69,451	69,451
		ERIKSON/IPAA/FURLOW		(1,469)	(1,469)
		ESSEX-VA-SUN		(271)	(271)
		FELDMAN/IPAA/TREVINO		33,188	33,188
		FOX/IPAA/FRANKLIN		4,377	4,377
		FOX/IPAA/GLAHN		13,222	13,222
		FOX/IPAA/KOCHUNOV		(589)	(589)
		FOX/IPAA/LANCASTER		5,565	5,565
		FOX-IPAA-ZHANG		23,851	23,851
		FOX-LANCASTER-IPAA		5,207	5,207

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Veterans Affair (continued)					
		FOX-NARAYANA-IPAA		3,722	3,722
		FRAZER/IPAA/BENMANSO		37,979	37,979
		FRAZER/IPAA/GOULD		907	907
		FRAZER/IPAA/WEAVER		21,821	21,821
		FREYTES/IPAA/RAMIREZ		47,155	47,155
		GHOSH-CH/IPAA/MANDAL		21,593	21,593
		GHOSH-CHOU/IPAA/DAS		36,360	36,360
		GHOSH-CHOUD/IPAA/MAH		4,011	4,011
		GHOSHCHOU-IPAA-STCLA		22,553	22,553
		HABIB/IPAA/VELAGAPUD		19,514	19,514
		IPAA-MANICKAM		34,152	34,152
		IPAA-VA-JIMENEZ		33,679	33,679
		IPAA-ZHANG		4,629	4,629
		KAMAT/IPAA/SHU		7,669	7,669
		KASINATH/IPAA/MYUNG		(1)	(1)
		KASINATH/IPAA/NATARA		37,535	37,535
		KATZ/IPAA/ZHANG		11,354	11,354
		KATZ-IPAA-KAMAT		2	2
		KAZHDAN/IPAA/LONG		4,398	4,398
		LI/IPAA/HAN		27,909	27,909
		LI/IPAA/LI		26,100	26,100
		LI/IPAA/LU		(390)	(390)
		LI/IPAA/XU		(14)	(14)
		MARCINIAK/IPAA/CHAVE		30,351	30,351
		MARCINIAK/IPAA/SIDDI		32,493	32,493
		MELBY/IPAA/ZHAO		23,019	23,019
		MUMMIDI/BONELLO/IPAA		38,107	38,107
		RAN/IPAA/GU		37,597	37,597
		RAN/IPAA/NA		5,173	5,173
		RAN-IPAA-CHEN		51,482	51,482
		SANCHEZ/IPAA/GARZA		41,095	41,095
		SHIREMAN/IPAA/LI		6,017	6,017
		SHIREMAN/IPAA/PORTER		5,753	5,753
		SHIREMAN/IPAA/WETZEL		31,419	31,419
		SHIREMAN/IPAA/WILLHI		25,913	25,913
		SREERAMOJU/IPAA/ZHAN		8,534	8,534
		STRONG/IPAA/KADAPAKK		62,638	62,638
		STRONG/IPAA/PIEKE-DA		25,168	25,168
		STRONG/IPAA/SOTO-PIN		13,271	13,271
		STRONG/IPAA/WANG		47,087	47,087
		VA-260P0145, 663-D86045,AMD NO.0001		32,477	32,477
		VA549P0027		9,064,029	9,064,029

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Veterans Affair (continued)					
		VA549-P-0027		498,436	498,436
		VAN REMMEN/IPAA/JANG		26,087	26,087
		VANREMMEN/IPAA/SHI		26,540	26,540
		VANREMMEN-IPAA-LIU		51,176	51,176
		WALTER/IPAA/ALLEN		7,901	7,901
		WALTER/IPAA/GRASS		3,329	3,329
		WALTER/IPAA/HERZIG		59,685	59,685
		WALTER/IPAA/PEREZ		19,027	19,027
		WEINER/IPAA/CASTANED		8,564	8,564
		WEINER/IPAA/URIB		64,601	64,601
		WEINER/IPAA/WING		14,473	14,473
		WEINER-IPAA-DURAN		4,944	4,944
		WERNER/IPAA/HORN		14,222	14,222
		WERNER/IPAA/WOO DRUFF		26,401	26,401
		YEH/IPAA/DANG		49,584	49,584
		YEH/IPAA/LIN		18,226	18,226
		YEH/IPAA/ZHU		13,674	13,674
Pass-Through from South Texas Veterans Health Care System		IPA dtd 07/17/06		568	568
Pass-Through from South Texas Veterans Health Care System		#671-D75723		17,295	17,295
Sharing Specialized Medical Resources	64.018			220,067	220,067
Total – U.S. Department of Veterans Affairs			0	11,915,420	11,915,420
Environmental Protection Agency					
Environmental Protection Agency	66.XXX	2W-3321-NANX		8,555	8,555
Pass-Through from Coastal Bend Bays and Estuaries		721		32,706	32,706
Pass-Through from Colorado School of Mines		4-12-06		18,373	18,373
Pass-Through from Houston Advanced Research Center		20-23014-UT082005	15,762		15,762
Pass-Through from Louisiana State University		C175806, AMD 1		7,891	7,891
Pass-Through from RTI International		405337		31,859	31,859
Pass-Through from RTI International		6-321-0210288		23,973	23,973
Air Pollution Control Program Support	66.001			611,217	611,217
Ozone Transport Commission	66.033				
Pass-Through from Zapata County		G091590		61,943	61,943
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034		14,016	606,752	620,768
Pass-Through from Arizona State University		05-594		130,026	130,026
Pass-Through from Purdue University		503593		100,915	100,915
Congressionally Mandated Projects	66.202		364,041	237,725	601,766
Pass-Through from Houston Advanced Research Center		20-23016-UT0707	8,540	39,288	47,828
Environmental Justice Collaborative Problem-Solving Cooperative Agreement Program	66.306				
Pass-Through from Mothers for Clean Air		PS-83161601-0		9,648	9,648
Water Pollution Control State, Interstate, and Tribal Program Support	66.419			314,106	314,106
State Underground Water Source Protection	66.433			14,683	14,683
Surveys, Studies, Demonstrations & Special Purpose Grants - Section 1442 of the Safe Drinking Water Act	66.436			19,800	19,800
Water Quality Management Planning	66.454			3,158	3,158
National Estuary Program	66.456			41,150	41,150
Pass-Through from Coastal Bend Bays and Estuaries		0627, AMD 1		1,269	1,269

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
Environmental Protection Agency (continued)					
Pass-Through from Coastal Bend Bays and Estuaries		729		2,402	2,402
Pass-Through from Coastal Bend Bays and Estuaries		0308		25,566	25,566
Nonpoint Source Implementation Grant	66.460		115,904	1,216,129	1,332,033
Pass-Through from Brazos River Authority		503358		22,199	22,199
Pass-Through from Coastal Bend Bays and Estuaries		503336		17,066	17,066
Pass-Through from Coastal Bend Bays and Estuaries		570452		10,000	10,000
Pass-Through from Parsons Engineering Science, Inc.		502924		28	28
Pass-Through from Parsons Water and Infrastructure, Inc.		503148		4,998	4,998
Regional Wetland Program Development Grants	66.461			29,227	29,227
Water Quality Cooperative Agreements	66.463			25,179	25,179
Gulf of Mexico Program	66.475			135,579	135,579
Wetland Program Grants - State/Tribal Environmental Outcome	66.479				
Wetland Demonstration Program					
Pass-Through from Baylor University		G72176		12,831	12,831
Environmental Protection Consolidated Research	66.500		57,758	64,480	122,238
Pass-Through from Capital Area Council of Governments		3692		1,602	1,602
Pass-Through from Mantech Environmental Technology		68-D-00-206		243	243
Pass-Through from University of New Mexico		48113		118	118
Science to Achieve Results (STAR) Research Program	66.509		43,316	612,272	655,588
Pass-Through from Consortium for Plant Biotechnology		503374		24,514	24,514
Pass-Through from Harvard University		122777		55,158	55,158
Pass-Through from Harvard University		123392		7,407	7,407
Pass-Through from Indiana University		27608-0313		36,202	36,202
Pass-Through from Southern Illinois University		RD83284201-0		51,376	51,376
Pass-Through from University of Southern Mississippi		USM-GR01079-B10 / R-82945801-0		(5,908)	(5,908)
Pass-Through from University of Washington		928377		134,781	134,781
Pass-Through from Wright State University		RD83221301-0		40,205	40,205
Surveys, Studies, Investigations and Special Purpose Grants within the Office of Research and Development	66.510		75,859	173,813	249,672
Pass-Through from Great Lakes Environmental Center		8000000739		10,645	10,645
Office of Research and Development Consolidated Research/Training	66.511		24,960	116,180	141,140
Pass-Through from Heaf Effects Institute		4764-FRA06-3/07-5		27,528	27,528
Pass-Through from Water Environment Research Foundation		503646		61,881	61,881
Greater Research Opportunities (GRO) Fellowships For Undergraduate/Graduate Environmental Study	66.513			61,457	61,457
Science To Achieve Results (STAR) Fellowship Program	66.514			9,268	9,268
Environmental Protection Consolidated Grants --Program Support	66.600			209,145	209,145
Performance Partnership Grants	66.605			462,028	462,028
Surveys, Studies, Investigations and Special Purpose Grants	66.606		141,684	130,724	272,408
Pass-Through from Mickey Leland National Air Toxics Research Center		R83234601		278,945	278,945
Training and Fellowships for the Environmental Protection Agency	66.607			65,537	65,537
Pollution Prevention Grants Program	66.708			83,834	83,834
Pass-Through from Pacific Northwest Laboratory		#MEAS0603		5,375	5,375
Pesticide Environmental Stewardship Regional Grants	66.714			2,307	2,307
Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	66.716			1,919	1,919
Source Reduction Assistance	66.717			47,246	47,246
Brownfields Assessment and Cleanup Cooperative Agreements	66.818				
Pass-Through from City of Arlington		08-182		25,926	25,926
International Financial Assistance Projects	66.931			80,556	80,556
Total - Environmental Protection Agency			861,840	6,693,005	7,554,845

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
Nuclear Regulatory Commission					
Nuclear Regulatory Commission	77.XXX	NRC-04-07-122M002: REQ#RES-07-122; N6546		61,487	61,487
U. S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006			184,220	184,220
Total - Nuclear Regulatory Commission			0	245,707	245,707
U.S. Department of Energy					
U.S. Department of Energy	81.XXX	4000014492, Mod 5, Inc		23	23
		4000063857		5,515	5,515
		5007684-12	13,038	136,443	149,481
		ACQ-4-433623-06		10,791	10,791
		Agreement 010104		672,148	672,148
		CM617		1	1
		DE-AC09-06SR22531, M001		1,583	1,583
		DE-AC26-98FT40417	30,321	(793)	29,528
		DE-FC02-02ER25516, A0005	29,726	95	29,821
		DE-FC02-06ER25782, A002		54,536	54,536
		DE-FC02-08ER54961		12,033	12,033
		DE-FC2602NT41440	16,268	6,011	22,279
		DE-FC26-04NT15534, A002	40,420	228,797	269,217
		DE-FC26-04NT15546, AMD M007	18,849	31,489	50,338
		DE-FC26-06NT42966, AMEND A005	1,177	134,016	135,193
		DE-FG02-02ER15352		98,245	98,245
		DE-FG02-03ER15406, A005		146,368	146,368
		DE-FG02-03ER15430		32,965	32,965
		DE-FG02-03ER15430, A004	23,370	145,015	168,385
		DE-FG02-04ER41321, AMD A006		161,962	161,962
		DE-FG02-04ER54754		33,888	33,888
		DE-FG02-04ER54763		48,270	48,270
		DE-FG02-04ER54766, A005		126,513	126,513
		DE-FG02-06ER25738		11,075	11,075
		DE-FG02-06ER46303, A000		29,224	29,224
		DE-FG02-06ER46303, LTR AGMT 2007-01		63,795	63,795
		DE-FG02-07ER15884		114,757	114,757
		DE-FG02-97ER54415, AMD A020		370,763	370,763
		DE-FG52-05NA27036		51,391	51,391

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Energy (continued)					
		FA8718-04-C-0014, CLIN 000104, ACRNAD		37,082	37,082
		574628		39,012	39,012
		728404		19,692	19,692
		537895		12,853	12,853
Pass-Through from Argonne National Lab		8F-01463		45,289	45,289
Pass-Through from Battelle		73150		20,527	20,527
Pass-Through from Battelle		UTA08-039; SUBC# 00072459		49,270	49,270
Pass-Through from Battelle Energy Alliance, LLC		00062780		89,970	89,970
Pass-Through from Battelle Pacific Northwest Laboratory		29569		3,591	3,591
Pass-Through from Battelle Pacific Northwest Laboratory		33546, MOD NO. 2		67,651	67,651
Pass-Through from BWTX Pantex		54922		1,335	1,335
Pass-Through from BWTX Pantex		SlyGard 148		3,103	3,103
Pass-Through from Carnegie Institute of Washington		1354-44-C862		117,754	117,754
Pass-Through from Clemson University		07-01-SR127	43,254	52,425	95,679
Pass-Through from Fermi National Accelerator Laboratory		577934		14,363	14,363
Pass-Through from Fermi National Accelerator Laboratory		564932, REV 3		35,611	35,611
Pass-Through from Fermi National Accelerator Laboratory		571899		42,324	42,324
Pass-Through from Idaho National Engineering Lab		57910		21,165	21,165
Pass-Through from Lawrence Berkeley National Lab		6805918, MOD 5 PREV 6712770		156,923	156,923
Pass-Through from Lawrence Berkeley National Lab		6805919		148,104	148,104
Pass-Through from Lawrence Livermore National Security		B552372 LTR DTD 8-7-07		63,781	63,781
Pass-Through from Los Alamos National Lab		42673-001-07, MOD.#1		12,084	12,084
Pass-Through from Los Alamos National Lab		61393-001-08		24,605	24,605
Pass-Through from Los Alamos National Laboratory		G72103		(1,003)	(1,003)
Pass-Through from Midwest Research Institute		ACQ-4-3362		48,668	48,668
Pass-Through from Mpm Technology, LLC		UTA05-798		51,898	51,898
Pass-Through from National Renewable Energy Lab		AAT-2-231604-04	7,500	6,589	14,089
Pass-Through from National Renewable Energy Lab		ADC-6-66268-20		77,660	77,660
Pass-Through from National Renewable Energy Lab		XEE-8-77567-01		30,272	30,272
Pass-Through from Oak Ridge Institute for Sci and		1264-1264-04		2,808	2,808
Pass-Through from Pacific Northwest Laboratory		14812, INCREMENT		302	302
Pass-Through from Penn State University		3564-UT-DOE-1779		11,111	11,111
Pass-Through from Petroleum Tech Transfer Council		0895 MOD 39,40,42		1,269	1,269
Pass-Through from Petroleum Tech Transfer Council		0895 MOD 48	12,549	22,805	35,354
Pass-Through from Rice University		R7B612		204,981	204,981
Pass-Through from Sandia Corporation		703071		7	7
Pass-Through from Sandia National Lab		541398	25,650	494,803	520,453
Pass-Through from Sandia National Laboratories		CON16167		209,491	209,491
Pass-Through from Sandia National Labs		114166, REV. 11		1,240	1,240
Pass-Through from Sandia National Labs		238677, Increment		(239)	(239)
Pass-Through from Sandia National Labs		30914, REVISION 12		(451)	(451)
Pass-Through from Sandia National Labs		379530, REV 11		413,209	413,209
Pass-Through from Sandia National Labs		446802, A0340		9,302	9,302
Pass-Through from Sandia National Labs		459177, Rev 7		76,216	76,216
Pass-Through from Sandia National Labs		520332, REV 5		189,829	189,829
Pass-Through from Sandia National Labs		574699, REV 2		892	892
Pass-Through from Sandia National Labs		633167		601,731	601,731
Pass-Through from Sandia National Labs		658324,A0340		(220)	(220)
Pass-Through from Sandia National Labs		658331, REV 1		83,708	83,708
Pass-Through from Sandia National Labs		681008		14,511	14,511
Pass-Through from Sandia National Labs		683010		(348)	(348)

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Energy (continued)					
Pass-Through from Sandia National Labs		701286		3,296	3,296
Pass-Through from Sandia National Labs		701287		3,024	3,024
Pass-Through from Sandia National Labs		743358		64,370	64,370
Pass-Through from Sandia National Labs		770505; PROJECT 117959, TASK 06		185,660	185,660
Pass-Through from Sandia National Labs		805040		23,935	23,935
Pass-Through from Sandia National Labs		839884		17,656	17,656
Pass-Through from Sandia National Labs		LTR DTD 10/1/05		25,000	25,000
Pass-Through from Stanford University/Linear Accelerator		DE-AC03-76-SF-00515		111,248	111,248
Pass-Through from University Corporation for Atmospheric Research		S07-55364, MOD NO. M01		20,715	20,715
Pass-Through from University of California		B555671		10,826	10,826
Pass-Through from University of California		B574748		41,180	41,180
Pass-Through from University of California - Livermore National Lab		B557149		47,448	47,448
Pass-Through from University of California - Los Alamos National Lab		34239-001-06		3,617	3,617
Pass-Through from University of California - Los Alamos National Lab		45008-001-07		11,856	11,856
Pass-Through from University of California - San Diego		10272333		90,381	90,381
Pass-Through from University of Rochester		DE-FC02-04ER54789, 412760-G MOD 3		53,928	53,928
Pass-Through from University of Southern California		503638		33,951	33,951
Pass-Through from Washington Savannah River Company, LLC		AC 54275 O CHANGE NOTICE NO.1		85,711	85,711
Pass-Through from Wayne State University		P0473666		3,903	3,903
Pass-Through from Xidex Corporation		UTA07-858		65,728	65,728
Inventions and Innovations	81.036				
Pass-Through from Los Alamos National Laboratory		8000000851		29,319	29,319
State Energy Program	81.041		4,500	181,467	185,967
Pass-Through from Frontier Associates, LLC		Ltr dtd 3-7-08		3,640	3,640
Pass-Through from State of Louisiana		2025-05-01		15,000	15,000
Office of Science Financial Assistance Program	81.049		182,967	19,083,275	19,266,242
Pass-Through from Battelle Energy Alliance, LLC		00062729		94,583	94,583
Pass-Through from Black Laboratories		G72276		20,000	20,000
Pass-Through from BP Solar International, LLC		ZAX-6-33628-11		878	878
Pass-Through from Carnegie Mellon University		1070044-153394		41,364	41,364
Pass-Through from Georgia Institute of Technology		E-19-ZG5-G1		11,777	11,777
Pass-Through from Honeywell Federal Manufacturing Tech		EP14002		57,746	57,746
Pass-Through from Impact Technologies, LLC		DE-FG02-07ER84670		7,884	7,884
Pass-Through from Jackson State University		P0016718		78,715	78,715
Pass-Through from Lawrence Berkeley Laboratory		6720563		32,671	32,671
Pass-Through from Lawrence Livermore National Security		B557268		58,103	58,103
Pass-Through from Los Alamos National Security, LLC		22430-001-05		91,108	91,108
Pass-Through from Los Alamos National Security, LLC		32726-001-06		50,180	50,180
Pass-Through from Los Alamos National Security, LLC		56649-001-07		47,461	47,461
Pass-Through from Medical University of South Carolina		DE-F-G07-05ID14692		8,138	8,138
Pass-Through from Purdue University		541-0604-01		172,520	172,520
Pass-Through from Sandia National Laboratories		529425		9,931	9,931
Pass-Through from Sandia National Laboratories		642667		66,325	66,325
Pass-Through from Sandia National Laboratories		666684		11,429	11,429
Pass-Through from Sandia National Laboratories		682276		4,766	4,766
Pass-Through from Sandia National Laboratories		716601		26,162	26,162

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Energy (continued)					
Pass-Through from Signal Processing, Inc.		OR#07-592 PRIME:DOE/SBIR		30,034	30,034
Pass-Through from Stanford Linear Accelerator Cent		DE-AC02-76SF00515		38,259	38,259
Pass-Through from Tulane University		TUL-540-06/07		39,196	39,196
Pass-Through from University of California - Irvine/DOE		DEFG0205ER6403		26,272	26,272
Pass-Through from University of California - Lawrence		6809968		50,532	50,532
Pass-Through from University of Delaware		11757		97,707	97,707
Pass-Through from University of Oregon		234151-L		53,642	53,642
Pass-Through from University of Wyoming		NAZU48565TTU		2,499	2,499
Pass-Through from UT-Battelle, LLC		4000063817		24,556	24,556
University Coal Research	81.057		43,467	197,228	240,695
Pass-Through from Purdue University		541-0335-01		29,531	29,531
Office of Scientific and Technical Information	81.064			89,389	89,389
Pass-Through from Sandia National Labs		646695		82,804	82,804
Nuclear Waste Disposal Siting	81.065				
Pass-Through from Hydrodynamics Group, LLC		04-014		4,494	4,494
Pass-Through from Nye County Nevada		08-029		45,249	45,249
Regional Biomass Energy Programs	81.079			410,846	410,846
Pass-Through from South Dakota State University		503781		459	459
Conservation Research and Development	81.086		7,950	244,252	252,202
Pass-Through from The Boeing Company		231142		10,596	10,596
Renewable Energy Research and Development	81.087		72,412	1,392,041	1,464,453
Pass-Through from Baylor University		032-75BL		6,986	6,986
Pass-Through from Midwest Research Institute-National Renewable Energy Lab		XDJ-3-33600-01		30,279	30,279
Pass-Through from Shear Form		05-0314		25,235	25,235
Pass-Through from Siemens Westinghouse Power		4500509872		83,235	83,235
Pass-Through from University of California - Riverside		05-1036		13,273	13,273
Pass-Through from UTC Power		7867		137,835	137,835
Pass-Through from ZT Solar, Inc.		740147		31,899	31,899
Fossil Energy Research and Development	81.089		484,618	2,171,038	2,655,656
Pass-Through from Florida International University		120701594-01, AMD 001		31,879	31,879
Pass-Through from New Mexico Institute of Mining and Tech		DSRP20, MOD 3	52,332	253,233	305,565
Pass-Through from New Mexico Tech		503348		150,335	150,335
Pass-Through from New Mexico Tech		503389		105,649	105,649
Pass-Through from New Mexico Tech		570311	86,236		86,236
Pass-Through from Penn State University		3139-UT-DOE-1779, AMD 1		(1,532)	(1,532)
Pass-Through from Rice University		R15621		51,054	51,054
Pass-Through from Southern States Energy Board		SSEB-SECARB2-998-T1-TX-GCCC-2005-01	2,696,089	396,101	3,092,190
Pass-Through from Southern States Energy Board		SSEB-SECARB3-973-T13BEG-TI-2008-01	64,200	312,752	376,952
Pass-Through from University of Mississippi		07-11-039		7,426	7,426
Office of Technology Development and Deployment for Environmental Management	81.104		6,259	138,850	145,109
Pass-Through from Howard University		633254-192527		1,100	1,100
Pass-Through from Howard University		633254-H010016		4,210	4,210
Pass-Through from University of Nevada - Las Vegas		06-64PG-01		445	445
Stewardship Science Grant Program	81.112			172,706	172,706
Defense Nuclear Nonproliferation Research	81.113			1,606,960	1,606,960
Pass-Through from Lawrence Livermore National Security		B571336		238,007	238,007
Pass-Through from Sandia National Laboratories		750028		75,792	75,792
University Nuclear Science and Reactor Support	81.114		38,696	301,206	339,902
Pass-Through from Battelle Energy Alliance, LLC		00066100		18,149	18,149

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Energy (continued)					
Pass-Through from Medical University of S Carolina		DE-FG07-05ID14692/IDNE006;MUSC07-005		114,826	114,826
Pass-Through from Medical University of South Carolina		05-444206		46,820	46,820
Pass-Through from Purdue University		541-0593-01		110,905	110,905
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117			255,978	255,978
Pass-Through from Carnegie Institute of Washington		4-3327-43		73,790	73,790
Pass-Through from New Mexico State University		Q01259		18,581	18,581
State Energy Program Special Projects	81.119			370,781	370,781
Nuclear Energy Research, Development and Demonstration	81.121		220,179	1,601,339	1,821,518
Pass-Through from Battelle Energy Alliance, LLC		00070795		49,864	49,864
Pass-Through from Cornell University		51903-8701		56,167	56,167
Pass-Through from Purdue University		541-0500-01		73,227	73,227
Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122				
Pass-Through from American Superconductor Corporation		DE-FC26-07NT43243		115,092	115,092
Pass-Through from EPRI Solutions, Inc.		499-06-01		15,911	15,911
Predictive Science Academic Alliance Program (PSAAP)	81.124			934,432	934,432
Pass-Through from University of Michigan		07-0946		18,694	18,694
Miscellaneous	81.502			24,401	24,401
Total - U.S. Department of Energy			4,222,027	40,578,845	44,800,872
U.S. Department of Education					
U.S. Department of Education	84.XXX	P116M040008		1,998	1,998
		T195N070272		64,817	64,817
Pass-Through from Education Service Center Region XIII		UTA08-452		46,258	46,258
Pass-Through from Mathematical Policy Research, Inc.		NO MPR: 6136-04-068, START WORK AUTH.		235,482	235,482
Pass-Through from Medical University of S Carolina		MUSC08-028		64,946	64,946
Pass-Through from Metiri Group		C0906500		62,513	62,513
Pass-Through from RMC Research Corp		UTA06-920, AMD 001		576,419	576,419
Pass-Through from Southern Methodist University		UTSUB6000607, NCE		436,042	436,042
Pass-Through from University of Wisconsin		096Y946		45	45
Adult Education--State Grant Program	84.002			1,732,358	1,732,358
National Resource Centers and Fellowships Program for Language and Area or Language and International Studies	84.015			1,043,638	1,043,638
Overseas--Group Projects Abroad	84.021			93,000	93,000
Special Education--Grants to States	84.027			623,200	623,200
Career and Technical Education--Basic Grants to States	84.048			211,020	211,020
Fund for the Improvement of Postsecondary Education	84.116		3,510	625,183	628,693
Pass-Through from Ball State University		P116M030006; UTA04-552		3,596	3,596
Pass-Through from Ball State University		UTA05-157		19	19
Pass-Through from Drexel University		213021		30,580	30,580
Pass-Through from Howard University		633126-H022511		22,694	22,694
Pass-Through from University of California - Davis		503111		6,930	6,930
Pass-Through from University of Maryland, College Park		Z203503		16,491	16,491
Pass-Through from University of Missouri		C00001245-1, AMD 5		14,715	14,715
Pass-Through from University of Missouri - Columbia		C00004842		11,619	11,619
Minority Science and Engineering Improvement	84.120			306,779	306,779
Pass-Through from Houston Community College		B220		23,405	23,405

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Education (continued)					
Centers for Independent Living	84.132				
Pass-Through from Memorial Hermann TIRR		H132B070002		7,630	7,630
National Institute on Disability and Rehabilitation Research	84.133		186,315	1,770,717	1,957,032
Pass-Through from Memorial Hermann TIRR		H133A050006		7,379	7,379
Pass-Through from Memorial Hermann TIRR		H133A060091		16,720	16,720
Pass-Through from Memorial Hermann TIRR		H133B990014		8,058	8,058
Pass-Through from Memorial Hermann TIRR		H133N060003		45,694	45,694
Pass-Through from University of Illinois at Chicago		G72108		48,822	48,822
Business and International Education Projects	84.153			1,048	1,048
Safe and Drug-Free Schools and Communities--National Programs	84.184				
Pass-Through from Houston Independent School District		SR1-31-6219-630-99-TX3-TX3		92	92
Pass-Through from Round Rock Independent School District		Q184L050099		156,961	156,961
Bilingual Education-Professional Development	84.195			455,730	455,730
Education for Homeless Children and Youth	84.196				
Pass-Through from Education Service Center-Region X		UTA06-642		1,269	1,269
Pass-Through from Education Service Center-Region X		UTA07-486		563,755	563,755
Graduate Assistance in Areas of National Need	84.200			278,942	278,942
Pass-Through from Dallas County Community College		GCS# 05Ë269		296,308	296,308
Even Start--State Educational Agencies	84.213			68,092	68,092
Fund for the Improvement of Education	84.215			(337)	(337)
Pass-Through from Lubbock Independent School District		135244B945		29,820	29,820
Pass-Through from Michael Cohen Group, LLC		UTA08-009		47,051	47,051
Pass-Through from Reach Out and Read National Center		U215K050155		907	907
Pass-Through from Reach Out and Read National Center		U215U060001		20,233	20,233
Pass-Through from Reach Out and Read National Center		U215U070002		16,815	16,815
Assistive Technology	84.224		303,138	515,469	818,607
Eisenhower Professional Development State Grants	84.281			670	670
Comprehensive Centers	84.283				
Pass-Through from RMC Research Corp		UTA05-917, YEAR 2		(437)	(437)
Pass-Through from RMC Research Corp		UTA05-917, YEAR 3		464,478	464,478
Pass-Through from RMC Research Corp		UTA05-917, YEAR 4		41,168	41,168
State Grants for Innovative Programs	84.298			2,734	2,734
Education Research, Development and Dissemination	84.305		1,540,605	3,920,969	5,461,574
		S040010		78,574	78,574
Pass-Through from Berkeley Policy Association		UTA06-105		125,049	125,049
Pass-Through from Florida State University		R00722		125,272	125,272
Pass-Through from Pacific Institute for Research Evaluation		UTA08-183		74,464	74,464
Pass-Through from Research Triangle Institute		ED01-CO-0052		6,436	6,436
Pass-Through from RMC Research Corp		G095691		322,807	322,807
Pass-Through from University of California - Davis		K06-002986-UH		23,060	23,060
Education Technology State Grants	84.318			7,727	7,727
Pass-Through from Somerville Independent School District		PRIME 086300027110021		183,314	183,314
Research in Special Education	84.324		5,454	802,411	807,865
Pass-Through from University of Kansas		FY2008-012		76,180	76,180
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325			1,329,447	1,329,447
Pass-Through from University of Southern Mississippi		H325A030083		29,973	29,973
Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education	84.333			278,452	278,452
Learning Anytime Anywhere Partnerships	84.339			17,125	17,125
Reading First State Grants	84.357			1,741,506	1,741,506
Early Reading First	84.359				
Pass-Through from Decision Information Resources, Inc.		ED-01-CO-0027		(5,656)	(5,656)

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Education (continued)					
School Leadership	84.363		77,990	732,456	810,446
Mathematics and Science Partnerships	84.366		308,231	2,431,421	2,739,652
Improving Teacher Quality State Grants	84.367			318,190	318,190
Total - U.S. Department of Education			2,425,243	23,738,712	26,163,955
National Archives and Records Administration					
National Historical Publications and Records Grants	89.003			29,094	29,094
Total - National Archives and Records Administration			0	29,094	29,094
U.S. Department of Health and Human Services					
U.S. Department of Health and Human Services	93.XXX	1 HHSN2612007005		70,698	70,698
		09P 011-HHSN263200700021C 01		396,814	396,814
		1 R01 CA116813-01A1, 02, 03		294,107	294,107
		1 R01 GM65797-01, 02,03,04,05		(342)	(342)
		1 R15 HL077222-01		34,629	34,629
		2 R56 CA103986 04		103,393	103,393
		2 R01 GM57400-04		140	140
		2 R01 HD28419		222,294	222,294
		200-1999-0095		421,462	421,462
		200-2001-00084		180	180
		200-2001-00084/0013		166,035	166,035
		200-2003-01442		204,562	204,562
		200-2006-15812		102,848	102,848
		200801437		75	75
		200801442		43,815	43,815
		263-MJ-611296		26,456	26,456
		263-MJ-611300		124,138	124,138
		263-MQ-417611 01		14,317	14,317
		263-MQ-515960		59,195	59,195
		263-MQ-611337		6,919	6,919
		5 K01 DP001120 02		111,368	111,368
		5 N01 AR62279 08	93,687	375,306	468,993
		5 R01 HD046228 04		11	11
		5 R01 MH076776 03		349,450	349,450
		5 KO1 DA016262		99,531	99,531
		5 R01 AA015167-01A1,02,03, EXT		162,602	162,602
		5 R01 AG026613-01A1,02,03		293,471	293,471
		5 R01 CA095548-01A2,2,3,4,05		306,488	306,488
		5 R01 GM067317-01A1, 02,03,04 REVISED		22,921	22,921
		5 R01 MH064560-02,03,04,05		283,168	283,168
		5 R01 NS049091-01A2,02,03 REVISED		239,749	239,749

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
		5 R03 HD047507-01A1,02_REVISED		40,731	40,731
		5 R24 HD042849-06,07		414,492	414,492
		5 T32 DA018926-04 (REVISED)		289,852	289,852
		570230	54,439	35,453	89,892
		5R01FD002600-03		158,722	158,722
		6111.04.099.00. UTA05-897		(16,038)	(16,038)
		HHSH230200532004C		3,249,110	3,249,110
		HHSH234200737001C 02		1,468,201	1,468,201
		HHSN261200700277P		100,697	100,697
		HHSN261200700395P		8,720	8,720
		HHSN267200700006C/HA		441,417	441,417
		HHSN2700788601C/ROAC		145,120	145,120
		HHSN271200800172P		7,088	7,088
		HHSN275200403380I		319,379	319,379
		HHSN275200503407C		3,001,330	3,001,330
		HHSN276200		3,350	3,350
		HHSN276200700338P		52,571	52,571
		IPAA-NINDS-HART		44,397	44,397
		N01 AI030041		12,282	12,282
		N01 AR-0-2249 06		5,697	5,697
		N01 CM-07109 05		(752)	(752)
		N01 CM-52204 03		317,529	317,529
		N01 CM-62202 07		557,012	557,012
		N01 CN-035159 04		17,921	17,921
		N01 CN035159 05	497,003	97,365	594,368
		N01 CN03515905		7,542	7,542
		N01 CN-095040 04	(50,287)	76,749	26,462
		N01 CN-35112 03	339,068	25,500	364,568
		N01 CN95139 01		(33,926)	(33,926)
		N01-A1-30026		2,634	2,634
		N01AI25459	5,170		5,170
		N01-AI-25475		351,522	351,522
		N01AI25488-07		1,713,161	1,713,161
		N01AI25489		632,031	632,031
		N01-AI-30041	284,320	471,013	755,333
		N01-AI-30065	516,856		516,856
		N01-AI-40097/HHSN266		1,751,412	1,751,412
		N01CM17003		(50,949)	(50,949)
		N01-CN035159 05	62,432	409,699	472,131
		N01CN03515904		15,085	15,085
		N01-CN-05126	46,405	(6,565)	39,840
		N01CN095139	2,500	136,974	139,474
		N01-CN-85186		135,760	135,760
		N01DA-7-8872		612,488	612,488
		N01DA-9-8101 TO#05		(2,335)	(2,335)
		N01DA-9-8101 TO#07		244,084	244,084
		N01DK92321		187,274	187,274
		N01HB007159	581,030	161,676	742,706
		N01HV028185		1,982,957	1,982,957

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
		N01HV28184		677,890	677,890
		N01MH090003		3,531,212	3,531,212
		N01-WH-4-2111		116,312	116,312
		N02 CP-55503 03		341,583	341,583
		N02 OR-0-4021 08		(13,829)	(13,829)
		NIDA-N01DA-2-882		62,571	62,571
		NIMH-00-AI-0005		42,942	42,942
		ORPHAN PROJECTS		(24,999)	(24,999)
		R01 GM024365		85,746	85,746
		RAA015082A		497	497
		W81XWH-07-1-0132 02		33,147	33,147
Pass-Through from Accacia International		UTA08-216		46,926	46,926
Pass-Through from Adoption Exchange Association		UTA05-795, AMD NO 2		42,188	42,188
Pass-Through from Afya, Inc.		1052-028		61,031	61,031
Pass-Through from American College of Radiology Imaging		U10 CA21661		3,190	3,190
Pass-Through from Baylor College of Medicine		5 R01 HL079533 04		64,267	64,267
Pass-Through from Baylor College of Medicine		N01-AI-30039		532,776	532,776
Pass-Through from Booz Allen Hamilton, Inc.		1435-04-04-CT-73980		93,199	93,199
Pass-Through from Booz Allen Hamilton, Inc.		TO 9 & MOD 9 01		1,005	1,005
Pass-Through from Case Western Reserve University		HHSN275200403367C		94,087	94,087
Pass-Through from Case Western Reserve University		N01DK62203		263,290	263,290
Pass-Through from Children's Hospital Research		N01A125459		258,850	258,850
Pass-Through from Children's Research Institute		N01-AI-05407		(141)	(141)
Pass-Through from Cincinnati Children's Hospital		N01-A1-25459		309,945	309,945
Pass-Through from Dallas County Hospital District		CON16376		7,356	7,356
Pass-Through from Duke Clinical Research Institute		N01MH80008TADS04		2,651	2,651
Pass-Through from Duke University		5 R01 CA092461		2,858	2,858
Pass-Through from Duke University		5 U19 A1067798 03		138,257	138,257
Pass-Through from Duke University		N01-AI-05419 04		105	105
Pass-Through from Duke University Medical Center		N01AI05419		(11)	(11)
Pass-Through from Duke University Medical Center/NIH		N01AR22265		18	18
Pass-Through from Eastern Cooperative Oncology Group (ECOG)		ECOG 5202		187	187
Pass-Through from Emmes Corp/ NIH		HHSN260200500007C		33	33
Pass-Through from Fairway Medical Technologies		R44CA110137		76,448	76,448
Pass-Through from Feinstein Institute for Medical Research		N01 AR-2-2263 05		45,993	45,993
Pass-Through from Fred Hutchinson Cancer Research		05-201573-01-S1300		9,039	9,039
Pass-Through from George Mason University		E 600247-2		17,096	17,096
Pass-Through from Inotek, Inc.		CON11297		(27)	(27)
Pass-Through from Johns Hopkins University		8407-46304-X		4,842	4,842
Pass-Through from Johns Hopkins University		8408-53718		22,982	22,982
Pass-Through from Johns Hopkins University		BREY:S/G AR49125 JHI		1,660	1,660
Pass-Through from LDS Hospital		HHSN268200425210C		12,964	12,964
Pass-Through from Lifeworks		UTA06-753, AMD 001		2,345	2,345
Pass-Through from Louisiana State University		200401316;11765		19,598	19,598
Pass-Through from Lynntech, Inc.		2007-NIH469-0001		5,730	5,730
Pass-Through from MacFarlane Burnet Institution of Med		CON14105		3,751	3,751
Pass-Through from Massachusetts General Hospital		BOWDEN:STEP-MH80001		130,489	130,489
Pass-Through from Massachusetts General Hospital		HHSN261200744000C		49,484	49,484
Pass-Through from Massachusetts General Hospital		SG HHSN261200744000C		13,218	13,218
Pass-Through from Mayo Clinic - Jacksonville		5 R01 CA104505 05		74,493	74,493
Pass-Through from McMaster University		HHSN266200400066C		217,045	217,045

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from Medical College of Georgia		R01NS38455		(10,838)	(10,838)
Pass-Through from Medical University of South Carolina Foundation		N01 HV 28181 02		28,994	28,994
Pass-Through from Morehouse School of Medicine		US2MP02001-03-4		24,445	24,445
Pass-Through from National Marrow Donor Program-DHHS-NIH		15867		101,073	101,073
Pass-Through from National Marrow Donor Program-DHHS-NIH		173-RITN 02		8,995	8,995
Pass-Through from National Marrow Donor Program-DHHS-NIH		T0008		60	60
Pass-Through from National Marrow Donor Program-DHHS-NIH		U01 HL69334		120,554	120,554
Pass-Through from Northrop Grumman Corporation		BRCSC04086	16,364	607,075	623,439
Pass-Through from Northrop Grumman Corporation		HHSN266200400076C	103,454	810,415	913,869
Pass-Through from Northwestern University		HHSN27220070058C		139,031	139,031
Pass-Through from Oklahoma University Health Sciences Center		07AP07006NL		84,955	84,955
Pass-Through from Oregon Health Science University		GVGT1036A-UOFTXMEDBR		38,520	38,520
Pass-Through from Purdue University		5 U01 CA060548 15		17,651	17,651
Pass-Through from Radiant Creative Group		1 R41 CA126453 01 A1		7,296	7,296
Pass-Through from RTI International		3-312-0210547		184,305	184,305
Pass-Through from Saic - Frederick, Inc.		26XS197		524,738	524,738
Pass-Through from Saic-Frederick, Inc.		1 N01 CM017003 04		156	156
Pass-Through from Saic-Frederick, Inc.		25XS068		54,440	54,440
Pass-Through from Saic-Frederick, Inc.		25XS068 01		57,482	57,482
Pass-Through from Saic-Frederick, Inc.		25XS068 04(P7156)		17,277	17,277
Pass-Through from Saic-Frederick, Inc.		25XS068 TASKORDER 6		4,422	4,422
Pass-Through from Saic-Frederick, Inc.		26XS148 T0# 02		28,101	28,101
Pass-Through from Saic-Frederick, Inc.		27XS112 01		90,708	90,708
Pass-Through from Saic-Frederick, Inc.		N01 CM10073 04		(25,353)	(25,353)
Pass-Through from Saic-Frederick, Inc.		N01 CO 12400 01		163	163
Pass-Through from Saic-Frederick, Inc.		S07-060 02		125,926	125,926
Pass-Through from Scripps Research Institute		5-22646		33,227	33,227
Pass-Through from Scripps Research Institute		5-22649		34,796	34,796
Pass-Through from Scripps Research Institute		5-22650		15,770	15,770
Pass-Through from Selenium, Ltd.		08LM060097NL		63,983	63,983
Pass-Through from Social and Scientific System, Inc.		1 N01 ES045525 01		75,091	75,091
Pass-Through from Southwest Oncology Group		S0342		37	37
Pass-Through from Southwest Research Institute		699007W		63,512	63,512
Pass-Through from Stanford University		18079440-30501-D		(127)	(127)
Pass-Through from Strang Cancer Prevention Center		HHSN261200433002C		30,625	30,625
Pass-Through from Strang Cancer Prevention Center		N01CN15132WKST85		140	140
Pass-Through from Sun Nuclear Corporation		N43 CM-52214 02		109,737	109,737
Pass-Through from TKC Integration Services, LLC		200200615969		82,475	82,475
Pass-Through from University North Carolina at Chapel Hill		N01MH90001		70,078	70,078
Pass-Through from University of Alabama		N01-A1-30025		448	448
Pass-Through from University of Alabama - Birmingham		5 N01 CN35103 02		23,294	23,294
Pass-Through from University of Alabama - Tuscaloosa		S/C N01-95117-02		(60,287)	(60,287)
Pass-Through from University of Alabama at Birmingham		CASG 210		45	45
Pass-Through from University of Alabama at Birmingham		LEACH: S/G AI30025AL		916	916
Pass-Through from University of Alabama at Birmingham		PATTERSN: UAB CDC S/G		8,512	8,512

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from University of Alabama/NIH		N01AI15113		15	15
Pass-Through from University of Alabama/NIH		N01AI30025		27,382	27,382
Pass-Through from University of Alabama-Birmingham/NIH		HHSN26120043301C		479	479
Pass-Through from University of California - Berkeley		DE-AC03-76SF0098 01		2,714	2,714
Pass-Through from University of California - San Diego		10278739/N01MH22005		15,408	15,408
Pass-Through from University of California - San Diego		NIMH-00-A1-0005		376,835	376,835
Pass-Through from University of California - San Francisco		N01 AI-15416 02		7,609	7,609
Pass-Through from University of California/NIH		N01AI15416		(48,526)	(48,526)
Pass-Through from University of Kansas Medical Center		05DP050061FNL		2,639	2,639
Pass-Through from University of Michigan		F009470		27,537	27,537
Pass-Through from University of New Mexico Health Science Center		3904		421,634	421,634
Pass-Through from University of North Carolina/NIH		N01MH090001		93,657	93,657
Pass-Through from University of Notre Dame		200943		4,885	4,885
Pass-Through from University of Pittsburgh		BOWDEN: S/G MH63420		5,233	5,233
Pass-Through from University of Pittsburgh/NIH		N01AR42273		23,097	23,097
Pass-Through from University of San Francisco/NIH		N01AI15416		10,602	10,602
Pass-Through from University of Utah		N01-A1-15435		5,867	5,867
Pass-Through from University of Wisconsin/NIH		N01AI025496		571,604	571,604
Pass-Through from Us Immunodeficiency Network		N01-AI-30070		38	38
Pass-Through from Utah State University		14029001		104,001	104,001
Pass-Through from Veterans Administration		V688P-2994		159,149	159,149
Pass-Through from W.M. Keck Foundation		CON16512		(1,629)	(1,629)
Pass-Through from Wake Forest University		ROYALL-WAKE FOREST		100	100
Pass-Through from Wayne State University		5 N01 ES7518 06 A8		660	660
Pass-Through from Wayne State University		N01-HD-2-2342		14,567	14,567
Pass-Through from Wayne State University/NIH		NO1CN0502257		10,133	10,133
Pass-Through from Westat Inc/NIH		N01HD33345		40,065	40,065
Pass-Through from Westat, Inc./Cdc		200200409976		30,905	30,905
Pass-Through from Winprobe Corporation		UTA06-030		10,461	10,461
Pass-Through from Woods Hole Oceanographic Institute		A100535, MOD 1		37,480	37,480
Community-Based Abstinence Education (CBAE)	93.010		2,148		2,148
Pass-Through from Administration for Children and Families		90XF0036		125,043	125,043
Strengthening Public Health Services at the Outreach Offices of the U.S.-Mexico Border Health Commission	93.018			28,000	28,000
Alzheimer's Disease Demonstration Grants to States	93.051				
Pass-Through from Alzheimer's Association		OAKES		4,275	4,275
Innovations in Applied Public Health Research	93.061			200,426	200,426
Pass-Through from Genomics USA, Inc.		G092508		52,443	52,443
Centers for Genomics and Public Health	93.063			208,470	208,470
Public Health Emergency Preparedness	93.069			510,960	510,960
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086				
Pass-Through from Alliance for North Texas Healthy and Effective Marriages		90FE0072-01		45,591	45,591
Health Disparities in Minority Health	93.100			1,835,429	1,835,429
Food and Drug Administration--Research	93.103		21,667	1,203,440	1,225,107
Pass-Through from Massachusetts General Hospital		FD-R-002588-01		1,717	1,717
Model State-Supported Area Health Education Centers	93.107		154,184	971,983	1,126,167
Maternal and Child Health Federal Consolidated Programs	93.110		189,842	193,268	383,110
Pass-Through from University of Oklahoma Health Sciences Center		5 U22MC03962-03-00		4,932	4,932
Environmental Health	93.113		61,014	11,053,614	11,114,628

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from Southern University A&M College		OGSP-23-99-0200-125B		19	19
Pass-Through from University of California - Berkeley		SA5293-11074		11,503	11,503
Pass-Through from University of Maryland School of		S/G HASTY S01769		9,675	9,675
Pass-Through from University of New Mexico		1 R01 ES015826 01 A1		30,463	30,463
Pass-Through from University of New Mexico		1R01ES014565		27,592	27,592
Applied Toxicological Research and Testing	93.114			131,585	131,585
Biometry and Risk Estimation--Health Risks from Environmental Exposures	93.115		(2,827)	74,128	71,301
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116			59,850	59,850
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118				
Pass-Through from Westat, Inc.		8062-S025		32,307	32,307
Oral Diseases and Disorders Research	93.121		954,846	8,449,479	9,404,325
Pass-Through from Pennsylvania State University		R21DE018328-01-TEXAS		8,597	8,597
Pass-Through from Rann Research Corporation		SG/2R44DE013996-02A1		105,359	105,359
Pass-Through from Rice University		1R01DE015164		3,712	3,712
Pass-Through from Seattle Biomedical Research Institute		UT-1700/DE017541		125	125
Pass-Through from University of Iowa		1000555741/U OF IOWA		155,700	155,700
Pass-Through from University of Kentucky		S/G DE13958--U KENTU		1,874	1,874
Pass-Through from University of Louisville		5 U01 DE014543 05		26,097	26,097
Pass-Through from University of Louisville Research Foundation		5U01DE14543		18,454	18,454
Pass-Through from University of North Carolina		COCHRAN: S/G DE014577		11,943	11,943
Pass-Through from University of Washington		5R01DE13546-05		(42)	(42)
Emergency Medical Services for Children	93.127		65,101	55,262	120,363
Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135		684,527	4,980,889	5,665,416
Pass-Through from American Institute for Research		200-2007-20026		30,422	30,422
Pass-Through from Battelle Memorial Institute		189160		(2,968)	(2,968)
Pass-Through from Boston University		PUGH 044-240-7189-5		392	392
Pass-Through from University of Washington		UWA/927175/DP000050		14,677	14,677
Injury Prevention and Control Research and State and Community Based Programs	93.136		32,069	(4,056)	28,013
Pass-Through from University of Kentucky		7R49CE000606		135,978	135,978
Community Programs to Improve Minority Health Grant Program	93.137			29,747	29,747
NIEHS Superfund Hazardous Substances--Basic Research and Education	93.143		30,581	68,836	99,417
AIDS Education and Training Centers	93.145				
Pass-Through from Dallas County Hospital District		CON13209		160	160
Pass-Through from Dallas County Hospital District		CON14001		(883)	(883)
Pass-Through from Dallas County Hospital District		CON15196		(382)	(382)
Pass-Through from Dallas County Hospital District		CON17498		70,764	70,764
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153		109,631	1,423,957	1,533,588
Pass-Through from Resource Group		07UTG00T4		5,690	5,690
Pass-Through from Resource Group		08UTG00RWD		11,304	11,304
Centers of Excellence	93.157			6,869	6,869
Human Genome Research	93.172		84,569	852,605	937,174

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from Atactic Technologies, Inc.		5 R41 HG003786-02-UH		61,131	61,131
Pass-Through from Biotex, Inc.		1R43GM076791		363	363
Pass-Through from Coriell Institute		NIH-G510052		2,000	2,000
Pass-Through from Duke University		146500		234,305	234,305
Pass-Through from Duke University		155325/146500		1,207	1,207
Pass-Through from Massachusetts Institute of Technology		HHSN268200625226C		21,040	21,040
Pass-Through from The Research Foundation of Suny		07-35/HG004571		160,504	160,504
Pass-Through from University of Iowa		5R01HG003330		16,815	16,815
Pass-Through from William Marsh Rice University		R21491		27,685	27,685
Research Related to Deafness and Communication Disorders	93.173		210,571	5,108,247	5,318,818
Pass-Through from Feinstein Institute for Medical Research		1 U01 DC007946 01 A2		2,400	2,400
Pass-Through from Massachusetts Eye and Ear Institute		5U01DC00629604		19,462	19,462
Pass-Through from Massachusetts Eye and Ear Institute		5U01DC00629605		2,461	2,461
Pass-Through from Purdue University		5R01DC00578804		1,493	1,493
Pass-Through from University of Alabama-Birmingham/NIH		HHSN260200500008C		344,933	344,933
Pass-Through from University of California - Santa Barbara		KK6121		229,078	229,078
Pass-Through from University of Colorado		154-4294/R01DC001150		10,383	10,383
Pass-Through from University of Colorado		FOX-UCB-DC001150		10,457	10,457
Pass-Through from Vanderbilt University/NIH		1R01DC00840801A1		12,725	12,725
Disabilities Prevention	93.184			9,699	9,699
Health Education and Training Centers	93.189			29,369	29,369
Allied Health Special Projects	93.191			(1,116)	(1,116)
Childhood Lead Poisoning Prevention Projects--State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197				
Pass-Through from City of Houston Health and Human Services		98-412-FC39033		4,133	4,133
Telehealth Network Grants	93.211			(332)	(332)
Research and Training in Complementary and Alternative Medicine	93.213		6,781	2,180,010	2,186,791
Pass-Through from Louisiana State University Agricultural Center		1 R21 AT002882 01		59,065	59,065
Pass-Through from University of Missouri - Columbia		5P01ES10535-05		(2)	(2)
Pass-Through from University of Missouri - Columbia		5U9AT003264-03		19,415	19,415
Pass-Through from Washington University		WU-08-78		112,246	112,246
Research on Healthcare Costs, Quality and Outcomes	93.226		682,532	2,245,988	2,928,520
Pass-Through from Isis Incorporated		HHSA29020050020C		3,309	3,309
Pass-Through from Westat, Inc.		8362-S-005		245,031	245,031
Consolidated Knowledge Development and Application (KD&A) Program	93.230		89,039	170,720	259,759
National Center on Sleep Disorders Research	93.233			109,724	109,724
Traumatic Brain Injury State Demonstration Grant Program	93.234			15,530	15,530
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238				
Pass-Through from Boston University		S3492-23/23		3,238	3,238
Mental Health Research Grants	93.242		2,815,486	23,015,617	25,831,103
Pass-Through from Acenta Discovery, Inc.		5R41MH070083-02		(5,995)	(5,995)
Pass-Through from Baylor College of Medicine		100589118		34,261	34,261
Pass-Through from Baylor College of Medicine		5 R01 MH053932 09		407	407
Pass-Through from Baylor College of Medicine		5 R34 MH074360 03		27,999	27,999
Pass-Through from Cerebral Magnetics, LLC		1R41MH074278-01A1		8,648	8,648
Pass-Through from Duke Clinical Research Institute		5R01MH07049404		34,455	34,455

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from Georgia State University		H3102		17,991	17,991
Pass-Through from Hartford Hospital/NIH		A07077M08A00728		110	110
Pass-Through from John Hopkins University		5PO1MH070306		9,880	9,880
Pass-Through from John Hopkins University		5R01MH069116		6,253	6,253
Pass-Through from Loyola University Chicago		5R01DA015760-03		(206)	(206)
Pass-Through from McLean Hospital		2P50MH6045008		108,903	108,903
Pass-Through from McLean Hospital		5P50MH06045009		18,834	18,834
Pass-Through from Northwestern University		1P50MH07492403		209,628	209,628
Pass-Through from Northwestern University		5P50MH07492402		1,343	1,343
Pass-Through from Northwestern University		5P50MH07492404		15,540	15,540
Pass-Through from Oregon Research Institute		R34MH073756		6,938	6,938
Pass-Through from Psychogenic Incorporated		1R43MH078433-01A1		3,167	3,167
Pass-Through from Rockefeller University/NIH		5P01MH07486603		192,093	192,093
Pass-Through from Southwest Foundation for Biomedical Research		SFBR/06-1496.002		57,258	57,258
Pass-Through from Southwest Foundation for Biomedical Research		05-1244		(70)	(70)
Pass-Through from The Pennsylvania State University		G096664		49,166	49,166
Pass-Through from Tourette Syndrome Association		PETERSON-TOURETE/NIH		21,133	21,133
Pass-Through from University North Carolina at Chapel Hill		5-50556/7R01MH069774		11,413	11,413
Pass-Through from University North Carolina at Chapel Hill		R01MH059312		7,052	7,052
Pass-Through from University of Arizona		Y432173/5R01MH066235		102,849	102,849
Pass-Through from University of California - Davis		SUB0700359		60,755	60,755
Pass-Through from University of California - Los Angeles		2000GJU938 / MINTZ		13,417	13,417
Pass-Through from University of California - San Francisco		3961SC, AMD 004		3,865	3,865
Pass-Through from University of California/NIH		5R01MH03391721		53,829	53,829
Pass-Through from University of Michigan/NIH		5R01MH08001502		23,770	23,770
Pass-Through from University of North Carolina		SGR01MH068766/UNC		11,413	11,413
Pass-Through from University of North Carolina/NIH		5R01MH05931203		32	32
Pass-Through from Washington University		29325X		2,614	2,614
Pass-Through from Washington University		WU-HT-08-19		6,574	6,574
Pass-Through from Yale University		UTA04-015; A05241A		21,789	21,789
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		52,185	2,056,599	2,108,784
Advanced Education Nursing Grant Program	93.247			(7)	(7)
Public Health Training Centers Grant Program	93.249			92,273	92,273
Health Communities Access Program	93.252				
Pass-Through from Dallas Academy of Medicine		5G92OA0013102		181	181
Poison Control Stabilization and Enhancement Grants	93.253			187,582	187,582
Occupational Safety and Health Program	93.262		196,274	1,076,436	1,272,710
Pass-Through from University of Massachusetts - Worcester		R21OH07322		1,018	1,018
Pass-Through from University of South Dakota		USD0809/R03OH009325		2,302	2,302
Alcohol Research Career Development Awards for Scientists and Clinicians		93.271		15,424	15,424
Alcohol National Research Service Awards for Research Training	93.272			5,992	5,992
Alcohol Research Programs	93.273		551,294	10,094,660	10,645,954
Pass-Through from Mercer University		GC06-420604-04		5,852	5,852
Pass-Through from Oklahoma University Health Sciences Center		06LM050047NL		30,194	30,194
Pass-Through from Palo Alto Institute for Research and Educ, Inc		MOO0021-001		14,400	14,400

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from Stanford University		17362290-23482-C, AMD 1		16,982	16,982
Pass-Through from Stanford University		18303980-24776-A		43,190	43,190
Pass-Through from The Corporation of Mercer University		1R25AA014915		9,880	9,880
Pass-Through from University of Kentucky		4-64281-02-045		(164)	(164)
Pass-Through from University of North Dakota		5R01AA04610		12,718	12,718
Pass-Through from University of Virginia		GC11487-127303		65,917	65,917
Pass-Through from University of Washington		825449		10,770	10,770
Career Development Awards	93.277			362,266	362,266
Drug Abuse National Research Service Awards for Research Training	93.278			(233)	(233)
Drug Abuse and Addiction Research Programs	93.279		569,143	21,664,160	22,233,303
Pass-Through from Baylor College of Medicine		100503787		81,991	81,991
Pass-Through from Baylor College of Medicine		5P50DA018197		82,507	82,507
Pass-Through from Georgetown University		R01DA1045806		(25,361)	(25,361)
Pass-Through from Henry M. Jackson Foundation		R01 DA020436 04		11	11
Pass-Through from Indiana University		# 344652		45,816	45,816
Pass-Through from Johns Hopkins University		1R01DA024565-01A2		119,450	119,450
Pass-Through from Kentucky Research Foundation		08AP030016N3L		30,024	30,024
Pass-Through from King's College London		2R01DA004376		20,820	20,820
Pass-Through from National Development and Research Inst.		NDRII# 137B00-791		17,579	17,579
Pass-Through from Ohio Northern University		110-60516A		61,501	61,501
Pass-Through from Rush University Medical Center		7R01DA01576005		22,826	22,826
Pass-Through from University of Illinois		5 P30 DA018310 05		17,938	17,938
Pass-Through from University of Illinois at Chicago		5R01DA02231702		41,535	41,535
Pass-Through from University of Illinois at Chicago		R01DA010458-10		(9,614)	(9,614)
Pass-Through from University of Miami		M768664		127,078	127,078
Pass-Through from University of Pittsburgh		106668-1		5	5
Pass-Through from Vanderbilt University		VUMC31439-R/R01DA007		39,034	39,034
Mental Health Research Career/Scientist Development Awards	93.281			1,528,181	1,528,181
Mental Health National Research Service Awards for Research Training	93.282			338,228	338,228
Centers for Disease Control and Prevention--Investigations and Technical Assistance	93.283		510,424	1,766,649	2,277,073
Pass-Through from Association of American Medical		U36/CCU319276		(1,728)	(1,728)
Pass-Through from Associations of Schools of Public Health		U36CCU300430		198,108	198,108
Pass-Through from Michigan State University		5U10DD000007		11,689	11,689
Pass-Through from Research Triangle Institute		12-312-0208633		243,779	243,779
Pass-Through from University of Colorado Health		U27/CCU812106		32	32
Pass-Through from University of Colorado/NIH		U27CCU81210606		10,304	10,304
Pass-Through from Washington University/NIH		5R01NS32228		24,544	24,544
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		418,707	7,672,209	8,090,916
Pass-Through from Cedars-Sinai Health System		537666		18,033	18,033
Pass-Through from City of Houston Health and Human Services		FC62154		5,705	5,705
Pass-Through from City of Houston Health and Human Services		U62/CCU606238		134,804	134,804
Pass-Through from Marval Therapeutics, Inc.		1R43EB004700		370	370
Pass-Through from Marval Therapeutics, Inc.		1R44EB004700		50,801	50,801
Pass-Through from Purdue University		1R21EB00725601A1		24,190	24,190
Pass-Through from Rice University		R01 EB002179 07		48,445	48,445

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from University of California		CLARKE UC# 2005-1654		486	486
Pass-Through from University of California - Los Angeles		5 R01 EB004898 02		38,048	38,048
Pass-Through from University of California - Los Angeles		FOX:S/G EB001955UCLA		112,356	112,356
Pass-Through from University of California - Santa Barbara		KK8148		3,899	3,899
Pass-Through from University of Missouri		C00013378-1		54,933	54,933
Pass-Through from University of Oklahoma Health Sciences Center		RS20071006-01		8,866	8,866
Pass-Through from Yale University		A06981		87,236	87,236
National Center for Health Workforce Analysis	93.300			(5)	(5)
Small Rural Hospital Improvement Grant Program	93.301			235,146	235,146
Minority Health and Health Disparities Research	93.307		24,800	4,307,870	4,332,670
Trans-NIH Research Support	93.310		112,136	4,466,705	4,578,841
Clinical Research	93.333			2,890,294	2,890,294
Advanced Education Nursing Traineeships	93.358			62,951	62,951
Nurse Education, Practice and Retention Grants	93.359		11,944		11,944
Nursing Research	93.361		108,229	5,039,543	5,147,772
Pass-Through from Indiana University		5R01NR00843403		52,076	52,076
Pass-Through from University of Washington		341230/R01-NR00962		49,975	49,975
Pass-Through from Wake Forest University		5 R01 NR009675 02		783	783
Biomedical Technology	93.371			238,680	238,680
Pass-Through from Oncosis		R44RR1537402		(511)	(511)
Minority Biomed	93.375			76,999	76,999
National Center for Research Resources	93.389		2,138,535	33,372,757	35,511,292
Pass-Through from Baylor College of Medicine		1 P20 RR020647-01 400613194		49,714	49,714
Pass-Through from Baylor College of Medicine		5P20RR020626		(12,591)	(12,591)
Pass-Through from Constella Group, Inc.		GENLINK-32831		466	466
Pass-Through from Incell Corporation, LLC		1 R41 RR024772		39,816	39,816
Pass-Through from Johns Hopkins University		5P40RR019995		3,115	3,115
Pass-Through from Mount Sinai School of Medicine - NYU		5U54RR01948406		108,124	108,124
Pass-Through from Oklahoma University Health Sciences Center		08LM030014F5H		167,038	167,038
Pass-Through from Southwest Foundation for Biomedical Research		07-1503.003/RR23345		8,417	8,417
Pass-Through from Southwest Foundation for Biomedical Research		SFBR - 06-2500.55		31,445	31,445
Pass-Through from Southwest Foundation for Biomedical Research		TARDIF - SFBR/NIH		10,479	10,479
Pass-Through from University of Florida		UF05099/R01HL068085		74,012	74,012
Pass-Through from University of Rochester/NIH		5U54NS05906505		159,927	159,927
Pass-Through from Virginia Polytechnic Institute		19543-431399		4,667	4,667
Academic Research Enhancement Award	93.390			1,270,842	1,270,842
Bacterial Heme Transport and Hemoglobin Expression	93.391			52,137	52,137
Cancer Construction	93.392		68,258	837,805	906,063
Cancer Cause and Prevention Research	93.393		1,983,126	32,875,232	34,858,358
Pass-Through from Axis Healthcare Communications, LLC		1 R42 CA123932 01		14,097	14,097
Pass-Through from Beth Israel Deaconess Medical Center		3 R01 CA095662 05 S1		27,804	27,804
Pass-Through from British Columbia Cancer Agency		5P01CA09696405		71,009	71,009
Pass-Through from British Columbia Cancer Agency		5U01CA09610905		150,876	150,876
Pass-Through from Burnham Institute for Medical Research		5R01CA109345		79,528	79,528
Pass-Through from Digital Science Technologies, LLC		7 R42 CA123932 02		42,077	42,077

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from Einstein Medical College-Yeshiva University		9526-3878 NIHCA77290		2,707	2,707
Pass-Through from Fred Hutchinson Cancer Research		1R01CA114467		71,624	71,624
Pass-Through from Indiana University		5R01CA11598302		47,204	47,204
Pass-Through from Indiana University		5R01CA11598303		7,929	7,929
Pass-Through from International Epidemiology Institute, Ltd.		5 R01 03		22,093	22,093
Pass-Through from Lawrence Berkeley National Lab		6815123, MOD 2		95,331	95,331
Pass-Through from Massachusetts General/NIH		3U01CA07828405S2		15,813	15,813
Pass-Through from Mayo Clinic		3 R01 CA097075 05 S1		53,900	53,900
Pass-Through from Mayo Clinic		5 R01 CA097075 05		(3,756)	(3,756)
Pass-Through from Mayo Clinic		5 U01 CA118444 02		71,613	71,613
Pass-Through from Mayo Clinic		5R01CA090636-06		27,928	27,928
Pass-Through from Mayo Medical School		2R01CA090636-05A1		27,462	27,462
Pass-Through from Medical University of South Carolina		MUSC/1R03CA128089-01		50,121	50,121
Pass-Through from Northwestern University		5 R01 CA104768 04		20,748	20,748
Pass-Through from Rice University		5 U01 CA097431 03		120,976	120,976
Pass-Through from Saint Louis University		1R21CA126326		87,917	87,917
Pass-Through from Trustees of Dartmouth College		5 R01 CA066032 08		12,034	12,034
Pass-Through from University of Arizona		5 P01 CA041108 21		148,058	148,058
Pass-Through from University of Arizona		Y480655		3,391	3,391
Pass-Through from University of California		2007-1825/CA074415		50,703	50,703
Pass-Through from University of California - Berkeley		5P01CA09258408		67,851	67,851
Pass-Through from University of California - Berkeley		6721739		(4,407)	(4,407)
Pass-Through from University of California - San Diego		5 R01 CA069375 10		(8,977)	(8,977)
Pass-Through from University of California - San Francisco		5 R01 CA052689 15		1,694	1,694
Pass-Through from University of California/NIH		5P01CA09258407		160,379	160,379
Pass-Through from University of Cincinnati		5 R01 CA097099 05		49,958	49,958
Pass-Through from University of Cincinnati		5 U01 CA076293 08		98,143	98,143
Pass-Through from University of Cincinnati/NIH		5U01CA07629307		1,771	1,771
Pass-Through from University of Cincinnati/NIH		5U01CA07629308		66,642	66,642
Pass-Through from University of Iowa		5 R01 CA104825 05		(23,035)	(23,035)
Pass-Through from University of Minnesota		5R01CA86191		27,037	27,037
Pass-Through from University of Minnesota		Q6437319103/CA111355		54,446	54,446
Pass-Through from University of Missouri - Columbia		G72134		13,323	13,323
Pass-Through from University of Pennsylvania		TOMLINSON/DNA REPAI		1,397	1,397
Pass-Through from University of Pittsburgh		5 R01 CA101980 05		55,783	55,783
Pass-Through from University of Rochester		5 R01 CA098954 04		9,462	9,462
Pass-Through from University of Wisconsin - Madison		5 R01 CA114539 02		29,129	29,129
Cancer Detection and Diagnosis Research	93.394		1,398,732	5,359,471	6,758,203
		R01 CA106728 01		18,365	18,365
Pass-Through from 3 Gen, LLC		1R41CA110159		24,054	24,054
Pass-Through from American College of Radiology Imaging		6666CA080098		62,788	62,788
Pass-Through from American College of Radiology Imaging		ACRIN PROT#6673		5,387	5,387
Pass-Through from American College of Radiology Imaging		DODD-ACRIN-NCI		9,755	9,755
Pass-Through from American College of Radiology Imaging		U01CA80098		(35)	(35)
Pass-Through from Duke Clinical Research Institute		5R01CA082344		1,330	1,330
Pass-Through from Fairway Medical Technologies		5R44CA096153-03		3,658	3,658
Pass-Through from Purdue University		4102-19026		55,478	55,478
Pass-Through from Research Triangle Institute		N01-CP-01004		685	685
Pass-Through from Rice University		R21141		2,817	2,817
Pass-Through from Rice University		R21143		32	32
Pass-Through from Rice University		R33CA100986		48,599	48,599
Pass-Through from University of California		SUB07006		6,938	6,938
Pass-Through from University of California - San Diego		4 R44 CA097686 02		43,781	43,781

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from University of California - San Diego		5R01CA113828		48,960	48,960
Pass-Through from University of California - San Francisco		5 U24 CA126477 03		127,207	127,207
Pass-Through from University of Chicago		TRACS 25878		557	557
Pass-Through from University of Maryland - Baltimore County		CG0604		4,407	4,407
Pass-Through from University of Wisconsin - Madison		5 R33 CA111933 03		61,385	61,385
Pass-Through from Vanderbilt University		3 U01 CA091664 05 S2		31,631	31,631
Pass-Through from Vanderbilt University		5 U01 CA114771 03		115,408	115,408
Pass-Through from Vanderbilt University		U24 CA126479 02		155,165	155,165
Pass-Through from Vanderbilt University/NIH		5U01CA11477103		82,965	82,965
Pass-Through from Vanderbilt University/NIH		5U01CA11477104		2,916	2,916
Pass-Through from Washington State University		WU-HT-08-16		31,452	31,452
Pass-Through from Washington University		7 R01 CA106728 04		75,933	75,933
Cancer Treatment Research	93.395		2,273,435	35,152,124	37,425,559
		2R01CA10466106		93,087	93,087
Pass-Through from American College of Radiology		3 U10 CA021661 32 S1		2,037	2,037
Pass-Through from American College of Radiology		5 U01 CA080098 06		262,156	262,156
Pass-Through from American College of Radiology		5 U01 CA080098 07		(1,800)	(1,800)
Pass-Through from American College of Radiology		5 U01 CA080098 08		49,089	49,089
Pass-Through from American College of Radiology		5 U10 CA021661 27		(25,736)	(25,736)
Pass-Through from American College of Radiology		5 U10 CA021661 32 S		17,505	17,505
Pass-Through from American College of Radiology		U10CA21661		187	187
Pass-Through from American College of Radiology		UID CA021661-29		860	860
Pass-Through from American College of Surgeons		5 U10 CA076001 04		4,575	4,575
Pass-Through from Bio Tex, Inc.		2 R44 CA079282 04		7,701	7,701
Pass-Through from Bio Tex, Inc.		2 R44 CA096227 02A1		6,107	6,107
Pass-Through from Brigham and Women's Hospital/NIH		5R01CA10716404		14,650	14,650
Pass-Through from Burnham Institute for Medical Research		5R01CA107039		86,269	86,269
Pass-Through from Cancer Therapy and Research Foundation		CON13299		4,190	4,190
Pass-Through from Case Western Reserve University		5R21CA11243602		48,422	48,422
Pass-Through from Cincinnati Children's Hospital		1R01CA11916201A1		7,889	7,889
Pass-Through from CTRC Research Foundation		BEERAM S/G CA 069853		8,560	8,560
Pass-Through from CTRC Research Foundation		SWOG 99055		(524)	(524)
Pass-Through from Dana-Farber Cancer Institute		5 U19 CA100265 05	6,000	1,349,443	1,355,443
Pass-Through from Dana-Farber Cancer Institute/NIH		5R01CA1063703		85,356	85,356
Pass-Through from Duke University		2 U10 CA076001 09		52,664	52,664
Pass-Through from Duke University		2 U10 CA076002 04		498	498
Pass-Through from Duke University		5 P01 CA078673 03		4,717	4,717
Pass-Through from Duke University		5 U10 CA033601 28		32,006	32,006
Pass-Through from Duke University		5 U10 CA076001 10		7,763	7,763
Pass-Through from Duke University		5 U10 CA076001 11		5,906	5,906
Pass-Through from Duke University		5 U10 CA85850 06		(10,653)	(10,653)
Pass-Through from Duke University		5U10CA07600110		1,875	1,875
Pass-Through from Duke University Medical Center		1U01CA076001		37,303	37,303
Pass-Through from Eastern Cooperative Oncology Group (ECOG)		5U10CA02111534		2,983	2,983
Pass-Through from Eastern Cooperative Oncology Group (ECOG)		PSAUTJS00		21,380	21,380
Pass-Through from Eastern Cooperative Oncology Group (ECOG)		U10CA2111533		9,342	9,342
Pass-Through from Eastern Cooperative Oncology Group (ECOG)		EASTERN COOPERATIVE ONCOLOGY GROUP(ECOG)		2,897	2,897
Pass-Through from Fairway Medical Technologies		5R11CA096153-03		1,947	1,947

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from Fem Cadet, Inc.		FEM.CADET		6,822	6,822
Pass-Through from Foundation Children's Oncology Group		U01CA9745206		10,712	10,712
Pass-Through from Fred Hutchinson Cancer Research		5 R21 CA115044 02		(60,601)	(60,601)
Pass-Through from Gensolve, Inc.		8 R42 CA089778 08		172,732	172,732
Pass-Through from Gynecologic Oncology Group		27469-114		8,196	8,196
Pass-Through from Gynecologic Oncology Group		SPA2746937		47,132	47,132
Pass-Through from Gynecologic Oncology Group		U10CA2746927		13,178	13,178
Pass-Through from Gynecologic Oncology Group (GOG)		5 U10 CA027469 26		4,106	4,106
Pass-Through from Gynecologic Oncology Group (GOG)		5 U10 CA027469 28		3,703	3,703
Pass-Through from Health Research, Inc.		S/G R01CA106815		5,601	5,601
Pass-Through from Health Research, Inc.		S/G R01CA116395		3,617	3,617
Pass-Through from Houston Pharmaceuticals		1 R43 CA130272 01		18,157	18,157
Pass-Through from Houston Pharmaceuticals		5 R41 CA109862 02		5,061	5,061
Pass-Through from Lpath Therapeutics		2 R44 CA110298 02		4,567	4,567
Pass-Through from Michigan Critical Care Consultants		1R41CA120616-01A2		15,555	15,555
Pass-Through from National Cancer Institute - DHHS - NIH		5 R01 CA089442 05		(9,653)	(9,653)
Pass-Through from National Childhood Cancer Foundation		15975		25,000	25,000
Pass-Through from National Childhood Cancer Foundation		16933/COG		7,113	7,113
Pass-Through from National Childhood Cancer Foundation		5U01CA09745205		6,013	6,013
Pass-Through from National Childhood Cancer Foundation		5U01CA09745206		18,671	18,671
Pass-Through from National Childhood Cancer Foundation		5U10CA09854304		1,664	1,664
Pass-Through from National Childhood Cancer Foundation		5U10CA09854305		99,098	99,098
Pass-Through from National Childhood Cancer Foundation		5U10CA9854303		57,209	57,209
Pass-Through from National Childhood Cancer Foundation		5U10CA9854305S1		241,714	241,714
Pass-Through from National Childhood Cancer Foundation		U10CA9854305		15,782	15,782
Pass-Through from National Surgical Adjuvant Breast and		NSABP - TFED 36, 37		24,554	24,554
Pass-Through from Neurobio Tex, Inc.		CON16448		10,280	10,280
Pass-Through from Northwestern University		3 R01 CA085915 07 S1		41,031	41,031
Pass-Through from Northwestern University		5 R01 CA085915 08		164,554	164,554
Pass-Through from NSABP Foundation		1 U10 CA012027 01		(1,994)	(1,994)
Pass-Through from NSABP Foundation		U10CA12027		13,336	13,336
Pass-Through from Oregon Health Science University		5 R01 CA083936 04		10,696	10,696
Pass-Through from Pediatric Oncology Group		5U10CA30969		2,561	2,561
Pass-Through from Radiation Therapy Oncology Group		5 U10 CA21661 32		28,748	28,748
Pass-Through from Rice University		5 R01 103830 04		366,256	366,256
Pass-Through from Rice University		5 R01 CA103830 04A4		339,668	339,668
Pass-Through from Rice University		7R01CA103830		38,392	38,392
Pass-Through from Rice University		R21151, AMNT 4		60,849	60,849
Pass-Through from Rice University		R21156, AMEND 4		92,027	92,027
Pass-Through from RTOG/NIH		U10CA21661		58,978	58,978
Pass-Through from Sidney Kimmel Cancer Center		1R21GM077681		72,939	72,939
Pass-Through from Sloan Kettering Institute		5R01CA10047403		(1,495)	(1,495)
Pass-Through from St Jude Children's Research Hospital		5U24CA05572713		39,014	39,014
Pass-Through from St. Jude Children's Research Hospital		5 U24 14		267,943	267,943
Pass-Through from The University of Michigan		CA32102		93,357	93,357
Pass-Through from The University of Michigan		S/G U10CA32102		1,116,544	1,116,544
Pass-Through from The University of Michigan		SWOG/CTEP, CA32102		16,450	16,450
Pass-Through from Translational Genomics Research		5 P01 04		202,823	202,823
Pass-Through from Translational Genomics Research		5 P01 CA109552 02A1		34,958	34,958
Pass-Through from Transpire, Inc.		2 R44 CA105806 02		59,235	59,235
Pass-Through from University of Arizona		2 P01 CA017094 28A2		258,182	258,182
Pass-Through from University of Arkansas for Medical Sciences		S/G R01CA118981	40,077	4,875	44,952
Pass-Through from University of California		S/G R01CA107228		(532)	(532)
Pass-Through from University of California - San Diego		5 P01 CA081534 06		(25,562)	(25,562)

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from University of California - San Diego		5 P01 CA081534 06 S1		(52,146)	(52,146)
Pass-Through from University of California - San Diego		5 P01 CA081534 09		356,921	356,921
Pass-Through from University of California - San Francisco		5 U01 CA062399 14		483,718	483,718
Pass-Through from University of California - San Francisco		U01 CA062399		4,995	4,995
Pass-Through from University of Chicago		5U10CA03744705		17,041	17,041
Pass-Through from University of Colorado		5 R33 CA097710 04		(10,323)	(10,323)
Pass-Through from University of Southern CA/NIH		5R01CA07192109		3,298	3,298
Pass-Through from University of Tennessee		2 R01 CA092160 06		35,056	35,056
Pass-Through from Vanderbilt University		5 R01 CA038079 20		5,676	5,676
Pass-Through from Vanderbilt University		5 R01 CA115556 02		76,823	76,823
Pass-Through from Virginia Commonwealth University		5 R21 CA092950 03		(12,000)	(12,000)
Pass-Through from Virginia Commonwealth University		5 R01 CA093626-04		(1,408)	(1,408)
Pass-Through from Washington University		2 U24 CA081647 09		137,005	137,005
Cancer Biology Research	93.396		229,919	17,403,623	17,633,542
Pass-Through from Baylor College of Medicine		5 U01 CA 105352 04		156,715	156,715
Pass-Through from Baylor College of Medicine		5 U01 CA084243 09		187,150	187,150
Pass-Through from Baylor College of Medicine		5 U01 CA105352 04		486,481	486,481
Pass-Through from Baylor College of Medicine		5 U01 CA105491 03		(316)	(316)
Pass-Through from Einstein Medical College-Yeshiva University		9-526-2343/AG24391		9,409	9,409
Pass-Through from Fred Hutchinson Cancer Research		5 U01 CA084296 10		139,973	139,973
Pass-Through from Louisiana State University Health Science Center		1 R21 CA116324 01 A2		15,563	15,563
Pass-Through from Massachusetts Institute of Technology		5 U01 CA084306 05		(25,578)	(25,578)
Pass-Through from Massachusetts Institute of Technology		5 U01 CA084306 09		155,508	155,508
Pass-Through from Mayo Clinic		5 P50 CA116201 03		11,264	11,264
Pass-Through from Mayo Clinic		5R01CA10450505		29,698	29,698
Pass-Through from Rhode Island Hospital		RIH 701-1461		7,593	7,593
Pass-Through from University of California - San Francisco		5 P01 CA064602 09 4		(167,273)	(167,273)
Pass-Through from University of Massachusetts Medical School		5 R01 02		54,049	54,049
Pass-Through from University of Pennsylvania		5 R01 CA089202 07		27,326	27,326
Pass-Through from University of Pittsburgh		5 R01 CA098372 03		17,948	17,948
Pass-Through from University of Virginia		5 R01 CA088456 04		(45)	(45)
Pass-Through from Vanderbilt University		2P01CA040035-18A1		276,241	276,241
Pass-Through from Yale University		S/C 1U01 CA8181001		(30,111)	(30,111)
Pass-Through from Yale University		5U01CA81810-02		(21,398)	(21,398)
Cancer Centers Support Grants	93.397		1,725,187	24,590,723	26,315,910
Pass-Through from University of Arizona		P50 CA095060 07		319,130	319,130
Pass-Through from University of Iowa		2 P50 CA097274 06		34,348	34,348
Cancer Research Manpower	93.398		656,181	10,506,561	11,162,742
Pass-Through from University of Michigan		5 K07 CA090241 05		187	187
Cancer Control	93.399		7,274,003	20,596,651	27,870,654
Pass-Through from Baylor College of Medicine		5 R01 CA078480 11		53,202	53,202
Pass-Through from Baylor College of Medicine		5 R01 CA-101211 05		80,163	80,163
Pass-Through from Brigham and Women's Hospital/NIH		2U01CA08634108		47,562	47,562
Pass-Through from Brigham and Women's Hospital/NIH		2U01CA08638108		29,182	29,182
Pass-Through from Dartmouth Medical School		5 R01 CA059005 15		80,629	80,629
Pass-Through from Duke University		1 R21 CA122143 01A1		3,970	3,970
Pass-Through from Duke University		5 R01 CA106919 04		2,533	2,533
Pass-Through from Eastern Cooperative Oncology Group (ECOG)		5 MDA520SH05-00		181,143	181,143
Pass-Through from Fox Chase Cancer Center		2 R01 CA075795 08		34,436	34,436

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from Frontier Science and Technology Research Foundation		3 U10 CA037403 21 S4		(913)	(913)
Pass-Through from Frontier Science and Technology Research Foundation		3 U10 CA037403 21-S1		(31,592)	(31,592)
Pass-Through from Frontier Science and Technology Research Foundation		5 U10 CA037403 23		53,781	53,781
Pass-Through from Health Research, Inc.		U01CA77178-12 PIN SELENIUM		1,976	1,976
Pass-Through from Johns Hopkins University		5 U01 CA084986 08		430	430
Pass-Through from Memorial Sloan-Kettering Cancer Center		5 R01 CA90514 04		16,423	16,423
Pass-Through from Mount Sinai School of Medicine		5R01CA094006-02		(438)	(438)
Pass-Through from Mount Sinai School of Medicine		5R01CA094006-05		28,393	28,393
Pass-Through from National Childhood Cancer Foundation		16935/CA95861		12,107	12,107
Pass-Through from NSABP Foundation		1 U10 CA037377 01		(20,811)	(20,811)
Pass-Through from NSABP Foundation		2 U10 CA037377 10		599,061	599,061
Pass-Through from NSABP Foundation		2 U10 CA037377 22		106,637	106,637
Pass-Through from NSABP Foundation		5 U10 CA037377 09		(65,076)	(65,076)
Pass-Through from NSABP Foundation		NSABP PFED22-TXS-01		(14,770)	(14,770)
Pass-Through from NSABP Foundation		PFED22UTS01	17,000	20,671	37,671
Pass-Through from NSABP Foundation		U10 CA37377		4,488	4,488
Pass-Through from Rush University Medical Center		7 R21 CA106958 03		1	1
Pass-Through from Southwest Oncology Group		1 01		16,011	16,011
Pass-Through from Southwest Oncology Group		5 U10 CA037429 21		(7,032)	(7,032)
Pass-Through from Southwest Oncology Group		5 U10 CA077178 11		853	853
Pass-Through from Southwest Oncology Group		5 U10 CA37429 17		15,275	15,275
Pass-Through from Southwest Oncology Group		742618443		9,440	9,440
Pass-Through from Southwest Oncology Group		CA037429 01		5,148	5,148
Pass-Through from Southwest Oncology Group		CA37429		2,826	2,826
Pass-Through from Southwest Oncology Group		PCPT9345		348	348
Pass-Through from Southwest Oncology Group		(50)		97,557	97,557
Pass-Through from Southwest Oncology Group		SWOG CA37429		66,192	66,192
Pass-Through from Southwest Oncology Group		SWOG/5U10CA37429		124,017	124,017
Pass-Through from Southwest Oncology Group		UTHSCASWOG CA37429		8,301	8,301
Pass-Through from Southwest Oncology Group		CA37429		16,118	16,118
Pass-Through from Stanford University		17666630-33956-A (UTA06-119) AMD NO 1		65,115	65,115
Pass-Through from Stanford University		17666630-33956-A		140	140
Pass-Through from Stanford University		17666630-33956-A(UTA06-119)		28,532	28,532
Pass-Through from The University of Michigan		SG: U10CA037429-24	19,633	1,275,526	1,295,159
Pass-Through from Trustees of Dartmouth College		5 R01 CA098286 05		163,554	163,554
Pass-Through from University of California - Irvine		PCPT U10CA37429		29,371	29,371
Pass-Through from University of Michigan		5 U01 CA086400 05		96	96
Pass-Through from University of Michigan		5 U01 CA086400 08		251,509	251,509
Pass-Through from University of Michigan		CA11675804		25,955	25,955
Pass-Through from University of Wisconsin - Madison		1 R03 CA126406 01		(2)	(2)
Pass-Through from University of Wisconsin - Madison		5 P50 CA095817 05		59,035	59,035
Pass-Through from Washington University		5 R01 CA085920 05		(1,607)	(1,607)
Ruminant Feed Ban Support Project	93.449			249,177	249,177
Promoting Safe and Stable Families	93.556			2	2
Pass-Through from Spaulding for Children		G096358		23,091	23,091

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Community-Based Child Abuse Prevention Grants	93.590			541	541
Head Start	93.600		9,316	232,575	241,891
Developmental Disabilities Basic Support and Advocacy Grants	93.630			186,305	186,305
University Centers for Excellence in Developmental Disabilities Education, Research and Service	93.632		42,000	450,102	492,102
Child Welfare Services Training Grants	93.648		22,173	16,907	39,080
Pass-Through from City of Ft Worth		33788		90	90
Adoption Opportunities	93.652				
Pass-Through from Adoption Exchange Association		UTA07-833		157,787	157,787
Demonstration to Maintain Independence and Employment	93.769			519,149	519,149
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779			1,158,279	1,158,279
Pass-Through from Memorial Hermann TIRR		11-P-92574		39,291	39,291
State Pharmaceutical Assistance Programs	93.786			(3,299)	(3,299)
Money Follows the Person Rebalancing Demonstration	93.791				
Pass-Through from Center for Health Care Services		MAPLES-CHCS		10,950	10,950
Biomedical Research and Research Training	93.821			111,671	111,671
Pass-Through from Baylor College of Medicine		4600592817		(301)	(301)
Pass-Through from University of California - San Diego/NIH		5U54GM06933806		32,471	32,471
Health Careers Opportunity Program	93.822			12,608	12,608
Cardiovascular Diseases Research	93.837		5,923,934	36,450,289	42,374,223
Pass-Through from University of Washington/NIH		U01HL071556		9,217	9,217
Pass-Through from Baylor College of Medicine		100528276/R01HL90514		13,199	13,199
Pass-Through from Baylor College of Medicine		5 R01 HL068884 05		(2,411)	(2,411)
Pass-Through from Baylor College of Medicine		N01HC55016		154,230	154,230
Pass-Through from Baylor College of Medicine		R01HL078589		11,809	11,809
Pass-Through from Case Western Reserve University		R01HL086718		37,748	37,748
Pass-Through from Cincinnati Children's Hospital		5P50HL07710103		4,672	4,672
Pass-Through from Cincinnati Children's Hospital		5P50HL07710104		15,771	15,771
Pass-Through from Corinnova, Inc.		PRIME 4R42HL080759 - 426049		72,856	72,856
Pass-Through from Duke University		04-SC-NIH-1063		84,264	84,264
Pass-Through from Duke University Medical Center/NIH		1U01HL06901501		20,604	20,604
Pass-Through from Kaiser Foundation		R01HL78972		265,395	265,395
Pass-Through from Mayo Clinic		5R01HL53330		(4,581)	(4,581)
Pass-Through from Medarray, Inc.		2R44HL68375		(54)	(54)
Pass-Through from Medical College of Georgia		5R01HL07294602		660	660
Pass-Through from Medical College of Wisconsin		2R01HL07292005		12,297	12,297
Pass-Through from Medical College of Wisconsin		4R37HL07431406		50	50
Pass-Through from Medical College of Wisconsin		5P01HL02958725		3,239	3,239
Pass-Through from Medical College of Wisconsin		5P01HL05999608		8,559	8,559
Pass-Through from Medical College of Wisconsin		5P01HL05999609		19,181	19,181
Pass-Through from Medical College of Wisconsin		5R01HL07292006		8,585	8,585
Pass-Through from Medical College of Wisconsin		5R37HL07431405		21,840	21,840
Pass-Through from Medical University of Ohio		NS 2006-048		542	542
Pass-Through from New England Medical Center Hospitals, Inc.		U00HL077821		325,591	325,591
Pass-Through from New England Research		5U01HL06827006		287	287
Pass-Through from New England Research Institute		5U01HL06827007		57,984	57,984
Pass-Through from New England Research Institute		U01HL68270		7,170	7,170
Pass-Through from New York Medical College		5P01HL03430022		82,670	82,670
Pass-Through from Northwestern University		0600-370-V983-1431		560	560
Pass-Through from Ohio State University		05LM050030FNL		12,224	12,224
Pass-Through from Research Triangle Institute		HHSN268200648199C		104,122	104,122

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from Southwest Foundation for Biomedical Research		P01 HL45522-CORE A		(1,081)	(1,081)
Pass-Through from Southwest Foundation for Biomedical Research		P01 HL45522-CORE C		706	706
Pass-Through from Southwest Foundation for Biomedical Research		SFBR 06-1498.002		172,655	172,655
Pass-Through from St Luke's Hospital/NIH		1P50HL07711301		21,642	21,642
Pass-Through from Statistics and Epidemiology Research Corporation		N01HC55139		(1,838)	(1,838)
Pass-Through from Texas Heart Institute		U01HL087365		61,640	61,640
Pass-Through from Tufts - New England Medical		5U01HL07782103		445,814	445,814
Pass-Through from Tulane University		3U01HL72507		67,685	67,685
Pass-Through from University of Alabama - Birmingham		U01HL072524		14,593	14,593
Pass-Through from University of California - San Diego		10259605		139,916	139,916
Pass-Through from University of Michigan		R01HL39107		21,128	21,128
Pass-Through from University of Minnesota		B636777720		28,935	28,935
Pass-Through from University of Minnesota		TONEY-UM-HL076312		168,258	168,258
Pass-Through from University of Mississippi Medical Center		R01HL70825		14,838	14,838
Pass-Through from University of Pittsburgh		5U01HL61744		22,461	22,461
Pass-Through from University of Pittsburgh/NIH		5R01HL07503804		4,870	4,870
Pass-Through from University of Toledo		942536-03		16,588	16,588
Pass-Through from University of Washington		N01-HC-95159		933	933
Pass-Through from University of Washington/NIH		5U01HL07786304		3,230	3,230
Pass-Through from Wake Forest		UT 155030-11129		412,879	412,879
Lung Diseases Research	93.838		1,951,495	7,939,262	9,890,757
Pass-Through from Colla Genex Pharmaceutical, Inc.		2R42HL065030-02A1		(972)	(972)
Pass-Through from Compact Membrane Systems, Inc.		2R44HL064528-02		(2,511)	(2,511)
Pass-Through from Cornell University		R01HL071022	98,736	103,580	202,316
Pass-Through from John Hopkins University/NIH		1R01HL6892701		560	560
Pass-Through from Medical College of Wisconsin		5R01HL04929413		16,631	16,631
Pass-Through from Medical College of Wisconsin		5R01HL06862705		10	10
Pass-Through from Michigan Critical Care, Inc.		A-AVCO2R		(803)	(803)
Pass-Through from Michigan Critical Care, Inc.		CON12892		(100)	(100)
Pass-Through from National Jewish Health		24021001/HL089897		40,243	40,243
Pass-Through from University of Alabama at Birmingham		063690705		14,636	14,636
Pass-Through from University of California - San Francisco		SEIDNER:S/G HL056061		(4,306)	(4,306)
Pass-Through from University of Chicago		U01HL084715		33,777	33,777
Pass-Through from University of Pennsylvania/NIH		5R01HL07909004		79,444	79,444
Pass-Through from Washington University in St Louis		WU-07-34		115,661	115,661
Blood Diseases and Resources Research	93.839		278,925	3,318,275	3,597,200
Pass-Through from Baylor College of Medicine		5K23HL081539		27,602	27,602
Pass-Through from Children's Hospital Boston/NIH		5U01HL06526005		1,053	1,053
Pass-Through from Children's Hospital Research /NIH		5U01HL068091		539	539
Pass-Through from H Lee Moffitt Cancer/NIH		2R01HL07252305A1		77,325	77,325
Pass-Through from Massachusetts General Hospital		5 U54 HL081030 02		(57,756)	(57,756)
Pass-Through from Medical College of Wisconsin		1P01HL081588		23,027	23,027
Pass-Through from National Marrow Donor Program-DHHS-NIH		14867 02		40,109	40,109
Pass-Through from National Marrow Donor Program-DHHS-NIH		5 U01 HL69334		13,906	13,906
Pass-Through from Northwestern University		5R01HL06971702		24	24
Pass-Through from St Jude Children's Hospital		5U01HL07878702		49,638	49,638

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from St Jude Children's Hospital		5U01HL07878703		12,718	12,718
Pass-Through from Stanford University		5R01HL079381		230,053	230,053
Pass-Through from University Medicine and Dentistry of New Jersey		SG/1R01HL073958-01A1		3,179	3,179
Pass-Through from University of Alabama at Birmingham		N01-HC-95095		179,790	179,790
Pass-Through from University of Louisville		40999		(2)	(2)
Pass-Through from University of Nevada - Reno		502963		15,380	15,380
Pass-Through from University of Oklahoma		5U01HL07228305		30,840	30,840
Pass-Through from University of Oklahoma/NIH		2U01HL07228306		38,410	38,410
Pass-Through from University of Oklahoma/NIH		5U01HL07228303		7,967	7,967
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		694,301	10,981,994	11,676,295
Pass-Through from Biomedical Development Corporation		1R43AR052544		2,354	2,354
Pass-Through from Biomedical Development Corporation		1R43AR052998		1,559	1,559
Pass-Through from Biomedical Development Corporation		G93.006/2R44DE017301		39,098	39,098
Pass-Through from Biotex, Inc.		04-028		5,603	5,603
Pass-Through from Cedars-Sinai Medical Center		5R01AR048465		10,210	10,210
Pass-Through from Cincinnati Children's Hospital		U01AR05186803		43	43
Pass-Through from Cooper Institute		G72117		23,269	23,269
Pass-Through from Duke University		N01AI05419		10,284	10,284
Pass-Through from Feinstein Institute for Medical Research		2 R01 AR44422 09 A1		77,742	77,742
Pass-Through from Jackson Laboratory		S/G AR45433 JAX LABS		76,477	76,477
Pass-Through from Jackson Laboratory		SG/1R01AR05385301A1		45,685	45,685
Pass-Through from Regents of The University of California, UCLA		U01AR055057		33,016	33,016
Pass-Through from Seattle Children's Institute/NIH		1R01AR04976201A2		1,609	1,609
Pass-Through from Somagenics, Inc.		1 R43 AR054301 01		18,075	18,075
Pass-Through from The Cooper Institute		5 R01 AR052459-02		73,938	73,938
Pass-Through from University of Alabama - Birmingham		1P01AR49084		3,546	3,546
Pass-Through from University of Alabama - Birmingham		P50AR45231		(22,241)	(22,241)
Pass-Through from University of Alabama at Birmingham		BREY/UA		11,251	11,251
Pass-Through from University of Connecticut Health Center		R01 AR049341/HARRIS		55,499	55,499
Pass-Through from University of Maryland at Baltimore		BAUER- S01835		54,536	54,536
Pass-Through from University of Missouri at Kansas City		8054 - P01 AR046798		40,815	40,815
Pass-Through from University of Missouri at Kansas City		8057/00012317		120,279	120,279
Pass-Through from University of Missouri at Kansas City		UMKC 8058		195,090	195,090
Pass-Through from University of Missouri/NIH		2R01AR04941906		5,035	5,035
Pass-Through from University of Pennsylvania		545295		50,864	50,864
Pass-Through from University of Tennessee		N01 AR92242		754	754
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		1,843,863	18,324,662	20,168,525
Pass-Through from Arthochip, LLC		5R42DK06538803		(77,566)	(77,566)
Pass-Through from Avi Bio Pharma		1R41DK067706-01		5,108	5,108
Pass-Through from Baylor College of Medicine		5U19DK6243405		5,420	5,420
Pass-Through from Baylor College of Medicine/NIH		2U19DK06243406		202,604	202,604
Pass-Through from Benaroya Research Institute at Virginia Mason		U01DK062418		1,724	1,724
Pass-Through from Benaroya Research Institute at Virginia Mason		3215.06/U01DK062418		542	542
Pass-Through from Betastem Therapeutics, Inc.		1R41DK07952901		52,964	52,964
Pass-Through from Biochem Analysis Corporation		CON15453		(2,721)	(2,721)
Pass-Through from Case Western Reserve University		N01DK62203		480	480
Pass-Through from Duke University Medical Center		5P01DK05839807		473,985	473,985
Pass-Through from Duke University/NIH		2P01DK05839807		668,303	668,303
Pass-Through from George Washington University		233012CCLS20127A		104,322	104,322
Pass-Through from George Washington University		HALE/GWU 06-T49		121,792	121,792

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from George Washington University		HALE:S/G DK6123-01 G		435,363	435,363
Pass-Through from George Washington University		U01 DK061230	916,934	350,720	1,267,654
Pass-Through from Grassroots Pharmaceuticals, Inc.		R41DK63882		80	80
Pass-Through from Joslin Diabetes Center		5U01DK07455602		408	408
Pass-Through from Marquette University		5R01DK035153		9,517	9,517
Pass-Through from Medical College of Georgia		5R01DK04314013		19,326	19,326
Pass-Through from Medical College of Georgia		5U24DK076169-02		26,541	26,541
Pass-Through from Medical College of Georgia		5U24DK07616903		540,417	540,417
Pass-Through from PLX Pharma, Inc.		5R42DK063882		17	17
Pass-Through from Probetex, Inc.		PROBOTEX		66,495	66,495
Pass-Through from Probetex, Inc.		R41DK077436		54,638	54,638
Pass-Through from Spire Corporation		07LM0600PL		69,117	69,117
Pass-Through from The University of Chicago		DK58026		(15,021)	(15,021)
Pass-Through from University of Arkansas		1R01DK071100		115,861	115,861
Pass-Through from University of Montana/NIH		7R01DK04637114		51,130	51,130
Pass-Through from Van Andel Research Institute/NIH		5R01DK07166203		22,844	22,844
Pass-Through from Vanderbilt University/NIH		5U01DK07247303		121,770	121,770
Pass-Through from Vanderbilt University/NIH		5U19DK04250217		362,198	362,198
Pass-Through from Vanderbilt University/NIH		5U19DK04250219		27,833	27,833
Digestive Diseases and Nutrition Research	93.848		476,735	10,248,678	10,725,413
		1 R01 DK071707 01A2		21,360	21,360
Pass-Through from Baylor College of Medicine		2 P30 DK056338 06 A2		3,495	3,495
Pass-Through from Baylor College of Medicine		4600670598		141,224	141,224
Pass-Through from Baylor College of Medicine		5P30DK056338		33,708	33,708
Pass-Through from Biochemanalysis Corporation		1R43DK06449501A1		8,027	8,027
Pass-Through from Duke University		5U01DK06517605		9,964	9,964
Pass-Through from Kaiser Foundation Research Institute		1 R01 DK 070553-04		30,466	30,466
Pass-Through from Natural Therapeutics, Inc.		5R44DK52740		139	139
Pass-Through from PLX Pharma, Inc.		R42DK063882		240,235	240,235
Pass-Through from Purdue University		5R01DK04520414		45,997	45,997
Pass-Through from University of California - Davis		2 R01 DK056839 06 A2		63,807	63,807
Pass-Through from University of Chicago		5 U01 GM061393 08		114,811	114,811
Kidney Diseases, Urology and Hematology Research	93.849		92,038	12,442,646	12,534,684
Pass-Through from Children's Mercy Hospital		5U01DK06614302		1,379	1,379
Pass-Through from Cincinnati Children's Hospital		1R01DK07695701A1		62,218	62,218
Pass-Through from Cornell University/NIH		5R01DK5944304/NIH		16	16
Pass-Through from John Hopkins University		5U01DK066174		87,963	87,963
Pass-Through from Northwestern University		0600370P509280		(5,448)	(5,448)
Pass-Through from Suny Stonybrook/ NIH		5 U01 DK063385		335	335
Pass-Through from The Research Foundation of Suny Stonybrook		S/G ARAR-SUNY 063385		120	120
Pass-Through from University of Alabama Birmingham		5P30DK07403802		1,278	1,278
Pass-Through from University of Alabama-Birmingham/NIH		5P30DK07403803		30,891	30,891
Pass-Through from University of Oklahoma Health Sciences Center		5R01DK066101-02		(679)	(679)
Pass-Through from Vanderbilt University/NIH		5P01DK03822621		282,219	282,219
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		8,959,196	34,257,518	43,216,714
Pass-Through from ALA Scientific Instruments		1R41NS046182-01		(223)	(223)
Pass-Through from ALA Scientific Instruments		61620052		(140)	(140)
Pass-Through from Apt Therapeutics, Inc.		R43NS060175		59,001	59,001
Pass-Through from Baylor College of Medicine		100538450		89,065	89,065
Pass-Through from Baylor College of Medicine		5P01NS038660		178,463	178,463
Pass-Through from Baylor College of Medicine		5R01NS021889		40,514	40,514

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from Baylor College of Medicine/NIH		5R01NS02188924		51,635	51,635
Pass-Through from Baylor College of Medicine/NIH		5R01NS02188925		8,060	8,060
Pass-Through from Brandeis University		1R01NS050944		22,132	22,132
Pass-Through from Children's Hospital of Philadelphia		1R01NS05048801A1		18,827	18,827
Pass-Through from Columbia University		COL U/R01NS048125-02		1,288	1,288
Pass-Through from Columbia University		JACKSON:CUNY-N045294		(1,184)	(1,184)
Pass-Through from Columbia University		R01NS050724		41,991	41,991
Pass-Through from Columbia University/NIH		5R01NS04529403		1,448	1,448
Pass-Through from Emory University		5 R01 NS0428647 05		68,072	68,072
Pass-Through from Hawaii Biotech		9R44NS052139-02A1		(53,349)	(53,349)
Pass-Through from Henry Ford Hospital and Health Services		UTA04-156		75,932	75,932
Pass-Through from John Hopkins University		5R01NS050028		10,080	10,080
Pass-Through from John Hopkins University		5R01NS055651		4,216	4,216
Pass-Through from John Hopkins University		R01NS055648		6,629	6,629
Pass-Through from Loyola University Chicago		LU1760		(22)	(22)
Pass-Through from Mayo Clinic		5 R01 NSO49720 02		(4,150)	(4,150)
Pass-Through from Mayo Clinic Rochester/NIH		5P50NS03235213		156,921	156,921
Pass-Through from Mayo Foundation		2R01NS039987 06		(1,166)	(1,166)
Pass-Through from Mount Sinai Medical Center		5U01NS045719		467,545	467,545
Pass-Through from Mount Sinai School of Medicine		MSSM# 0255-0521-4609		51,687	51,687
Pass-Through from Northwestern University		0600 370 J005 U TEXAS AUSTIN 00		87	87
Pass-Through from Northwestern University		0600 370 S366 795		149,851	149,851
Pass-Through from RFE Pharma		2R42NS04877702		118,001	118,001
Pass-Through from Southwest Foundation for Biomedical Research		SG SZABO 047755 SFBR		77,262	77,262
Pass-Through from St. Louis University		5R01NS050547-02		16,103	16,103
Pass-Through from Stanford University/NIH		1P01NS05386201A1		312,626	312,626
Pass-Through from Thomas Jefferson University		5R01NS05059702		27,986	27,986
Pass-Through from Thomas Jefferson University		5R01NS05059703		918	918
Pass-Through from University of California		P50NS044378		13,674	13,674
Pass-Through from University of California - Los Angeles		0980GGH018		155,880	155,880
Pass-Through from University of California - San Diego		5P50NS044148		36,577	36,577
Pass-Through from University of Cincinnati		5R01NS047603		180,845	180,845
Pass-Through from University of Cincinnati		U01NS052220		4,695	4,695
Pass-Through from University of Cincinnati/NIH		5R01NS05489002		34,645	34,645
Pass-Through from University of Florida		UF07079		106,748	106,748
Pass-Through from University of Kentucky Research Foundation		3046960400-06-241		16,478	16,478
Pass-Through from University of Kentucky Research Foundation		3047310200-06-311		1,350	1,350
Pass-Through from University of Medicine and Dentistry of New Jersey		1U01NS043975		2,074	2,074
Pass-Through from University of Medicine and Dentistry of New Jersey		R01NS38384		42,198	42,198
Pass-Through from University of Medicine and Dentistry of New Jersey/NIH		5R01NS03838406		98,240	98,240
Pass-Through from University of Medicine and Dentistry of New Jersey/NIH		5R01NS05273303		43,541	43,541
Pass-Through from University of Medicine and Dentistry of New Jersey/NIH		5R21NS05351702		35,248	35,248
Pass-Through from University of Miami		5R01NS04954503		41,600	41,600

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from University of Michigan		F011315, LTR DTD 5.12.08		30,746	30,746
Pass-Through from University of Michigan		3000911237		23,288	23,288
Pass-Through from University of Pittsburgh		9002033		66,107	66,107
Pass-Through from University of Pittsburgh/NIH		1U01NS05247801A2		7,664	7,664
Pass-Through from University of Rochester/NIH		5RO1NS3716705		580	580
Pass-Through from University of Virginia		5 R01 NS049065 03		81,848	81,848
Pass-Through from University of Virginia		5R01NS037666		69,022	69,022
Pass-Through from Wake Forest University/NIH		NS34447		1,338	1,338
Pass-Through from Washington University		5U01NS04280404		25,000	25,000
Pass-Through from Washington University in St Louis		SHERMAN:S/G NS42167		2,839	2,839
Pass-Through from Washington University/NIH		5U01NS04280405		51,300	51,300
Pass-Through from Washington University/NIH		U01NS04280402		3,886	3,886
Pass-Through from Washington University/NIH		WU0304		461	461
Pass-Through from Yale University		A05648		19,062	19,062
Pass-Through from Yale University/NIH		1R01NS04487601A2		353	353
Pass-Through from Yale University/NIH		5R01NS04487602		113	113
Pass-Through from Yale University/NIH		5R01NS04487603		113	113
Pass-Through from Yale University/NIH		5U01NS04487604		14,974	14,974
Biological Basis Research in Neurosciences	93.854			(3,468)	(3,468)
Pass-Through from University of Maryland		R01NS3858501A1		(1,575)	(1,575)
Allergy, Immunology and Transplantation Research	93.855		4,486,755	55,358,157	59,844,912
Pass-Through from Albert Einstein College		9-526-2107 AMD NO 1		87,534	87,534
Pass-Through from Albert Einstein College of Medicine		503600		97,666	97,666
Pass-Through from Albert Einstein College of Medicine		503750		83,390	83,390
Pass-Through from Alexion Antibody Technologies		5R01A1061311-03		4,001	4,001
Pass-Through from American Type Culture Collection		2006-001		50,355	50,355
Pass-Through from Baylor College of Medicine		1U91AI070973		58,829	58,829
Pass-Through from Baylor College of Medicine		N01-AI-25465		110,753	110,753
Pass-Through from Baylor Research Institute		3U19AI05723405S1		159,456	159,456
Pass-Through from Burnham Institute		5R01AI05914604		27,689	27,689
Pass-Through from Columbia University		5-35467		39,228	39,228
Pass-Through from Columbia University		5U19A1067773-02		(800)	(800)
Pass-Through from Fred Hutchinson Cancer Research		R01AI041721		19,901	19,901
Pass-Through from George Washington University		U01AI069503		520,726	520,726
Pass-Through from Health Research, Inc.		2983-01		(56)	(56)
Pass-Through from Health Research, Inc.		5U54A105715805		161,197	161,197
Pass-Through from Ibis Biosciences Incorporated		1R41A1072859-01A2		40,897	40,897
Pass-Through from Imperial College of Science, Technology And Medicine		DD/2134001 DDDH P10552		41,669	41,669
Pass-Through from Institute for Clinical Research		U01-AI068641		677,112	677,112
Pass-Through from Louisiana State University Medical Center		R01AI046142		26,622	26,622
Pass-Through from Marshfield Clinic Research Foundation		R01AI061385		13,350	13,350
Pass-Through from Medicine for Malaria Venture/NIH		1U01AI07559401		282,866	282,866
Pass-Through from Oregon Health Sciences University		HHSN2662005000027		47,263	47,263
Pass-Through from Pharmareview Corporation		5R42AI051050		8,261	8,261
Pass-Through from Resuscitation Solutions, Inc.		1R43A158393-01A1		(529)	(529)
Pass-Through from Social and Scientific Systems		UMIN1.SITES.SANTO		4,153	4,153
Pass-Through from Southwest Foundation for Biomedical Research		NIH NO.5 U54AI057156		10,474	10,474
Pass-Through from Starpharma Pty., Ltd.		5U19A1060598-04		126,989	126,989
Pass-Through from The Burnham Institute		5R01AI05914603		3,278	3,278
Pass-Through from Universal Stabilization Technologies		CON17400		176,638	176,638
Pass-Through from University of California		503322		11,501	11,501

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from University of California - Berkeley		SA5641-11595		158,662	158,662
Pass-Through from University of California - Davis		01RA5807-UT		70,043	70,043
Pass-Through from University of California - Los Angeles		5U01A1070495		225,814	225,814
Pass-Through from University of California - San Diego		SG: 1P01AI074621-01		6,744	6,744
Pass-Through from University of California - San Francisco		4943SC/1P01AI071713		22,959	22,959
Pass-Through from University of Cincinnati		1R01A107371301A2		7,126	7,126
Pass-Through from University of Cincinnati		5R01A107204002		37,684	37,684
Pass-Through from University of Colorado		STACY-FY05.062.016		1,040	1,040
Pass-Through from University of Georgia		R01AI06890801		35,790	35,790
Pass-Through from University of Mississippi		R21AI067873		16,976	16,976
Pass-Through from University of Pittsburgh		1U19AI065430		4,673	4,673
Pass-Through from University of Pittsburgh		5R01AI060422		3,313	3,313
Pass-Through from University of Rochester		1 U19 AI067733 01		32,248	32,248
Pass-Through from US Immunodeficiency Network		N01-A1-30070		176,453	176,453
Pass-Through from Vaxinnate		1R43A1074162-01		92,762	92,762
Pass-Through from Virginia Technical Institute		5R01A1051880-05		(8,133)	(8,133)
Pass-Through from Washington University - School of Medicine		5U19A1070489-02		(1,714)	(1,714)
Pass-Through from Washington University in St Louis		5U19A1070489-02		31,143	31,143
Pass-Through from Washington University in St Louis		WU-08-110		202,923	202,923
Microbiology and Infectious Diseases Research	93.856		2,729,226	40,977,696	43,706,922
Pass-Through from Adults Aids Clinical Trial Group		204VC010		(14)	(14)
Pass-Through from Albert Einstein College		9-526-1123		(8,846)	(8,846)
Pass-Through from Baylor College of Medicine		1 P30 AI036211-11/15		(821)	(821)
Pass-Through from Baylor College of Medicine		4600629622		3,175	3,175
Pass-Through from Baylor College of Medicine		5R01AI41735		(102)	(102)
Pass-Through from Baylor College of Medicine		P30A103621113		14,511	14,511
Pass-Through from Baylor College of Medicine		P30AI036211		216,109	216,109
Pass-Through from Beth Israel Deaconess		5P01DK05611608		107,833	107,833
Pass-Through from Beth Israel Deaconess		5P01DK05611609		7,850	7,850
Pass-Through from Case Western Reserve University		5000003580		(67)	(67)
Pass-Through from Cytogenix		1R43A1080000-01		5,617	5,617
Pass-Through from Dor Biopharma, Inc.		UC1AI657001		49	49
Pass-Through from Drexel University		232165		(283)	(283)
Pass-Through from Drexel University		U01A1061441-04		227,117	227,117
Pass-Through from Duke University		5U54AI05715702		190	190
Pass-Through from Dynavax Technologies		5U01A156559-03		105,257	105,257
Pass-Through from Harvard University		SUB:137811;NIAID: 1 R01 AI065540-01		9,987	9,987
Pass-Through from Hawaii Biotech		1R43A155225-01A2		(51)	(51)
Pass-Through from Investigen, Inc.		2R44AI069574-02		36,353	36,353
Pass-Through from Louisiana State University Health Science Center		5U19A1061972-04		294,155	294,155
Pass-Through from Molecular Express, Inc.		5R43Z106662103		15,732	15,732
Pass-Through from Molecular Targeting Technologies		R41A1063822-01A2		62,005	62,005
Pass-Through from Planet Biotechnology, Inc.		CON17685		211,103	211,103
Pass-Through from Siga Technologies		5R44A1056525-04		138,619	138,619
Pass-Through from Social and Scientific System		U01AI46362		(15,670)	(15,670)
Pass-Through from Social and Scientific Systems		204VC010		(3,446)	(3,446)
Pass-Through from Social and Scientific Systems		AACTG.27.5170.01		19	19
Pass-Through from Social and Scientific Systems		NO.A5211.05		(133)	(133)
Pass-Through from Starpharma Pty., Ltd.		1U19A160598-01		303,766	303,766
Pass-Through from University of Alabama Birmingham		N01AI-30025		(310)	(310)
Pass-Through from University of California - San Francisco		R08163-01		206	206
Pass-Through from University of Louisville		T15A10755201A1		(69)	(69)

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from University of Maryland		5U54AI05716802		165	165
Pass-Through from University of Minnesota		1U01AI46957		(13,155)	(13,155)
Pass-Through from University of Toledo		N 2006-69		82,585	82,585
Pass-Through from University of Washington		5U54AI05715602		158	158
Biomedical Research and Research Training	93.859		2,516,206	60,586,998	63,103,204
Pass-Through from Accacia International		UTA08-217		109,784	109,784
Pass-Through from Aegis Bioscience		1R43GM075581-01		(585)	(585)
Pass-Through from Atactic Technologies, Inc.		1 R43 GM076941-01-UH		200,948	200,948
Pass-Through from Baylor College of Medicine		1 P01 GM081627 01		392,499	392,499
Pass-Through from Baylor College of Medicine		5T32GM008280-19		(1,247)	(1,247)
Pass-Through from Baylor College of Medicine		5T32GM008280-20		52,814	52,814
Pass-Through from Baylor College of Medicine		CON16491		(2,124)	(2,124)
Pass-Through from Baylor College of Medicine/NIH		1P01GM08162701		67,925	67,925
Pass-Through from Carnegie Mellon University		1090125-17		1,117	1,117
Pass-Through from Cornell University		49238-8402		111,022	111,022
Pass-Through from Cyntellect Incorporated		1R41GM074436-01A1		39,159	39,159
Pass-Through from Delsite Biotechnologies, Inc.		503133		186,264	186,264
Pass-Through from Harvard Medical School		149015-0006, AMD 05		171,301	171,301
Pass-Through from Institute for Systems Biology		5 R01 04		61,960	61,960
Pass-Through from Johnson Foundation, Robert Wood		P01-3 / P0389273		51,650	51,650
Pass-Through from Massachusetts General Hospital		5U54GM06211908		122,759	122,759
Pass-Through from Massachusetts General/NIH		2U54GM06211906		13,375	13,375
Pass-Through from Massachusetts General/NIH		2U54GM06211907		369,158	369,158
Pass-Through from Mayo Clinic		5 U01 GM0613888 08		71,181	71,181
Pass-Through from Michigan State University		R01AI06871801		75,984	75,984
Pass-Through from Pharmareview Corporation		R41GM079810		92,246	92,246
Pass-Through from Research Foundation of The State		1064773-2-43776		57,203	57,203
Pass-Through from Rice University		401GM080575		128,163	128,163
Pass-Through from Scripps Research Institute		5 P01 HL016411-35		100,598	100,598
Pass-Through from Temple University School of Medicine		WEISS / STRUCTURE		6,527	6,527
Pass-Through from University of Arizona		5 R01 GM070890 04		64,254	64,254
Pass-Through from University of Arizona		Y431369		95,365	95,365
Pass-Through from University of California		DE-AC-03-76SF00098		187,990	187,990
Pass-Through from University of California - San Diego/NIH		5R01GM07666503		517,926	517,926
Pass-Through from University of California - San Francisco		P01 GM047818, AMD 3, 3816SC		315,558	315,558
Pass-Through from University of California/NIH		1R01GM07938301A1		70,673	70,673
Pass-Through from University of Florida		U01GM074492		316,256	316,256
Pass-Through from University of Hawaii/NIH		5R01GM07666503		127,114	127,114
Pass-Through from University of Illinois at Urbana		2006-02321-01		17,640	17,640
Pass-Through from University of Louisville		R1GM62378B		(69,918)	(69,918)
Pass-Through from University of Michigan		P50GM065509		1,083,275	1,083,275
Pass-Through from University of New Mexico		1 R01 GM079381 01		51,750	51,750
Pass-Through from University of Pittsburgh		0005602, 110784-2		24,723	24,723
Pass-Through from Washington University in St Louis		503604		34,611	34,611
Pass-Through from Yale University/NIH		1P01GM06631105		235,043	235,043
Genetics and Development Biology Research and Research Training	93.862			255,918	255,918
Population Research	93.864			903,912	903,912
Child Health and Human Development Extramural Research	93.865		4,754,296	31,696,228	36,450,524
Pass-Through from Baylor College of Medicine		5 U01 HD039372 03		21,039	21,039
Pass-Through from Baylor College of Medicine		5 U01 HD039372 05		2,070	2,070
Pass-Through from Baylor College of Medicine		5 U01 HD39372 2 (PP-1)		680	680
Pass-Through from Baylor College of Medicine		5 U01 HD39372 2 (PP-2)		1,502	1,502
Pass-Through from Baylor College of Medicine		5R01HD046623-04		16,125	16,125

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from Baylor College of Medicine		N01-A1-30039		163,833	163,833
Pass-Through from Baylor College of Medicine		P30AI036211		24,982	24,982
Pass-Through from Baylor College of Medicine		R01HD051437		76,266	76,266
Pass-Through from Baylor College of Medicine		R01HD43943		442	442
Pass-Through from Baylor College of Medicine/NIH		5R01HD04394304		11,097	11,097
Pass-Through from Boston University Medical		3U10HD02906714S1		2,859	2,859
Pass-Through from Boston University Medical		5U10HD02906714		31,246	31,246
Pass-Through from California State University Long Beach		S07-303005B-UH		66,828	66,828
Pass-Through from Center for Applied Linguistics		2 P01 HD-039530-06A2		4,899	4,899
Pass-Through from Children's Memorial Hospital		1R01HD04569401A1		2,079	2,079
Pass-Through from Emmes Corporation		HHSN267200603425C		23,414	23,414
Pass-Through from Harvard Pilgrim Health Care		HARVARD/5R01HD0 488		19,344	19,344
Pass-Through from Johns Hopkins University		8603-53737		15,755	15,755
Pass-Through from Manpower Demonstration Research Corporation		6111.04.099.00 UTA06-668		66,693	66,693
Pass-Through from Max Mobility, LLC		1 R01HD053732-01A1		14,306	14,306
Pass-Through from Northwestern University		0980 520 W297 975		49	49
Pass-Through from Southwest Foundation for Biomedical Research		SG HALE HD049051		149,909	149,909
Pass-Through from Southwestern Foundation for Biomedical		1R01HD049051		12,634	12,634
Pass-Through from University of Alabama		5U01HD039939-05		27,024	27,024
Pass-Through from University of Alabama-Birmingham		5U01HD039939		(26,161)	(26,161)
Pass-Through from University of Alabama-Birmingham/NIH		5U01HD03993903		11,685	11,685
Pass-Through from University of Alabama-Birmingham/NIH		5U01HD03993905		16,216	16,216
Pass-Through from University of Arkansas		07079GFR		39,076	39,076
Pass-Through from University of Arkansas		UTA05-922		(28,828)	(28,828)
Pass-Through from University of California - Irvine		1P01HD047609		410,576	410,576
Pass-Through from University of California - Los Angeles		5R01HD05176402		21,462	21,462
Pass-Through from University of California - San Francisco		2 K12 HD000849 02		145,370	145,370
Pass-Through from University of Florida		330536812-01 UFPS0021 UNIV FL CONTRACT		2,513	2,513
Pass-Through from University of Michigan/NIH		2U01HD04124906		71,031	71,031
Pass-Through from University of North Carolina		5-50751		38,244	38,244
Pass-Through from University of North Carolina at Chapel		5-34541;5 U01 HD045982-04		9,709	9,709
Pass-Through from University of North Carolina at Chapel		5-50752 (5-U01-HD045982-05)		30,737	30,737
Pass-Through from University of Notre Dame		5R01HD044868		293,259	293,259
Pass-Through from University of Pennsylvania		5-44511-C; 1775684 958209		76,174	76,174
Pass-Through from University of Pittsburgh		R01HD052436		3,434	3,434
Aging Research	93.866		1,184,133	28,484,852	29,668,985
Pass-Through from Albert Einstein College of Medicine		3905-16		14,477	14,477
Pass-Through from Baylor College of Medicine		5600051318		178,256	178,256
Pass-Through from Bio Tex, Inc.		2 R44 AG019276 04		74,703	74,703
Pass-Through from Buck Institute		2018		75,590	75,590
Pass-Through from Buck Institute		2025		121,225	121,225
Pass-Through from Case Western Reserve University		P01AG014359-11		264,728	264,728
Pass-Through from Columbia University		5U24AG02639503		133,677	133,677
Pass-Through from Columbia University		5U24AG02639504		15,189	15,189
Pass-Through from Drexel University		232263/R01AG022443		137,431	137,431

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from Georgetown University/NIH		R01AG19268		17,562	17,562
Pass-Through from Innovative Health Solutions		1R41AG022247-01A1		(415)	(415)
Pass-Through from L2 Diagnostics		G091424		5,297	5,297
Pass-Through from Mount Sinai School of Medicine		0254-9898-4609		219,910	219,910
Pass-Through from Mount Sinai School of Medicine		0254-9899-4609		94,808	94,808
Pass-Through from Mount Sinai School of Medicine		S/G AG18772 MT SINAI		1,068	1,068
Pass-Through from Mount Sinai School of Medicine		UTA05-495		(6,633)	(6,633)
Pass-Through from Purdue University		PURDUE-NIH		101,285	101,285
Pass-Through from The University of Michigan		3001000435		181,926	181,926
Pass-Through from The University of Michigan		S/G AG20591 UNV MICH		(35,149)	(35,149)
Pass-Through from University of Arkansas		1P01AG023591-03		(5,927)	(5,927)
Pass-Through from University of California - San Diego/NIH		1U01AG024904		69,104	69,104
Pass-Through from University of Colorado		NELSON S/G AG024354		108,012	108,012
Pass-Through from University of Kentucky Research Foundation		5 R01AG019241-06/UKR	1,515	158,350	159,865
Pass-Through from University of Kentucky Research Foundation		S/G R01AG019241	6,579	259,486	266,065
Pass-Through from University of Maryland		P60AG12583		1,467	1,467
Pass-Through from University of Michigan/NIH		1R01AG02239401		1,348	1,348
Pass-Through from University of Pittsburgh		5T35AG26778-02		(831)	(831)
Pass-Through from University of Pittsburgh		5T35AG26778-03		12,938	12,938
Pass-Through from University of Pittsburgh		5T35AG26778-04		15,358	15,358
Pass-Through from University of Washington/NIH		5U01AG01697609		28,892	28,892
Pass-Through from University of Washington/NIH		5U01AG01697610		3,583	3,583
Vision Research	93.867		1,349,225	16,683,540	18,032,765
Pass-Through from Baylor College of Medicine		5 T32 EY007102 15		(1,269)	(1,269)
Pass-Through from Brigham and Women's Hospital		R01EY014418		17,885	17,885
Pass-Through from Calhoun Vision, Inc.		2 R44-EY015321-02		26,544	26,544
Pass-Through from Case Western Reserve University		5R01EY01648203		306	306
Pass-Through from Jaeb Center for Health Research		U10EY12358		3,360	3,360
Pass-Through from Jaeb Center for Health Research		U10EY14231		19,247	19,247
Pass-Through from Johns Hopkins University		LSOCA-96195		117,014	117,014
Pass-Through from Johns Hopkins University		U10EY0805711		176,138	176,138
Pass-Through from New York University		F6330-02, P113955		153,577	153,577
Pass-Through from Ohio State University Research		4 U10 EY008893-16		41,411	41,411
Pass-Through from Oregon Health Sciences University		2R01EY013139		12,040	12,040
Pass-Through from Retina Foundation of The Southwest		HHSN26020070001C		15,253	15,253
Pass-Through from University of Florida		R01EY007739		41,897	41,897
Pass-Through from University of Miami		M125759		22,397	22,397
Pass-Through from University of Southern California		124374		28,241	28,241
Medical Library Assistance	93.879		35,051	492,923	527,974
Pass-Through from Houston Academy of Medicine		HHSN276200663505C		12,582	12,582
Pass-Through from Massachusetts General Hospital		UTA07-516; 205870		25,318	25,318
Pass-Through from Rensselaer Polytechnic Institute		S/G R01LM009362		25,625	25,625
Pass-Through from Rice University		5T15LM007093-14		(855)	(855)
Pass-Through from Rice University		5T15-LM07093-11		(653)	(653)
Pass-Through from Rice University		R2026573900002		(144)	(144)
Pass-Through from Rice University		R2077273900003		114	114
Grants for Training in Primary Care Medicine and Dentistry	93.884			386,518	386,518
Health Care and Other Facilities	93.887		19,890	1,670,666	1,690,556
Specially Selected Health Projects	93.888			66,371	66,371
HIV Care Formula Grants	93.917				

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Pass-Through from Urban League of Greater Dallas North Central Texas		MA12007025554-001		19,566	19,566
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918				
Pass-Through from Resource Group		07UTG00T3		23,336	23,336
Pass-Through from Resource Group		08UTG00PTC		44,096	44,096
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919			26	26
Fogarty International Research Collaboration Award	93.934				
Pass-Through from Fogarty International Center		5R03TW00761403		26,721	26,721
HIV Prevention Activities--Health Department Based	93.940			54,653	54,653
Pass-Through from Harris County Hospital District		6H12HA000000		(66,608)	(66,608)
HIV Demonstration, Research, Public and Professional Education Projects	93.941			42,327	42,327
Pass-Through from City of Houston Health and Human Services		B8-031-5B		157,732	157,732
Pass-Through from HRSA/CRS/University of Maryland		U51HA02521		64,929	64,929
Pass-Through from University North Carolina at Chapel Hill		5-53073/1UR6PS000670		16,918	16,918
Pass-Through from University of California		444918-29945		18,781	18,781
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944			340,611	340,611
Tuberculosis Demonstration, Research, Public and Professional Education	93.947			409,585	409,585
Block Grants for Prevention and Treatment of Substance Abuse	93.959				
Pass-Through from CRP Incorporated		277-01-6059		42,261	42,261
Geriatric Education Centers	93.969			175,808	175,808
Pass-Through from Baylor College of Medicine		458340		31,722	31,722
Pass-Through from Baylor College of Medicine		4600171106		(5)	(5)
Preventive Health Services--Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	93.978			128,708	128,708
Academic Administrative Units in Primary Care	93.984			(131)	(131)
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988		39,993	123,018	163,011
International Research and Research Training	93.989		52,361	242,549	294,910
Pass-Through from Baylor College of Medicine		1R25TW007508		43,153	43,153
Pass-Through from Baylor College of Medicine		5R25TW007508-03		6,153	6,153
Pass-Through from Fogarty International Center		5D43TW006569-05		129,356	129,356
Pass-Through from Fogarty International Center		5D43TW006569-06		90,331	90,331
Pass-Through from Southern Research Institute		5R01TW006986-02S04-006		18,327	18,327
Maternal and Child Health Services Block Grant to the States	93.994			59,100	59,100
Bioterrorism Training and Curriculum Development Program	93.996			(14,945)	(14,945)
Total - U.S. Department of Health and Human Services			67,614,300	776,759,118	844,373,418
Corporation for National and Community Service					
Corporation for National and Community Service	94.XXX	H129B040027-07, ACTION 05		137,418	137,418
Learn and Serve America--Higher Education	94.005				
Pass-Through from Morehouse School of Medicine		06LHHGA001		759	759

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
Corporation for National and Community Service (continued)					
AmeriCorps	94.006				
Pass-Through from One Star Foundation		11.0609.018-1 AMD NO. 1		17,279	17,279
Pass-Through from One Star Foundation		11.0609.018-2		467,157	467,157
Pass-Through from One Star National Americorps Texas		1506070901	9,000	6,976	15,976
Total - Corporation for National and Community Service			9,000	629,589	638,589
Social Security Administration					
Social Security Administration	96.XXX				
Pass-Through from Dartmouth College		5-37206.570		265,181	265,181
Total - Social Security Administration			0	265,181	265,181
Department of Homeland Security					
Department of Homeland Security	97.XXX	HSBP1008P2		581	581
Research Projects	97.002				
Pass-Through from Accacia International		UTA05-855, MOD 01		(1,068)	(1,068)
Pass-Through from Lynntech, Inc.		07-0249		6,877	6,877
Homeland Security Preparedness Technical Assistance Program	97.007			408,015	408,015
Pre-Disaster Mitigation (PDM) Competitive Grants	97.017			69,421	69,421
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036			64,607	64,607
Hazard Mitigation Grant	97.039			92,885	92,885
Centers for Homeland Security	97.061		207,085	303,552	510,637
Pass-Through from Oak Ridge Institute for Science		416000		24,137	24,137
Pass-Through from University of Minnesota		503685		32,365	32,365
Pass-Through from University of Minnesota		503745		73,794	73,794
Pass-Through from University of Minnesota		570428	44,736		44,736
Pass-Through from University of Southern California		126675		28,678	28,678
State Homeland Security Program (SHSP)	97.073			25,291	25,291
Homeland Security Testing, Evaluation, and Demonstration of Technologies	97.077				
Pass-Through from Harris County		R242035		105,957	105,957
Homeland Security Outreach, Education, and Technical Assistance	97.086			213,300	213,300
Homeland Security, Research, Testing, Evaluation, and Demonstration of Technologies	97.108			16,740	16,740
Total - Department of Homeland Security			251,821	1,465,132	1,716,953
United States Agency for International Development					
USAID Foreign Assistance for Programs Overseas	98.001		569,889	2,649,730	3,219,619
Pass-Through from Agrilogic		503729		17,673	17,673
Pass-Through from Angola Educational Assistance Fund		UTA06-787		16,309	16,309
Pass-Through from Government of Jordan		UTA05-608		4	4
Pass-Through from Pa Consulting Group		US0254.1-7HP-001		33,946	33,946
Pass-Through from Pa Consulting Group		US0254.1-7HP-006		76,146	76,146
Pass-Through from Save The Children - United Kingdom		503334		62,296	62,296
Pass-Through from The Louis Berger Group, Inc.		503589		(23,301)	(23,301)
Pass-Through from The Louis Berger Group, Inc.		503686		1,747,582	1,747,582
Pass-Through from University of California - Davis		503668		3,370	3,370
Pass-Through from University of California - Davis		570460	16,630		16,630
Cooperative Development Program	98.002				

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
RESEARCH AND DEVELOPMENT CLUSTER (continued)					
United States Agency for International Development (continued)					
Pass-Through from National Academy of Sciences		PGA-7251-05-009		25,254	25,254
USAID Development Partnerships for University Cooperation and Development	98.012				
Pass-Through from International Institute of Tropical Agriculture		503572		3,311	3,311
Pass-Through from University of Georgia		RC7100253842248		496	496
Total - United States Agency for International Development			586,519	4,612,816	5,199,335
Total Research and Development Cluster			105,352,468	1,327,072,422	1,432,424,890
STUDENT FINANCIAL ASSISTANCE CLUSTER					
U.S. Department of Education					
Federal Supplemental Educational Opportunity Grants	84.007			22,938,673	22,938,673
Federal Family Education Loans	84.032			1,934,121,156	1,934,121,156
Federal Work-Study Program	84.033			22,034,282	22,034,282
Federal Perkins Loan Program-Federal Capital Contribution	84.038			31,613,516	31,613,516
Federal Pell Grant Program	84.063			432,123,364	432,123,364
Federal Direct Student Loans	84.268			167,307,340	167,307,340
Academic Competitiveness Grants	84.375			11,163,083	11,163,083
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376			9,486,115	9,486,115
Total - U.S. Department of Education			0	2,630,787,529	2,630,787,529
U.S. Department of Health and Human Services					
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342			2,226,879	2,226,879
Nursing Student Loans	93.364			477,625	477,625
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925			3,334,530	3,334,530
Total - U.S. Department of Health and Human Services			0	6,039,034	6,039,034
Total Student Financial Assistance Cluster			0	2,636,826,563	2,636,826,563
AGING CLUSTER					
U.S. Department of Health and Human Services					
Special Programs for the Aging--Title III, Part B--Grants for Supportive Services and Senior Centers	93.044		22,763,242	327,911	23,091,153
Special Programs for the Aging--Title III, Part C--Nutrition Services	93.045		30,236,031	491,504	30,727,535
Nutrition Services Incentive Program	93.053		7,859,531	3,286,883	11,146,414
Total - U.S. Department of Health and Human Services			60,858,804	4,106,298	64,965,102
Total Aging Cluster			60,858,804	4,106,298	64,965,102

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
CDBG - ENTITLEMENT SMALL CITIES PROGRAM CLUSTER					
U.S. Department of Housing and Urban Development					
Community Development Block Grants/Entitlement Grants	14.218			4,187	4,187
Total - U.S. Department of Housing and Urban Development			0	4,187	4,187
Total CDBG - Entitlement Small Cities Program Cluster			0	4,187	4,187
CHILD CARE DEVELOPMENT FUND CLUSTER					
U.S. Department of Health and Human Services					
Child Care and Development Block Grant	93.575		161,292,840	42,304,040	203,596,880
Pass-Through from Workforce Solutions Deep East Texas		752765176		40,472	40,472
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		195,660,613	10,385,883	206,046,496
Pass-Through from Upper Rio Grande Workforce		08EM070999F1H		42,194	42,194
Total - U.S. Department of Health and Human Services			356,953,453	52,772,589	409,726,042
Total Child Care Development Fund Cluster			356,953,453	52,772,589	409,726,042
CHILD NUTRITION CLUSTER					
U.S. Department of Agriculture					
School Breakfast Program	10.553		304,180,073	2,817,213	306,997,286
National School Lunch Program	10.555		901,594,749	3,717,433	905,312,182
Special Milk Program for Children	10.556		54,142	5,799	59,941
Summer Food Service Program for Children	10.559		24,170,538	7,421,691	31,592,229
Total – U.S. Department of Agriculture			1,229,999,502	13,962,136	1,243,961,638
Total Child Nutrition Cluster			1,229,999,502	13,962,136	1,243,961,638
DISABILITY INSURANCE/SSI CLUSTER					
Social Security Administration					
Social Security--Disability Insurance	96.001			115,671,923	115,671,923
Total - Social Security Administration			0	115,671,923	115,671,923
Total Disability Insurance/SSI Cluster			0	115,671,923	115,671,923
EMERGENCY FOOD ASSISTANCE CLUSTER					
U.S. Department of Agriculture					
Emergency Food Assistance Program (Administrative Costs)	10.568		4,809,054	805,232	5,614,286
Emergency Food Assistance Program (Food Commodities)	10.569		19,563,369		19,563,369
Total – U.S. Department of Agriculture			24,372,423	805,232	25,177,655
Total Emergency Food Assistance Cluster			24,372,423	805,232	25,177,655
EMPLOYMENT SERVICES CLUSTER					
U.S. Department of Labor					
Employment Service/Wagner-Peyser Funded Activities	17.207		9,996,009	41,479,741	51,475,750

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
EMPLOYMENT SERVICES CLUSTER (continued)					
U.S. Department of Labor (continued)					
Pass-Through from Tarrant County Local Workforce Development Area		07-WSW-A/AM-003		13,139	13,139
Disabled Veterans' Outreach Program (DVOP)	17.801			5,509,203	5,509,203
Local Veterans' Employment Representative Program	17.804			6,168,685	6,168,685
Total - U.S. Department of Labor			9,996,009	53,170,768	63,166,777
Total Employment Services Cluster			9,996,009	53,170,768	63,166,777
FEDERAL TRANSIT CLUSTER					
U.S. Department of Transportation					
Federal Transit--Formula Grants	20.507		65,008		65,008
Total - U.S. Department of Transportation			65,008	0	65,008
Total Federal Transit Cluster			65,008	0	65,008
FISH AND WILDLIFE CLUSTER					
U.S. Department of the Interior					
Sport Fish Restoration Program	15.605			20,957,708	20,957,708
Wildlife Restoration	15.611			14,347,755	14,347,755
Total - U.S. Department of the Interior			0	35,305,463	35,305,463
Total Fish and Wildlife Cluster			0	35,305,463	35,305,463
FOOD STAMP CLUSTER					
Department of Agriculture					
Food Stamps	10.551			2,948,042,497	2,948,042,497
State Administrative Matching Grants for Food Stamp Program	10.561		13,589,823	151,833,748	165,423,571
Total - Department of Agriculture			13,589,823	3,099,876,245	3,113,466,068
Total Food Stamp Cluster			13,589,823	3,099,876,245	3,113,466,068
FOSTER GRANDPARENT/SENIOR COMPANION CLUSTER					
Corporation for National and Community Service					
Foster Grandparent Program	94.011			1,999,713	1,999,713
Total - Corporation for National and Community Service			0	1,999,713	1,999,713
Total Foster Grandparent/Senior Companion Cluster			0	1,999,713	1,999,713
HAZARD MITIGATION CLUSTER					
Federal Emergency Management Agency					
Hazard Mitigation Grant	83.548		26,512,649	2,286,907	28,799,556
Total - Federal Emergency Management Agency			26,512,649	2,286,907	28,799,556

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
HAZARD MITIGATION CLUSTER (continued)					
Department of Homeland Security					
Hazard Mitigation Grant	97.039		18,055,079	814,995	18,870,074
Total - Department of Homeland Security			18,055,079	814,995	18,870,074
Total Hazard Mitigation Cluster			44,567,728	3,101,902	47,669,630
HIGHWAY PLANNING AND CONSTRUCTION CLUSTER					
U.S. Department of Transportation					
Highway Planning and Construction	20.205		110,265,025	2,471,471,060	2,581,736,085
Pass-Through from Outside Plant Consulting Service		DTRT57-07-C-10046		9,290	9,290
Total - U.S. Department of Transportation			110,265,025	2,471,480,350	2,581,745,375
Total Highway Planning and Construction Cluster			110,265,025	2,471,480,350	2,581,745,375
HIGHWAY SAFETY CLUSTER					
U.S. Department of Transportation					
State and Community Highway Safety	20.600		10,927,600	3,462,535	14,390,135
Pass-Through from Brazos County		17460004330		1,374	1,374
Pass-Through from University of Michigan Transport		G096797		20,020	20,020
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601		2,928,218	1,975,988	4,904,206
Occupant Protection	20.602		2,276,383		2,276,383
Safety Incentive Grants for Use of Seatbelts	20.604		659,412	347,499	1,006,911
Safety Belt Performance Grants	20.609		5,656,888	1,931,734	7,588,622
Total - U.S. Department of Transportation			22,448,501	7,739,150	30,187,651
Total Highway Safety Cluster			22,448,501	7,739,150	30,187,651
HOMELAND SECURITY CLUSTER					
Department of Homeland Security					
State Domestic Preparedness Equipment Support Program	97.004		8,095	2,317,280	2,325,375
Emergency Management Performance Grants	97.042		3,677,038	6,618,825	10,295,863
Citizen Corps	97.053			55,710	55,710
Centers for Homeland Security	97.067		63,227,301	16,948,079	80,175,380
Law Enforcement Terrorism Prevention Program (LETPP)	97.074			554,347	554,347
Total - Department of Homeland Security			66,912,434	26,494,241	93,406,675
Total Homeland Security Cluster			66,912,434	26,494,241	93,406,675
MEDICAID CLUSTER					
U.S. Department of Health and Human Services					
State Medicaid Fraud Control Units	93.775			12,360,331	12,360,331
State Survey and Certification of Health Care Providers and Suppliers	93.777			47,510,708	47,510,708
Medical Assistance Program	93.778		34,104,947	12,986,102,472	13,020,207,419
Total - U.S. Department of Health and Human Services			34,104,947	13,045,973,511	13,080,078,458
Total Medicaid Cluster			34,104,947	13,045,973,511	13,080,078,458

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
PUBLIC ASSISTANCE CLUSTER					
Federal Emergency Management Agency					
Public Assistance Grants	83.544		11,266,814	944,272	12,211,086
Total - Federal Emergency Management Agency			11,266,814	944,272	12,211,086
Department of Homeland Security					
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		86,873,963	26,459,848	113,333,811
Total - Department of Homeland Security			86,873,963	26,459,848	113,333,811
Total Public Assistance Cluster			98,140,777	27,404,120	125,544,897
PUBLIC WORKS/ECONOMIC DEV CLUSTER					
U.S. Department of Commerce					
Investments for Public Works and Economic Development Facilities	11.300			102,766	102,766
Economic Adjustment Assistance	11.307			279,599	279,599
Total - U.S. Department of Commerce			0	382,365	382,365
Total Public Works/Economic Dev Cluster			0	382,365	382,365
SPECIAL EDUCATION CLUSTER					
U.S. Department of Education					
Special Education--Grants to States	84.027		838,299,947	37,970,273	876,270,220
Pass-Through from Clear Creek Independent School District		PE-G200003-GS		19,999	19,999
Pass-Through from Dickinson Independent School District		GS-EDG200006		25,958	25,958
Pass-Through from Pasadena Independent School Dist		EDG200002-SE		38,937	38,937
Pass-Through from Pearland Independent School Dist		ED-G200004-G		36,554	36,554
Pass-Through from Education Service Center Region XI		DEC SER		254,545	254,545
Pass-Through from Education Service Center Region XVII		135744C704/D106		254,000	254,000
Special Education--Preschool Grants	84.173		20,627,082	88,199	20,715,281
Total - U.S. Department of Education			858,927,029	38,688,465	897,615,494
Total Special Education Cluster			858,927,029	38,688,465	897,615,494
TRANSIT SERVICES PROGRAMS CLUSTER					
U.S. Department of Transportation					
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513		7,368,857	619,891	7,988,748
Job Access--Reverse Commute	20.516		2,515,749	293,350	2,809,099
New Freedom Program	20.521		32,185	36,446	68,631
Total - U.S. Department of Transportation			9,916,791	949,687	10,866,478
Total Transit Services Programs Cluster			9,916,791	949,687	10,866,478

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2008

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
TRIO CLUSTER					
U.S. Department of Education					
TRIO--Student Support Services	84.042			4,090,638	4,090,638
TRIO--Talent Search	84.044			4,534,577	4,534,577
TRIO--Upward Bound	84.047			9,777,102	9,777,102
TRIO--Educational Opportunity Centers	84.066			1,305,694	1,305,694
TRIO--McNair Post-Baccalaureate Achievement	84.217			3,179,319	3,179,319
Total - U.S. Department of Education			0	22,887,330	22,887,330
Total TRIO Cluster			0	22,887,330	22,887,330
WORKFORCE INVESTMENT ACT CLUSTER					
U.S. Department of Labor					
WIA Adult Program	17.258		70,410,359	6,868,461	77,278,820
Pass-Through from San Jacinto College District		TWC213396003		4,214	4,214
Pass-Through from San Jacinto Community College District		TWC213396001		166,340	166,340
Pass-Through from San Jacinto Community College District		TWC213396004		134,864	134,864
WIA Youth Activities	17.259		63,632,432	7,995,225	71,627,657
Pass-Through from Alamo Workforce Development, Inc.		PS2005014-03		34,691	34,691
Pass-Through from Northeast Texas Workforce Development Board		427052,427053,427054		79,877	79,877
Pass-Through from San Jacinto College District		TWC213396003		13,461	13,461
WIA Dislocated Workers	17.260		80,837,527	10,231,382	91,068,909
Pass-Through from 1st Generation		22-3-1402410		18,578	18,578
Pass-Through from 1st Generation 08-09		1ST Gen Y5-3		8,802	8,802
Pass-Through from San Jacinto College District		TWC213396003		18,499	18,499
Total - U.S. Department of Labor			214,880,318	25,574,394	240,454,712
Total Workforce Investment Act Cluster			214,880,318	25,574,394	240,454,712
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 6,601,222,405	$ 28,632,872,254	$ 35,234,094,659

(1) Summary of Significant Accounting Policies

(a) *Reporting Entity*

The Schedule of Expenditures of Federal Awards (the "Schedule") includes the activity of all federal award programs administered by the State of Texas (the "State"), except for four components units, for the fiscal year ended Aug. 31, 2008. Those component units, the Texas Guaranteed Student Loan Corporation, Texas A&M Research Foundation, Texas Health Insurance Risk Pool of the Department of Insurance and Boll Weevil Foundation of the Department of Agriculture, are subject to separate audits in compliance with Office of Management Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The federal transactions for these four entities are excluded from the Schedule.

The Texas A&M Research Foundation is a blended component unit of the Texas A&M University System and is included as part of the primary government in the State of Texas Comprehensive Annual Financial Report (CAFR). The Texas Guaranteed Student Loan Corporation, Texas Health Insurance Risk Pool and Boll Weevil Foundation are discrete component units and are not part of the primary government in the CAFR.

Federal award programs include expenditures, pass-throughs to non-state agencies (i.e. payments to subrecipients), non-monetary assistance and loan programs.

(b) *Basis of Presentation*

The Schedule presents total federal awards expended for each individual federal program in accordance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Federal award program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA). Federal award program titles not presented in the CFDA are identified by Federal Agency number followed by (.XXX).

(c) *Basis of Accounting*

The expenditures for each of the federal financial assistance programs are presented in the Schedule on the accounting basis as presented on the fund financial statements. For entities with governmental funds, expenditures are presented on a modified accrual basis. For entities with proprietary funds, expenditures are presented on the accrual basis.

Both the modified accrual and accrual basis of accounting incorporate an estimation approach to determine the amount of expenditures incurred if not yet billed by a vendor. Thus, those Federal programs presenting negative amounts on the Schedule are the result of prior year estimates being overstated and/or reimbursements due back to the grantor.

(d) *Matching Costs*

Matching costs, the nonfederal share of certain program costs, are not included in the Schedule, except for the State's share of unemployment insurance (See Note 4).

(2) Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of Federal financial reports vary by Federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the Federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule which is prepared on the basis explained in Note 1(c).

(3) Relations to Revenues in the State of Texas' Fund Financial Statements

The following is a reconciliation of total federal awards expended as reported in the Schedule to federal revenues reported in the fund financial statements.

Federal Revenues	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds, Federal Revenue	$ 28,656,215,142
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds, Federal Revenue	2,646,655,836
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds, Capital Contributions- Federal	27,411,763
Statement of Changes in Fiduciary Net Assets	106,209,407
Total Federal Revenue per Fund Financial Statements	31,436,492,148
Reconciling Items	
Non-Cash Federal Commodities/Vaccines/Surplus Property/Other (Note 6)	370,912,793
Various Loans Processed by Universities and Agencies (Note 5)	2,136,479,864
State Unemployment Funds (Note 4)	1,329,629,094
Cash rebates to participants in the Special Supplemental Food Program for Woman Infants and Children (WIC) (Note 7)	241,079,164
Other *	(104,784,295)
Blended Component Unit not included in the Schedule of Expenditures of Federal Awards (Note 1(a))	(175,714,109)
Expenditures per Schedule of Expenditures of Federal Awards	$ 35,234,094,659

* This amount includes deductions of $1,864,095 for fixed fee contracts; $2,275,668 of vendor transactions; $101,774,145 for Medicare portion of Part D which is not subject to OMB A-133 since it does not include any Medicaid funds; and $368,078 for deferred revenues recognized in fund financial statements but not in the Schedule. This amount also includes additions $1,446,929 for deferred revenues recognized on the Schedule but not in the fund financial statements and $50,682 of other transactions. An addition of $80 is also included to account for rounding in the Schedule.

(4) Unemployment Insurance Funds

State unemployment tax revenues and the government and non-profit contributions in lieu of state taxes (State UI funds) must be deposited into the Unemployment Trust Fund in the U.S. Treasury. Use of these funds is restricted to pay benefits under the federally approved State Unemployment Law. State UI funds as well as federal funds are reported in the Schedule under CFDA 17.225. The State portion in the amount of $1,329,629,094 is a reconciling item in the reconciliation of the Schedule to revenues in the fund financial statements (See Note 3).

(5) Federally Funded Loan Programs

The State participates in various federally funded loan programs. The programs can be grouped into two broad categories:

Federally Funded Student Loan Programs
Other Federally Funded Loan Programs

a) ***Federally Funded Student Loan Programs***

The State participates in student loan programs on which the federal government imposes continuing compliance requirements. Additionally, the State participates in other student loan programs that do not require continuing compliance. The charts below summarize activity by the State for federally funded student loan programs:

Student Loan Programs with Continuing Compliance Requirements

CFDA Number	Program Name	Ending Balances of Previous Year's Loans	New Loans Processed
84.038	Federal Perkins Loan Program (Perkins)	$ 134,143,144	$ 29,983,606
93.342	Health Professions Student Loans (HPSL)	6,531,312	2,226,879
93.364	Nursing Student Loans	2,735,140	477,625
		$143,409,596	$ 32,688,110

Other Student Loan Programs

CFDA Number	Program Name	New Loans Processed
84.032	Federal Family Education Loan Program (FFELP)	$ 1,934,121,156
84.268	Federal Direct Student Loans (Direct Loans)	167,307,340
93.264	Nursing Faculty Loan Program	53,434
		$ 2,101,481,930
	Total New Loans Processed	$ 2,134,170,040

The total new loans processed amount of $2,134,170,040 is included in the Schedule and as part of a reconciling item on Note 3.

The Federal Family Education Loan Program (FFELP, CFDA 84.032) and the Federal Direct Student Loans Program (Direct Loans, CFDA 84.268) do not require universities to disburse funds. The proceeds are disbursed by lending institutions for FFELP and by the federal government for Direct Loans. For both programs, loan guarantees are issued by the Texas Guaranteed Student Loan Corporation or other guarantee agencies. The federal government reinsures these guarantee agencies.

The Texas Higher Education Coordinating Board (THECB) participated in the Federal Family Education Loan Program (FFELP, CFDA 84.032L) as a servicer of the loans. During the year ended

Aug. 31, 2008, THECB received $317,357 in interest subsidy payments that are included in the Schedule. For the year ended Aug. 31, 2008, THECB originated loans of $2,309,824 to university students that are included in the Schedule. As of Aug. 31, 2008, THECB services approximately $53.4 million of FFELP loans.

b) ***Other Federally Funded Loan Programs***

The State participates in other federally funded revolving loan programs. The chart below summarizes activity by the State for these programs:

CFDA Number	Program Name	New Loans Processed
66.458	Clean Water State Revolving Funds (CWSRF)	$ 58,886,149
66.468	Drinking Water State Revolving Funds (DWSRF)	78,750,811
	Total New Loans Processed	$ 137,636,960

Clean Water State Revolving Funds (CWSRF, CFDA 66.458)
The Water Development Board receives capitalization grants to create and maintain Clean Water State Revolving Funds programs (CWSRF, CFDA 66.458). The State can use capitalization grant funds to provide a long-term source of State financing for construction of wastewater treatment facilities and implementation of other water quality management activities.

The CWSRF provides loans at interest rates lower than what can be obtained through commercial markets. Fixed rate loans offer net long-term interest rates of 0.95 percent below market rates for those applicants financing the origination charge. For applicants who pay for the origination charge from other sources, the interest rate is 0.70 percent below the rate the borrower would receive in the open market at the time of closing. The maximum repayment period for most CWSRF loans is 20 years from completion of construction. Capitalization grants received for CWSRF for the year ended Aug. 31, 2008, were approximately $58.9 million and are included in the Schedule. CWSRF outstanding loans, with no continuing audit requirements, at Aug. 31, 2008, were approximately $2.3 billion.

Drinking Water State Revolving Funds (DWSRF, CFDA 66.468)
The Water Development Board receives capitalization grants to create and maintain Drinking Water State Revolving Funds programs (DWSRF, CFDA 66.468). The State can use capitalization grant funds to establish a revolving loan fund. The revolving loan fund can assist public water systems in financing the costs of infrastructure needed to achieve or maintain compliance with the Safe Drinking Water Act. These compliance requirements ensure the public health objectives of the Safe Drinking Water Act.

The DWSRF can provide loans at interest rates lower than the market or provide other types of financial assistance for qualified communities, local agencies and private entities. The DWSRF offers a net long-term interest lending rate of 1.2 percent below the rate the borrower would receive in the open market at the time of closing. The maximum repayment period for most DWSRF loans is 20 years from the completion of construction. Capitalization grants received for DWSRF for the year ended Aug. 31, 2008, were approximately $78.8 million and are included in the Schedule. DWSRF outstanding loans, with no continuing audit requirements, at Aug. 31, 2008, were approximately $269.6 million.

The State also participates in a federally funded credit enhancement program.

Credit Enhancement for Charter School Facilities (CFDA 84.354)
In 2005, the Texas Public Finance Authority Charter School Finance Corporation formed a consortium with the Texas Education Agency and the Texas Charter School Resource Center to apply for a federal grant to assist charter schools. In November 2006, the consortium received $10.1 million in federal grants to establish the Texas Credit Enhancement Program ("TCEP"). The $10.5 million of federal grants received and interested earned in fiscal 2007 are subject to continuing audit requirements and are included in the Schedule. In addition, approximately $464 thousand of interest earned on the federal grant monies drawn down in fiscal 2008 is also included in the Schedule.

The TCEP provides credit enhancement to eligible charter schools by funding debt service reserve funds for bonds issued on behalf of the schools to finance education facilities. As of Aug. 31, 2008, $8.5 million of the federal grant funds had been allocated to various charter schools.

(6) Non-Monetary Assistance

The State is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements and are therefore not recorded in the State's fund financial statements. Awards received by the State which include cash and non-cash amounts are included in the Schedule as follows:

CFDA Number	Program Name	Grant Awards
10.550	Food Distribution	$ 106,253,437
10.565	Commodity Supplemental Food Program	4,150,111
10.569	Emergency Food Assistance Program	19,563,369
17.002	Labor Force Statistics	346
17.207	Employment Services	45,677
17.225	Unemployment Insurance	328,516
39.003	Donation of Federal Surplus Personal Property	11,328,174
93.268	Immunization Grants	229,243,163
	Total	$ 370,912,793

(7) Rebates from the Special Supplemental Food Program for Women, Infants, and Children (WIC)

During fiscal 2008, the State received cash rebates from infant formula manufacturers in the amount of approximately $241.1 million on sales of formula to participants in the WIC program (CFDA 10.557), which are netted against total expenditures included in the Schedule. Rebate contracts with infant formula manufacturers are authorized by Code of Federal Regulations, Title 7: Agriculture, Chapter II, Subchapter A, Part 246.16(m) as a cost containment measure. Rebates represent a reduction of expenditures previously incurred for WIC food benefit costs. Applying the rebates received to such costs enabled the State to extend program benefits to more participants than could have been serviced this fiscal year in the absence of the rebate contract.

(8) Depository Libraries for Government Publications

Several State agencies and universities participate as depository libraries in the Government Printing Office's Depository Libraries for Government Publications program (CFDA 40.001). The State agencies and universities are the legal custodian of government publications, which remain the property of the federal government. The publications are not assigned value by the Government Printing Office.

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Schedule of Findings and Questioned Costs

Federal Portion of
Statewide Single Audit Report

For the Year Ended August 31, 2008

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Section 1:

Summary of Auditors' Results

Financial Statements

Issued under separate cover. See State Auditor's Office report entitled the Financial Portion of the 2008 Statewide Single Audit Report dated February 20, 2009.

Federal Awards

1. Internal Control over major programs:
   a. Material weakness (es) identified? Yes
   b. Significant deficiency (ies) identified not considered to be material weaknesses? Yes

Major Programs with Significant Deficiencies:

CFDA Number	Name of Federal Program or Cluster
10.550	Food Donation
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
10.560	State Administrative Expenses for Child Nutrition
20.106	Airport Improvement Program
20.233	Border Enforcement Grant
66.000	Capitalization Grants for Colonias Wastewater Treatment Assistance Program
66.458	Capitalization Grants for Clean Water State Revolving Fund
66.468	Capitalization Grants for Drinking Water State Revolving Fund
84.011	Migrant Education - State Grant Program
84.032L	Federal Family Education Loans (FFEL) - Lender
84.048	Vocational Education - Basic Grants to States
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
84.287	Twenty-First Century Community Learning Centers
84.357	Reading First State Grants
93.217	Family Planning - Services
93.268	Immunization Grants
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.568	Low-Income Home Energy Assistance
93.658	Foster Care - Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	State Children's Insurance Program
93.889	Hospital Preparedness Program
93.917	HIV Care Formula Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.994	Maternal and Child Health Services Block Grant to the State
97.036	Public Assistance Grants (including CFDA 83.544)
97.039	Hazard Mitigation Grant (including CFDA 83.548)
Cluster	Food Stamp
Cluster	Highway Planning and Construction
Cluster	Homeland Security
Cluster	Medicaid
Cluster	Special Education
Cluster	Student Financial Assistance
Cluster	Research and Development

Major Programs with Material Weaknesses:

CFDA Number	Name of Federal Program or Cluster
20.106	Airport Improvement Program
20.233	Border Enforcement Grant
84.011	Migrant Education - State Grant Program
93.558	Temporary Assistance for Needy Families
Cluster	Food Stamp
Cluster	Medicaid
Cluster	Highway Planning and Construction
Cluster	Student Financial Assistance

2. Type of auditors' report issued on compliance for major programs? See below

Qualification:

CFDA Number	Name of Federal Program or Cluster
20.106	Airport Improvement Program
84.011	Migrant Education - State Grant Program
84.048	Vocational Education - Basic Grants to States
84.287	Twenty-First Century Community Learning Centers
84.357	Reading First State Grants
93.558	Temporary Assistance for Needy Families
93.767	State Children's Insurance Program
Cluster	Food Stamp
Cluster	Highway Planning and Construction
Cluster	Medicaid
Cluster	Special Education
Cluster	Student Financial Assistance

No Qualification:

CFDA Number	Name of Federal Program or Cluster
10.550	Food Donation
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
10.560	State Administrative Expenses for Child Nutrition
20.233	Border Enforcement Grants
66.000	Water Programs
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
84.032L	Federal Family Education Loans (FFEL) - Lender
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
84.181	Special Education - Grants for Infants and Families with Disabilities
93.217	Family Planning Services
93.268	Immunization Grants
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance
93.568	Low-Income Home Energy Assistance
93.658	Foster Care - Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.889	Hospital Preparedness Program
93.917	HIV Care Formula Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.994	Maternal and Child Health
97.036	Public Assistance Grants (including CFDA 83.544)
97.039	Hazard Mitigation Grant (including CFDA 83.548)
Cluster	Aging
Cluster	Disability Insurance/SSI
Cluster	Employment Services
Cluster	Fish and Wildlife Cluster
Cluster	Homeland Security
Cluster	Workforce Investment Act
Cluster	Research and Development

3. Any audit findings disclosed that are required to be reported in accordance with *OMB Circular A-133*, Section 510(a)? Yes

4. Dollar threshold used to distinguish between Type A and Type B programs: $49,627,044

5. Auditee qualified as low-risk auditee? No

6. Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.550	Food Donation
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
10.560	State Administrative Expenses for Child Nutrition
20.106	Airport Improvement Program
20.233	Border Enforcement Grants
66.000	Capitalization Grants for Colonias Wastewater Treatment Assistance Program
66.458	Capitalization Grants for State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
84.011	Migrant Education - State Grant Program
84.032L	Federal Family Education Loans (FFEL) - Lender

CFDA Number	Name of Federal Program or Cluster
84.048	Vocational Education - Basic Grants to States
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
84.181	Special Education - Grants for Infants and Families with Disabilities
84.287	Twenty-First Century Community Learning Centers
84.357	Reading First State Grants
93.217	Family Planning Services
93.268	Immunization Grants
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.568	Low-Income Home Energy Assistance
93.658	Foster Care - Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	State Children's Insurance Program
93.889	National Bioterrorism Hospital Preparedness Program
93.917	HIV Care Formula Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.994	Maternal and Child Health Services Block Grant to the States
97.036	Public Assistance Grants (including CFDA 83.544)
97.039	Hazard Mitigation Grant (including CFDA 83.548)
Cluster	Aging
Cluster	Disability Insurance/SSI
Cluster	Employment Services
Cluster	Fish and Wildlife
Cluster	Food Stamp
Cluster	Highway Planning and Construction
Cluster	Homeland Security
Cluster	Medicaid
Cluster	Research and Development
Cluster	Special Education
Cluster	Student Financial Assistance
Cluster	Workforce Investment Act

Section 2:

Financial Statement Findings

Issued under separate cover. See State Auditor's Office report entitled the Financial Portion of the 2008 Statewide Single Audit Report dated February 20, 2009.

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Federal Award Findings and Questioned Costs - Table of Contents

Federal Award Findings - KPMG

Agriculture, Department of 128
Assistive and Rehabilitative Services, Department of 138
Family and Protective Services, Department of 139
Health and Human Services Commission 149
Housing and Community Affairs, Department of 177
Parks and Wildlife Department 179
State Health Services, Department of 180
Texas Education Agency 187
Texas Workforce Commission 202

Federal Award Findings - Other Auditors

Angelo Sate University 203
Public Safety, Department of 207
Sul Ross State University 224
Texas A&M University 228
Texas A&M University - Corpus Christi 232
Texas Higher Education Coordinating Board 236
Texas Southern University 243
Texas State University - San Marcos 250
Texas Tech University 259
Transportation, Dept of 267
University of Houston 276
University of North Texas Health Science Center at Fort Worth 285
University of Texas at Austin 286
University of Texas at Dallas 297
University of Texas at El Paso 301
University of Texas Health Science Center at Houston 306
University of Texas Health Science Center at San Antonio 309
University of Texas Medical Branch at Galveston 311
University of Texas of the Permian Basin 313
University of Texas at San Antonio 321
University of Texas Southwestern Medical Center at Dallas 328
Water Development Board 329
West Texas A&M University 335

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Section 3a:

Federal Award Findings and Questioned Costs - KPMG

This section identifies significant deficiencies, material weaknesses, and instances of non-compliance, including questioned costs, as required to be reported by *Office of Management and Budget Circular A-133*, Section .510(a). This section is organized by state agency.

Department of Agriculture

Reference No. 09-01

Allowable Costs/Cost Principles

CFDA 10.558 - Child and Adult Care Food Program
Award year - October 1, 2007 to September 30, 2008
Award number - 6TX300352 and 6TX300332

CFDA 10.560 - State Administrative Expenses for Child Nutrition
Award year - October 1, 2007 to September 30, 2009 and October 1, 2006 to September 30, 2008
Award number - 6TX300312 and 6TX300312

Non-major Programs:

- **CFDA 10.025 - Plant and Animal Disease, Pest Control, and Animal Care**
- **CFDA 10.153 - Market News**
- **CFDA 10.163 - Market Protection and Promotion**
- **CFDA 10.559 - Summer Food Service Program for Children**
- **CFDA 10.568 - Emergency Food Assistance Program (Administrative Costs)**
- **CFDA 14.228 - Community Development Block Grants/State's Program**
- **CFDA 66.700 - Consolidated Pesticide Enforcement Cooperative Agreements**

Type of finding - Significant Deficiency

Questioned Cost: $ 0

U.S. Department of Agriculture
U.S. Department of Housing and Urban Development
Environmental Protection Agency

Access to migrate changes to production environment should be restricted appropriately based on job function to help ensure adequate internal controls are in place and appropriate segregation of duties exist. In general, programmers should not have access to migrate changes to production environment. Access to PATHS production servers is inappropriate. Two developers have access to the application and database servers in production. The ability for these two developers to mitigate changes to production is partially mitigated by their lack of direct access to the ID needed to migrate changes to production. Additionally, two developers have administrative access on the PATHS application.

Terminated employees should be removed from all systems following termination. One terminated database administrator had access to the database server. The situation was mitigated as the terminated Database Administrator (DBA) was properly removed from the network and without access to the network; an employee is unable to gain direct access to any of the underlying systems or applications. Additionally, a terminated employee user ID for a former DBA was active on the database after their termination date. Upon notification, this terminated employee's access was removed from production on October 31, 2008. Thirdly, four of 16 terminated users selected for testing had access to the PATHS application. This access was mitigated as none of the four terminated employees had network access.

Privileged access (i.e. super user) on the database was granted to six developers when "TDA_DEVELOPER" was inadvertently granted DBA-type privileges in the production environment. Effective October 31, 2008, TDA_DEVELOPER role was removed from production.

A periodic review of existing user access and their privilege levels in the application was not performed.

No compliance issues were noted for payroll sample items selected with regards to the above major programs. The related timesheets were properly certified and approved and the allocation of expenditures to the various CFDA was recalculated without exception. Total salary and benefits costs charged to the major and non-major program for fiscal year 2008 were:

Federal Program		Amount Charged for FY08
CFDA 10.025	$	144,670
CFDA 10.153		32,436
CFDA 10.163		538,897
CFDA 10.560		4,530,364
CFDA 10.558		231,554
CFDA 10.559		142,820
CFDA 10.568		17,404
CFDA 14.228		321,630
CFDA 66.700		2,454,487
Total	$	8,414,262

Recommendation:

Management should restrict access based on the individual's job responsibility, including restricting developer access from migrating code into production. Management should also perform a periodic review of active users and user access rights to ensure appropriate segregation of duties is established. Terminated employees should be removed from all systems timely.

Management Response and Corrective Action Plan:

Texas Department of Agriculture (TDA) agrees and has terminated the identified unnecessary authorizations. TDA is conducting a review of all authorizations to ensure no terminated employee accounts remain and that active user rights are appropriate. TDA will initiate comprehensive periodic reviews.

TDA's information technology (IT) department is relatively small. TDA is unable to have a complete segregation of IT duties. Two of the developers that have administrative access on the PATHS application are the application administrators. Their access is necessary to support PATHS for the agency. However, they are not the developers of the application and are not able to modify the code.

TDA is currently recruiting a full time Information Security Officer (ISO). The ISO's first priority is to conduct a security risk assessment in conjunction with these findings and develop a work plan to establish security governance, procedures, and guidelines for the agency.

Implementation Date:	*Terminating identified unnecessary authorizations:*	*January 30, 2009*
	Security governance, procedures, guidelines, and review:	*October 31, 2009*

Responsible Person: *Patrick Le*

Reference No. 09-02

Subrecipient Monitoring

CFDA 10.558 - Child and Adult Care Food Program
Award year - October 1, 2007 to September 30, 2008
Award number - 6TX300352 and 6TX300332
Type of finding - Non-Compliance

Questioned Cost: $ 0
U.S. Department of Agriculture

The administering agency is required to assess institutional compliance by performing reviews of independent centers, sponsoring organizations of centers, sponsoring organizations of day care homes, and new organizations. The prescribed schedule is such that independent centers and sponsoring organizations of 1 to 100 facilities must be reviewed at least once every three years. A review of such a sponsoring organization must include reviews of 10 percent of the sponsoring organization's facilities; sponsoring organizations with more than 100 facilities must be reviewed at least once every two years. These reviews must include reviews of 5 percent of the first 1,000 facilities and 2.5 percent of the facilities in excess of 1,000; new institutions that are sponsoring organizations of five or more facilities must be reviewed within the first 90 days of program operations. 7 CFR Ch. II (1–1–08 Edition) § 226.6 (m)(6)(i)(ii)

One of the 40 subrecipients selected for review had not received an onsite review in the past three years. For this subrecipient, an on-site review was last performed in fiscal year 2005. The last on-site review date for this subrecipient was incorrectly entered into the field office's tracking system as 2006, and as such, the subrecipient was on the 2009 review cycle. Upon notification of this oversight, the Department of Agriculture commenced an on-site review. The program expenses for this subrecipient from fiscal year 2006 to 2008 respectively are as follows: $28,943; $37,424; and $41,623.

Recommendation:

All field offices should review their subrecipient work plans to ensure they are correct, and that on-site reviews meet the required time frames.

Management Response and Corrective Action Plan:

TDA has scheduled and conducted the administrative review for the CACFP contractor that had not received a review within the scheduled time frame. In addition, TDA reviewed work plans for each field office to ensure they were correct. All other scheduled reviews for the audit period had been properly reviewed.

To ensure administrative reviews are conducted on time in the future, TDA is scheduled to launch the Field Operations Tracking System in March 2009. This system will track all administrative reviews allowing TDA to review work plans for accuracy. In addition, TDA management will follow up each month to ensure scheduled administrative reviews are completed as scheduled, or if rescheduled, the review is conducted within the proper timeframe.

Implementation Date: *April 30, 2009*

Responsible Person: *Don Mann*

Reference No. 09-03

Subrecipient Monitoring

CFDA 10.560 - State Administrative Expenses for Child Nutrition
Award year - October 1, 2007 to September 30, 2009 and October 1, 2006 to September 30, 2008
Award number - 6TX300312 and 6TX300312
Type of finding - Significant Deficiency and Non-Compliance

Texas Department of Agriculture (TDA) is required by OMB Circular A-133, Section .400, to monitor subrecipients to ensure compliance with Federal rules and regulations, as well as the provisions of the contracts or grant agreements. According to OMB Circular A-133, the TDA must assure that subrecipients expending Federal funds in excess of $500,000 have an OMB Circular A-133 Single Audit performed and provide a copy to the TDA. The TDA is to review the report and to issue a management decision, if applicable.

Questioned Cost: $ 0

U.S. Department of Agriculture

Only one of the ten subrecipients selected had documentation regarding the receipt and review of the required OMB Circular A-133 Single Audit report. From March to August 2008, the position responsible for the collection and review of the Education Service Centers (ESC) A-133 reports was vacant and management did not reassign the responsibility to another individual. TDA's A-133 review is documented on their desk review form which also includes other procedures. The related desk review forms were on-hand but the section for the A-133 review was not completed. Of the 20 ESC subrecipients, only one had an A-133 Single Audit report review at the time of our test work. TDA management has commenced collection and review of the A-133 audit reports for the ESCs. During fiscal year 2008, approximately $4,885,000 was passed through to the ESCs.

Recommendation:

TDA management should develop procedures to ensure that the desk reviews are 100% complete prior to being filed and that there is a succession plan in place when key individuals resign.

Management Response and Corrective Action Plan:

Prior to the completion of the KPMG audit of TDA Food and Nutrition Division's 2008 program operations, the review of the Education Service Center's (ESC) 2007 Annual Financial Reports were performed. No findings for the ESC's Child Nutrition Departments were noted within any of the reports reviewed.

TDA has adjusted the timeframe in which the desk reviews will be conducted to ensure that all future desk reviews are 100% complete prior to being filed. In the past, TDA performed desk reviews on all ESCs prior to conducting the scheduled on-site reviews for selected ESCs. Desk reviews were usually performed prior to December of each year. Many A-133 audits are not published within that timeframe resulting in follow-up action by TDA. In the future, TDA will focus staff attention on the on-site review of the ESCs first. The desk reviews of all twenty ESCs will be performed in the spring. This will allow time for all prior year A-133 audits to be completed and published.

TDA has already identified staff to cover key positions and cross training is ongoing. Key processes and dates due will be identified by position and maintained by the administrative assistant. Management will review to ensure timely completion.

Implementation Date: *April 30, 2009*

Responsible Person: *Robin O. Roark*

Reference No. 09-04

Subrecipient Monitoring

CFDA 10.550 - Food Donation
Award year - October 1, 2007 to September 30, 2008
Award number - FNS-74 (04-2003)
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost:	$ 157,450
U.S. Department of Agriculture	

Access to migrate changes to production environment should be restricted appropriately based on job function to help ensure adequate internal controls are in place and appropriate segregation of duties exist. In general, programmers should not have access to migrate changes to production environment. Terminated employees should be removed from all systems following termination. During the performance of general controls test work for the Texas Commodities System (TCS), the following items were noted with regard to access procedures performed:

- 20 out of 34 admin users on the TCS application belong to terminated employees. Additionally, three of the 34 admin users were developers. Lastly, four out of 34 admin user IDs were assigned to unknown users.
- One out of 17 users with access to production servers belongs to a terminated developer. In addition, an additional user of the 17 belonged to a terminated Database Administrator (DBA).
- Two user DBA IDs were assigned to Health and Human Services Commission developers who do not require access to Department of Agriculture (TDA) systems.
- There are two users with inappropriate access to the TCS application to override the system limitation that prohibits schools from requesting commodities up to 25% of their yearly allocation. During the audit, TDA removed the access for these two users.
- A periodic review of existing user access and their privilege levels in the application was not performed.

For the above four instances**,** the respective employees did not have network access, thus potential risk of inappropriate access was mitigated.

During change management audit procedures, it was noted that TDA performs testing of code changes after the code is moved into production. TDA does hire a third party developer to create the code changes and the contract between TDA and the third-party developer does require the vendor to perform testing of code changes. However, TDA does not monitor this testing nor retain documents evidencing the work and results performed by the vendor. No application code changes were made during the audit period.

Total meal counts requested by schools are uploaded annually from their source data into the TCS application. TDA procedures include a manual reconciliation from the source date to the TCS system upload to validate completion and accuracy of the upload. However during fiscal year 2008, the reconciliations were not performed. Therefore during the audit, the reconciliation was performed and one requestor was noted to have discrepancies. As a result, the requesting entity received $259,638 in commodities, but they were only eligible for $102,188.

Recommendation:

Management should restrict access based on the individual's job responsibility, including restricting developer access from migrating code into production. Management should also perform a periodic review of active users and user access rights to ensure appropriate segregation of duties is established. Terminated employees should be removed from all systems timely. All changes to code should be tested prior to being deployed into production.

In addition, the annual reconciliation for the meal counts to the source data should be performed and reviewed timely to ensure total meal counts is completely and accurately reflected prior to the allocation of commodities.

Management Response and Corrective Action Plan:

TDA agrees and has terminated the identified unnecessary authorizations. TDA is conducting a review of all authorizations to ensure no terminated employee accounts remain and that active user rights are appropriate. TDA will initiate comprehensive periodic reviews.

In anticipation of the transitioning of the TCS system to TDA from the Health and Human Services Commission, TDA established a TCS test environment on January 16, 2009. Therefore, future TCS code changes will be tested prior to deployment to production.

TDA is currently recruiting a full time Information Security Officer (ISO). The ISO's first priority is to conduct a security risk assessment in conjunction with these findings and develop a work plan to establish security governance, procedures, and guidelines for the agency.

In 2008, over 130 million pounds of commodity foods were received in Texas valued at over $106 million. Commodities to schools are handled through the Food Distribution Program. Total eligible lunch meals served are used to calculate the allocation amount per school. Schools have 60 days after the end of any given month to report meals served. Revisions to meal counts may also be made after that time. To ensure the meal counts used to allocate meals are the most current, staff will reconcile school district meal counts recorded in the commodity system to the eligible meal counts reported by districts in the information management system annually prior to finalizing the allocation process. Any mismatches will be evaluated and revised as appropriate.

Detailed procedures have been developed and commodity staff involved with the annual reconciliation process have been retrained. The written procedure has been disseminated to all commodity staff and is posted in the Food and Nutrition's policy and procedures folder located on the shared drive.

Implementation Dates:

Terminating identified unnecessary authorizations:	*January 30, 2009*
Security governance, procedures, guidelines, and review:	*October 31, 2009*
Annual reconciliation:	*January 30, 2009*

Responsible Person:

Terminating identified unnecessary authorizations:	*Patrick Le*
Security governance, procedures, guidelines, and review:	*Patrick Le*
Annual reconciliation:	*Johnny Adams*

Reference No. 09-05

Allowable Costs/Cost Principles

CFDA 10.558 - Child and Adult Care Food Program
Award year - October 1, 2007 to September 30, 2008
Award number - 6TX300352 and 6TX300332

CFDA 10.560 - State Administrative Expenses for Child Nutrition
Award year - October 1, 2007 to September 30, 2009 and October 1, 2006 to September 30, 2008
Award number - 6TX300312 and 6TX300312

Non-major Programs:
CFDA 10.025 - Plant and Animal Disease, Pest Control, and Animal Care
CFDA 10.163 - Market Protection and Promotion
CFDA 10.559 - Summer Food Service Program for Children
CFDA 66.700 - Consolidated Pesticide Enforcement Cooperative Agreements
Type of finding - Significant Deficiency and Non-Compliance

Indirect costs are normally charged to Federal awards by the use of an indirect cost rate. A separate indirect cost rate(s) is usually necessary for each department or agency of the governmental unit claiming indirect costs under Federal awards. (A-87, Attachment E, paragraph A.1-3) Indirect cost proposals must be developed (and when required, submitted) within six months after the close of the governmental unit's fiscal year, unless an exception is approved by the cognizant Federal agency. (A-87, Attachment E, paragraph D.1)

Questioned Cost: $ 0

U.S. Department of Agriculture
Environmental Protection Agency

Indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. Once a rate has been agreed upon, it will be accepted and used by all Federal agencies unless prohibited or limited by statute. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. This agreement will be subject to re-opening if the agreement is subsequently found to violate a statute, or the information upon which the plan was negotiated is later found to be materially incomplete or inaccurate. The agreed upon rates shall be made available to all Federal agencies for their use. (A-87, Attachment E, paragraph E.1-3)

For fiscal year 2008, the Department of Agriculture (TDA) utilized the Environmental Protection Agency's (EPA) approved rate of 66.72% applicable for the 2007 fiscal year in calculating the 2008 indirect cost reimbursement amounts. The EPA approved rate expired August 31, 2007. There was no provision in the indirect costs agreement for a 2008 rate. The 2007 approved rates were based off of expenditures for the fiscal year ended August 31, 2005. In addition, TDA assumed the responsibility for oversight of several additional USDA Food and Nutrition Service programs that were previously administered by the Texas Department of Health and Human Services in fiscal year 2008. The total expenses for CFDA 10.560 and 10.558 during fiscal year 2008, respectively, were approximately $15.9 million and $227.3 million of which approximately $2,800,000 and $91,000 were indirect costs. Total indirect reimbursement requests for fiscal year 2008 for major and non-major programs are noted below. The Office of Acquisition Management of EPA confirmed with TDA during February 2009 that these expenditures were reimbursable as requested and any adjustments would be considered in the future approved rates for TDA.

Federal Program	Indirect Reimbursement Request in FY08
CFDA 10.025	$ 101,159
CFDA 10.163	306,077
CFDA 10.558	90,911
CFDA 10.559	65,228
CFDA 10.560	2,814,340
CFDA 66.700	343,386
	$ 3,721,101

Recommendation:

TDA should work with their cognizant agency, EPA, to obtain a current indirect cost reimbursement rate. Going forward, TDA should ensure that it uses only approved rates for the applicable fiscal year or obtains documentation of an extension allowing the continued usage of prior fiscal year rates.

Management Response and Corrective Action Plan:

In fiscal year 2008, TDA was faced with several changes associated with incorporating two significant programs. TDA notified the Environmental Protection Agency (EPA), our cognizant agency, about the anticipated change in funding streams for fiscal year 2008 in April 2007. Due to the uncertainty of the anticipated change in funding streams on TDA's fiscal year 2008 expenditures and the fiscal year 2008 indirect cost reimbursement rate, in April 2007, TDA also requested and was granted an extension for submitting the indirect cost rate proposal for fiscal year 2008. Prior to fiscal year 2008, TDA submitted indirect cost rate proposals to EPA each fiscal year and received and used approved rates for the applicable fiscal year.

In lieu of having an approved indirect cost reimbursement rate for fiscal year 2008, TDA used the approved 2007 rate as an estimate. Indirect costs are an allowable cost and EPA was aware of the delay in submitting the fiscal year 2008 indirect rate proposal. Unexpected circumstances resulted in a delay greater than initially expected. The proposed 2008 rate has been submitted to EPA for review and approval.

TDA is implementing a Financial Services report tracking system to identify the due dates of all division reports and deliverables including the indirect cost rate proposal. Future indirect cost rate proposals will be completed approximately six months prior to the beginning of the fiscal year for which the rate will be applied. If for any reason this time line cannot be met TDA will seek written approval for use of a provisional rate.

Implementation Date: *February 28, 2009*

Responsible Person: *Heather Griffith-Peterson*

Department of Agriculture
Health and Human Services Commission

Reference No. 09-06
Allowable Costs/Cost Principles
Earmarking
Reporting
Subrecipient Monitoring

CFDA 10.558 - Child and Adult Care Food Program
Award year - October 1, 2007 to September 30, 2008
Award number - 6TX300352 and 6TX300332

Non-major Programs:
CFDA 10.553 - School Breakfast Program
CFDA 10.555 - National School Lunch Program
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost:	($ 24,558)
U.S. Department of Agriculture	

During April 2008, the Child and Adult Care Food Program (CFDA 10.558) was administered through the Nutrition Assistance Payment Processing (NAPP) application, which was administered by Health and Human Services. Effective May 2008, the program was migrated to a new application called Special Nutrition Automated Processing System (SNAPS), which is administered by Texas Department of Agriculture. Since the functionality of NAPP was replaced, the application was retired and thus the general controls (logical access, program change controls, and operations) that supported the application could not be assessed.

During the conversion from the NAPP to SNAPS application, historical data (primarily meal counts) was migrated from the legacy to the new application. During conversion audit procedures, the following discrepancies were noted with regard to the integrity of the underlying data utilized to pay claims and file the respective FNS 44 reports.

- Conversion Error - Within 'At-Risk Snacks' and 'Evening Snacks' meal counts on the FNS reports, both the original claim meal count and amended claim meal count (if applicable) were combined in the SNAPS database during conversion. Therefore when the FNS 44 reports were prepared from SNAPS, both the original and amended claim meal counts were included causing meals to be over-reported.
- NAPP Report Logic Error - In NAPP, there were a number of records where a particular claim month was not marked as eligible on the contract; however, a claim was submitted and paid for the respective month. The FNS-44 reporting process in NAPP first verified the contract to see whether the claim month was eligible and, if not, did not include any claimed meals for the month in the report totals. Therefore meals claimed and paid were under-reported.
- SNAPS Report Logic Error - An error was identified in a SNAPS logic statement when both an original and amended meal count were available for the same month. The logic statement was designed to select the larger of the two meal counts instead of the amended meal count. As such, this is a situation where meals were over-reported.

TDA provided original reported data and corrected data after the above three situations were noted. The under-reported meal count discrepancy detailed above was 117,843 meals for the fiscal year 2008. To quantify this discrepancy, the total meal count difference was multiplied by the Federal rate of assistance per meal ($0.2084) to obtain the total value of under-reported meals of $24,558.

The detail by CFDA of funds that flowed through the NAPP/SNAPS system in fiscal year 2008 is noted below:

Federal Program		Amount for FY08
CFDA 10.553	$	5,783,192
CFDA 10.555		11,152,200
CFDA 10.558		209,474,157
Total	$	226,409,549

Recommendation:

TDA should submit revised FNS 44 reports for the above discrepancies and correct the SNAPS logic error for future reporting.

Management Response and Corrective Action Plan:

TDA has identified the programming logics that were causing the discrepancies and implemented the following measures. The Conversion Error was corrected by updating the meal count records with the meal count from the actual claims data which are correct. The logic in SNAPS was corrected to report amended meal count. As for the NAPP report logic, SNAPS already had the correct logic which identified this discrepancy with NAPP.

The final revised FNS 44 reports have been generated and are currently being verified prior to submission to USDA by January 30, 2009.

Implementation Date: *January 30, 2009*

Responsible Person: *Patrick Le*

Department of Assistive and Rehabilitative Services

Reference No. 09-07
Eligibility

CFDA 84.126 - Rehabilitation Services - Vocational Rehabilitation Grants to States
Award year - October 1, 2007 to September 30, 2009 and October 1, 2006 to September 30, 2008
Award number - H126A080065 and H126A070065
Type of finding - Significant Deficiency and Non-Compliance

An individual is eligible for Vocational Rehabilitation (VR) services if the individual (a) has a physical or mental impairment that, for the individual, constitutes or results in a substantial impediment to employment; (b) can benefit in terms of an employment outcome from VR services; and (c) requires VR services to prepare for, secure, retain, or regain employment (Section 102(a) (1) of the Act (29 USC 722(a) (1))).

Questioned Cost: $ 0

U.S. Department of Education

The State VR Agency must determine whether an individual is eligible for VR services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless (Section 102(a)(6) of the Act (29 USC 722(a)(6)):

a. Exceptional and unforeseen circumstances beyond the control of the State VR agency preclude making an eligibility determination within 60 days and the State agency and the individual agree to a specific extension of time; or
b. The State VR Agency is exploring an individual's abilities, capabilities, and capacity to perform in work situations through trial work experiences in order to determine the eligibility of the individual or the existence of clear and convincing evidence that the individual is incapable of benefiting in terms of an employment outcome from VR services.

Per review of 40 blind recipients and 30 rehab recipients, four blind individuals were not determined eligible within 60 days and there was no notation in the case notes explaining exceptional or unforeseen circumstances. The individuals were determined to be eligible so there are no questioned costs. Forty counselors were reviewed to ensure the counselors' license was current and that training had been received without exception.

Recommendation:

The Department of Assistive and Rehabilitative Services (DARS) should enhance training as to the use of case notes and their importance to complying with federal regulations.

Management Response and Corrective Action Plan:

Management agrees with the recommendation and will review and strengthen counselor training and documentation regarding federal requirements in determining an individual eligible for VR services within 60 days of application. Management will also provide additional guidance to supervisory personnel.

Implementation Date: *October 1, 2009*

Responsible Person: *Bill Agnell*

Department of Family and Protective Services

Reference No. 09-08
Allowable Costs/Cost Principles
Eligibility

CFDA 93.558 - Temporary Assistance for Needy Families
Award year - October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2007
Award number - G0802TXTANF and G0702TXTANF
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 2,627,698

U.S. Department of Health and Human Services

Consistent with Title IV-A of the Social Security Act, as amended by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (Pub. L. No. 104-193), and subsequent amendments thereto, and codified at 42 USC 601-619, the Texas Department of Family Protective Services (DFPS) is authorized to provide any service for which the State previously was authorized to use IV-A or IV-F funds under prior law, as in effect on September 30, 1995, as clarified by the State's 1997 plan amendment for the Emergency Assistance Program (EA).

In accordance with the Temporary Assistance for Needy Families (TANF) State Plan, DFPS is responsible for administering and proving services under EA. A family is eligible for EA Assistance in Texas if all of the following conditions are met, as determined by DFPS:

- An emergency exists. An emergency is defined as (a) a child is at risk of abuse or neglect as determined by DFPS, (b) a child has been removed from their home and placed in DFPS care, or (c) DFPS determines that a child formerly in its care is at risk of being returned to its care.
- The family applies for EA Assistance or a caseworker applies on behalf of a child whose parents are unavailable or unwilling to apply.
- The child under age of 19 has lived with the relative within the six month period prior to application.
- The emergency arose for a reason other than an adult family member's refusal to accept employment without good cause.
- The family has not received Federal EA Assistance in Texas during the 12 month period prior to application.
- The applicant, child, or family declares annual income of less than $63,000.

A sample of 40 children for whom TANF payments were made during fiscal year 2008 was selected for review. Three children receiving EA funds had documented end dates in IMPACT, the computer system for eligibility. These children all became eligible for Supplemental Security Income (SSI) benefits while receiving EA funds. Per review of the payment history screens, payments of EA funds continued after the end date entered by the case worker due to SSI eligibility. DFPS corrected the system error and quantified all EA and SSI children affected by the programming discrepancy. The amount of EA funds incorrectly awarded is as follows: fiscal year 2007 was $1,326,816; fiscal year 2008 was $1,270,417; and fiscal year 2009 payments made through the time of the date correction were $30,465.

Recommendation:

As noted above, DFPS has corrected the computer system application logic.

Management Response and Corrective Action Plan:

As noted in the last paragraph of the Finding and in the Recommendation, DFPS made programming changes to the agency's IMPACT system to correct the deficiency. Also, the agency ran a special prior period adjustment batch to correct the funding source for the affected payments.

Implementation Date: *November 2008*

Responsible Person: *Janis Brown*

Reference No. 09-09

Allowable Costs/Cost Principles

(Prior Audit Issue - 08-04, 07-05, 06-05)

CFDA 93.558 - Temporary Assistance for Needy Families
Award year - October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2007
Award number - G0702TXTANF and G0802TXTANF

CFDA 93.658 - Foster Care - Title IV-E
Award year - October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2007
Award number - G0701TX1401 and G0801TX1401

CFDA 93.659 - Adoption Assistance
Award year - October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2007
Award number - G0701TX1407 and G0801TX1407

CFDA 93.667 - Social Services Block Grant
Award year - October 1, 2007 to September 30, 2009 and October 1, 2006 to September 30, 2008
Award number - G0701TXSOSR and G0801TXSOSR
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $0

U.S. Department of Health and Human Services

Effective September 1, 2004, the health and human service agencies for the State of Texas were reorganized, creating a triggering event for the amendment of the public assistance cost allocation plan (CAP). Once a CAP is approved, State public assistance agencies are required to promptly submit amendments to the plan if any of the following events occur (45 CFR section 95.509):

(a) The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes to the Federal law or regulations, or significant changes in the program levels, affecting the validity of the approved cost allocation procedures.

(b) A material defect is discovered in the cost allocation plan.

(c) The State plan for public assistance programs is amended so as to affect the allocation of costs.

(d) Other changes occur which make the allocation basis or procedures in the approved cost allocation plan invalid.

The Department of Family and Protective Services (DFPS) submitted their revised CAP to the U.S. Department of Health and Human Services to be effective September 1, 2004. The federal Division of Cost Allocation (DCA) has not approved the CAP as of August 31, 2008. KPMG was unable to determine that the expenditures charged to the federal programs were based on an approved CAP. However, based on test work performed over the areas noted below, DFPS allocated expenses, including payroll and benefit expenditures, in accordance with the CAP submitted to DCA for approval during fiscal year 2008.

The CAP submitted for approval during fiscal year 2008, incorporated an implementation plan to address mutually agreed methodology changes surrounding its Random Moment Time Studies (RMTS). The methodology change agreed to by DCA is a move from observer-based methodology of tracking RMTS to a web-based response system, using an online tool that assists with the management and oversight of the RMTS studies. The system is maintained in a Windows environment. It was noted with regards to the RMTS web based system that eight INET developers have privileges on the server with ability to access to the production files for the RMTS web application. No compliance exceptions were noted for the allowable costs/cost principles samples selected for the above major programs.

Per review of the 2008 expenditure patterns, expenses (including payroll and benefit expenditures) were determined to be direct and material to various major programs noted above. In accordance with the CAP submitted by DFPS for approval, expenditures are to be allocated based on various methodologies as determined by the associated projects: random moment time study (RMTS), full time employee (FTE) headcount analysis, service unit cost analysis, case count analysis, or payroll effort certification.

- DFPS performs RMTS, service unit cost analysis, and case count analysis on a quarterly basis. The updated allocation information is utilized to update the cost allocation system on a quarterly basis. FTE headcount analysis is performed monthly and certified for payroll effort each month.
- From the results of the various allocation methods noted above, summarized information is used to update or upload the information into the Cost Allocation System which allocates employees' time and other expenditures to the respective programs. Prior to September 1, 2007, the projects were a quarter in arrears. As of September 1, 2007, DFPS is allocating all expenses based on real-time projects as instructed by the HHS Division of Cost Allocation (DCA).

Recommendation:

DFPS should continue to work with DCA to ensure that all outstanding items are appropriately addressed and any necessary adjustments are made once an approved CAP plan is obtained.

DFPS should restrict development personnel from being able to promote code changes into the production environment. If such access is granted, management should develop appropriate monitoring procedures to ensure only changes that have been authorized and tested are promoted into the production environment.

Management Response and Corrective Action Plan:

PACAP

On September 12, 2008, DFPS submitted a revised complete PACAP (TX DFPS 08-02) which makes further changes to TX DFPS 08-01. The most recently submitted complete revised PACAP (TX DFPS 08-02 dated 9/12/2008) is the plan in effect for expenditures during the period September 1, 2007 to August 31, 2008.

The main purpose for this revision was to implement new random moment time study task codes for child protective services and adult protective services specialists which eliminated Medicaid targeted case management. Additionally, the remaining recommendations shared by ACF during the pilot administrative cost review were included. These changes are noted as amendments on the affected Project IDs with an effective date of July 1, 2008. At the end of November 2008, DCA indicated they could not complete the review within the 60-day review period and that the operational divisions had requested an extension. In a letter dated December 3, 2008, DCA acknowledges receipt of both TX DFPS 08-01 and TX DFPS 08-02 and indicated that they would review only the Plan submitted on September 12, 2008 (TX DFPS 08-02), but would keep the prior Plan on file.

Implementation Date: *Fiscal Year 2009*

Responsible Person: *Janis Brown*

RMTS

DFPS information technology will limit code promotion capabilities to only one developer and the department manager. Additionally, DFPS will modify the existing process to provide records documenting specific approvals that are used to justify the promotion of code to the production.

Implementation Date: *April 1, 2009*

Responsible Person: *Monica de Leon*

Reference No. 09-10
Allowable Costs/Cost Principles
Eligibility
(Prior Audit Issue - 08-05)

CFDA 93.659 - Adoption Assistance
Award year - October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2007
Award number - G071TX1407 and G0801TX1407
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 28,437

U.S. Department of Health and Human Services

Adoption Assistance Subsidies may be expended for adoption assistance agreement subsidy payments, in accordance with the State's foster care maintenance payment rate schedule; administrative payments for expenses associated with placing children in adoption; and training of professional staff and parents involved in adoptions. Subsidy payments are made to adoptive parents based on the need(s) of the child (i.e. developmental, cognitive, emotional behavioral) and the circumstances of the adopting parents (42 USC 673(a) (2)). Subsidy payment amounts cannot be based on any income eligibility requirements of the prospective adoptive parents (45 CFR section 1356.41(c)). Adoption assistance subsidy payments cannot exceed the foster care maintenance payment the child would have received in a foster family home; however, the amount of the subsidy payments may be up to 100 percent of the foster care maintenance payment rate (42 USC 673(a)(3)).

Adoption assistance subsidy payments may be paid on behalf of a child only if all of the following requirements are met:

(1) The child is eligible, or would have been eligible, for the former Aid to Families with Dependent Children (AFDC) program (i.e., met the State-established standard of need as of July 16, 1996, prior to enactment of the Personal Responsibility and Work Opportunity Reconciliation Act) except for his/her removal from the home of a relative pursuant to either a voluntary placement agreement or as a result of a judicial determination to the effect that continuation in the home of removal would have been contrary to the welfare of the child; the child is eligible for Supplemental Security Income; or is a child whose costs in a foster family home or child care institution are covered by the foster care maintenance payments being made with respect to his/her minor parent (42 USC 673(a)(2)(A)).

(2) The child was determined by the State to be a child with special needs (42 USC 673(c)).

(3) The State has made reasonable efforts to place the child for adoption without a subsidy (42 USC 673(c)).

(4) The agreement for the subsidy was signed and was in effect before the final decree of adoption and contains information concerning the nature of services; the amount and duration of the subsidy; the child's eligibility for Title XX services and Title XIX Medicaid; and covers the child should he/she move out of State with the adoptive family (42 USC 675(3)).

A sample of 40 children, for whom Adoption assistance subsidy payments were made during fiscal year 2008, was selected for review. For each child, we obtained the recipient file and verified that a determination was made for the child's eligibility. For one of the children selected, the case records were not available for review, therefore eligibility could not be verified. Benefits paid to this family were $46,915, of which $28,437 was the federal portion.

Recommendation:

DFPS should continue its efforts to ensure staff are monitoring all operations for compliance with eligibility requirements. Supervisor review of files should include a completeness determination that all required documentation is included.

Management Response and Corrective Action Plan:

This finding was related to a case that could not be located by the CPS regional office. The adoption assistance record could not be reconstructed. Without any documentation to support the IV-E determination, the child's adoption assistance eligibility has been changed from Title IV-E to State-paid in IMPACT.

The federal adjustment will be handled through two separate processes. Payments starting in September 2006 will be corrected through Prior Period Adjustments in IMPACT. This process will return $6,887.42 of the federal adjustment. DFPS/CPS Federal and State Support division will handle these funding adjustments. Corrections for payments made prior to September 2006 will be processed as a manual adjustment by Accounting in HHSAS. This process will account for the remaining federal adjustment of $21,549.25.

Implementation Date: *April 1, 2009*

Responsible Person: *Max Villarreal and James R. Wall III*

Reference No. 09-11
Eligibility
(Prior Audit Issue - 08-07, 07-08, 06-09, 05-03, 04-37, and 04-38)

CFDA 93.658 - Foster Care - Title IV-E
Award year - October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2007
Award number - G0701TX1401 and G0801TX1401
Type of finding - Significant Deficiency and Non-Compliance

Criminal Record Check and Child Abuse and Neglect Registry Check

Questioned Cost: $ 445

U.S. Department of Health and Human Services

In accordance with 45 CFR section 1356.30 (a) and (b), unless an election provided for in paragraph (d) of this section is made; the State must provide documentation that criminal record checks have been conducted with respect to prospective foster and adoptive parents. The State may not approve or license any prospective foster or adoptive parent, nor may the State claim Federal financial participation for any foster care maintenance or adoption assistance payment made on behalf of a child placed in a foster home operated under the auspices of a child placing agency or on behalf of a child placed in an adoptive home through a private adoption agency, if the State finds that, based on a criminal records check conducted in accordance with paragraph (a) of this section, a court of competent jurisdiction has determined that the prospective foster or adoptive parent has been convicted of a felony involving:

1. Child abuse or neglect
2. Spousal abuse
3. A crime against a child or children (including child pornography), or
4. A crime involving violence, including rape, sexual assault, or homicide, but not including other physical assault or battery.

5. In addition, the foster family home provider must satisfactorily have met a child abuse and neglect registry check with respect to prospective foster and adoptive parents and any other adult living in the home who has resided in the provider home in the preceding 5 years. The requirement applies to foster care maintenance payments for calendar quarters beginning on or after that date. (42 USC 671(a)(20)(C); Pub. L. No. 109-248, section 152(c)(2) and (3)).

The Department of Family and Protective Services (DFPS) has implemented procedures to ensure that background checks and child abuse and neglect registry checks are completed in accordance with Federal regulations. In accordance with the Texas Administrative Code (TAC) 745 Subchapter F "Requesting Background Checks," management has implemented ongoing monitoring activities to address compliance with the background check requirements found in TAC 745 Subchapter F. DFPS has implemented periodic monitoring activities of criminal background checks to ensure that all individuals have met the requirement. The procedures implemented by DFPS include but is not limited to the following:

- DFPS has established minimum standards that include timeframes for the submission of a person's background check request.
- If the results of the background check are not received within two working days of submission to DFPS, the requestor may obtain a criminal history check on the person through the Department of Public Safety (DPS) at http://records.txdps.state.tx.us/.
- DFPS does not allow the person to provide direct care or have direct access to a child in care until the results of the person's background check are received.
- DFPS requires an FBI criminal history check on persons who live outside of Texas or about whom there is reason to believe other criminal history exists. In these situations the individual must submit FBI fingerprint cards.
- DFPS requires the receipt of results from the background checks before issuing a permit to operate a licensed child-care home, a registered child-care home, a listed family home, an independent foster home or a foster group home.
- DFPS conducts investigations at operations due to reported cases of abuse or neglect, a deficiency in licensing statute, rule, or minimum standard.
- DFPS requires an update of the criminal background checks at least once every two years.

A sample of 40 children for whom Foster Care payments were made during fiscal year 2008 was selected for review. For each child, we selected one foster care provider and verified that the provider satisfactorily met the criminal records check. For each foster care provider, we obtained a listing of employees for a selected month and verified that a criminal background check or neglect registry check was performed for one employee within the two year required period. Our review disclosed one instance in which the background check was overdue. During field work, DFPS performed the required background and neglect registry check and noted no issues for this employee.

Re-determination of Eligibility

Per the Texas Administrative Code, rule 700.324, *Re-determination of Foster Care Eligibility*, DFPS must re-determine a child's eligibility for foster care assistance:

(1) At least every 12 months;

(2) Whenever changes in the child's circumstances affect his eligibility; and

(3) If a move affects the child's eligibility, or the rate of foster care payment.

For a sample of 40 children for whom Foster Care payments were made during fiscal year 2008, two instances were found where the eligibility re-determination was overdue, one case by three months and the second case by nine months. The re-determination process is a manually worked process by the case workers. A computer generated list is produced of all children requiring re-determination several months prior to the end of the eligibility period. In both instances, the children were determined to be eligible to continue to receive Foster Care assistance so there are no questioned costs.

Child-Care

Foster Care maintenance payments are allowable only if the foster child was removed from the home of a relative specified in section 406(a) of the Social Security Act, as in effect on July 16, 1996, and placed in foster care by means of a judicial determination, as defined in 42 USC 672(a)(2), or pursuant to a voluntary placement agreement, as defined in 42 USC 672(f), (42 USC 672(a)(1) and (2) and 45 CFR section 1356.21). Funds may be expended for Foster Care maintenance payments on behalf of eligible children, in accordance with the State's Foster Care maintenance payment rate schedule, to individuals serving as foster family homes, to child-care institutions, or to public or private child-placement or child-care agencies. Such payments may include the cost of (and the cost of providing, including the associated administrative and operating costs of an institution) food, clothing, shelter, daily supervision, school supplies, personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation (42 USC 672(b)(1) and (2), (c)(2), and 675(4)).

For a sample of 40 children for whom Foster Care payments were made during fiscal year 2008, one instance was found where a child who was eligible for state foster care funds received federal foster care funding prior to the completion of the required paper work. Child care expenditures are processed through Texas Workforce Commission. DFPS informs TWC of the eligible recipients and this child was inadvertently included on the eligible federal funding list over a course of four months or 62 units of service. During this time period, $445 was incurred prior to the child being eligible.

Recommendation:

DFPS should continue its efforts to ensure staff are monitoring all operations for compliance with applicable eligibility and the background and child abuse and neglect registry check requirements. Supervisor review of files should include a completeness determination that all required documentation is included and a review of the re-determination lists to ensure all children are worked timely.

Management Response and Corrective Action Plan:

Criminal Records Check - The DFPS licensing program will continue to ensure that all operations are evaluated for compliance with the background check requirements found in TAC 745 Subchapter F. Residential Child Care Licensing (RCCL) continues to evaluate compliance with all background check requirements at every inspection. Effective November 2008, licensing implemented the use of the weighted standards system as part of its ongoing monitoring and evaluation of an operation's compliance with minimum standard. Minimum standards related to the submission of initial and subsequent background checks are assigned a "High" weight due to the risk they pose to children in 24-hour child care facilities.

Implementation Date: *Ongoing*

Responsible Person: *Sasha Rasco*

Re-determination of Eligibility - DFPS/CPS Federal and State Support Division has contacted the eligibility worker regarding the two delinquent redeterminations. One redetermination was due in June 2007 and completed in August 2007. The 2nd was due in December 2007 and was completed in Sept 2008. Both children were determined to remain eligible for Title IV-E assistance. The redeterminations were initiated timely by the eligibility worker but were delayed by the CPS caseworker's submittal of the redetermination documentation after the date it was due. The agency will strengthen policy to require that Eligibility Supervisors monitor redetermination reports to ensure redeterminations are completed timely.

Implementation Date: *March 31, 2009*

Responsible Person: *Max Villarreal*

Child-care - Accounting will make the Foster Care federal adjustment associated to the IVE eligibility of noted above, in the federal quarter ending March 31, 2009. It was determined that $1,279.62 was reimbursed for services performed for the client. DFPS inadvertently claimed $734.64 of those services as being Title IVE eligible at a time when the client was not IVE eligible. Of the $734.64, DFPS will be making an adjusting entry refunding $445.57 of federal funding back to Title IVE

Implementation Date: *March 31, 2009*

Responsible Person: *Max Villarreal*

Reference No. 09-12

Subrecipient Monitoring

CFDA 93.558 - Temporary Assistance for Needy Families
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007
Award number - G0802TXTANF and G0702TXTANF

CFDA 93.658 - Foster Care - Title IV-E
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007
Award number - G0801TX1401 and G0701TX1401
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Health and Human Services

The Department of Family and Protective Service (DFPS) passes through a significant amount of federal funds to subrecipients to carry out the objectives of the federal programs. DFPS is required by OMB Circular A-133, Section .400, to monitor subrecipients to ensure compliance with Federal rules and regulations, as well as the provisions of the contracts or grant agreements. According to OMB Circular A-133, DFPS must assure that subrecipients expending Federal funds in excess of $500,000 have an OMB Circular A-133 Single Audit performed and provide a copy to DFPS. DFPS is to review the report and to issue a management decision, if applicable.

DFPS subrecipient monitoring procedures include use of standard contracts, technical assistance, a risk assessment process, program monitoring, and financial monitoring including compliance reviews, site visits, and A-133 audit report collection and review. The A-133 audit report collection and review is centralized and performed by Health and Human Services Commission (HHSC) Office of Inspector General (OIG) for the State of Texas. Monitoring for client services contracts is based on risk as identified in the Statewide Monitoring Plan. The items noted primarily relate to documentation and follow-up with subrecipients as a result of non-timely submission of required reports or correspondence.

A sample of 30 subrecipients who received TANF payments passed through DFPS during fiscal year 2008 was selected for review. The following is noted:

- One subrecipient failed to timely submit their A-133 report by October 2007. Subsequent to the date, DFPS did not mail out a notification to the recipient nor has the receipt of the A-133 report occurred as of November 2008. Additionally, DFPS has not imposed any sanctions for noncompliance.
- One subrecipient file did not include any support for the submission of required financial reports by the subrecipient and there was no evidence of follow-up performed by DFPS.
- For one additional sample, the A-133 report was not on file.

A sample of 40 subrecipients who received Foster Care payments passed through DFPS during fiscal year 2008 was selected for review. The following is noted regarding 11 of the 40 files:

- An incomplete current year financial on-site monitoring tool (i.e., cash management and allowable costs audit procedures were not completed) for one file was noted and the monitoring visit lacked evidence of management review.
- The risk assessment tool noted one subrecipient as high risk, indicating an on-site monitoring would be conducted. DFPS policy is to document professional judgment when a high risk subrecipient is determined to not require an on-site visit. Such documentation was not available for this sample item.
- For three of the samples, DFPS could not provide evidence that the Single Audit determination forms were received indicating whether the subrecipient would have an A-133 audit. In addition, the A-133 tracking report did not indicate receipt of these reports. However, DFPS was able to provide the respective A-133 reports and noted no management decision was required.
- For two additional samples, the Single Audit determination form was not locatable nor was an A-133 report on file. DFPS was not able to determine if the subrecipients had an A-133 report to provide.
- For one sample, the A-133 due in March 2008 was not received timely. DFPS sent a delinquency letter in June 2008. There has been no follow up action as of December 2008.
- An approved budget was not included in the 2008 contract for two subrecipients. DFPS noted these subrecipients were to comply with the 2003 budgets however this was not communicated to the subrecipients in the 2008 contracts nor were the 2003 budgets available for review.
- DFPS was not able to locate the last monitoring reports for two subrecipients that were performed within the last three years. Additionally, one of these two samples did not have an A-133 for review although OIG records indicated it had been received and reviewed.

Recommendation:

DFPS should ensure that the documentation in all subrecipient files is complete and in accordance with DFPS policy. In addition, DFPS should follow up timely with subrecipients when required correspondence is delinquent. DFPS should consider appropriate use of its sanction policy when noncompliance is not rectified timely.

Management Response and Corrective Action Plan:

The DFPS Contract Oversight and Support (COS) Division will review and enhance contracting policy and procedures related to implementing contract sanctions for contractors who are noncompliant with contract requirements, such as A-133 audits and the Subrecipient Audit Determination (SAD) form process. Any updated policies will be shared with contract management staff. Additionally, COS will review, enhance and communicate internal processes related to provider notification related to delinquent audit related reports.

Purchased Client Services Division, Regional Contracts, will ensure staff are knowledgeable of DFPS contract file documentation and file retention policies. All files will be maintained in accordance with the appropriate DFPS policies.

Implementation Date: *August 31, 2009*

Responsible Person: *Liz Garbutt and Rebecca Flores*

Reference No. 09-13
Matching

CFDA 93.658 - Foster Care - Title IV-E
Award year - October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2007
Award number - G0701TX1401 and G0801TX1401

CFDA 93.659 - Adoption Assistance
Award year - October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2007
Award number - G0701TX1407 and G0801TX1407
Type of finding - Non-Compliance

Questioned Cost: $ 90,777

U.S. Department of Health and Human Services

Section 6053(b) of the Deficit Reduction Act provided for a modification of the Federal Medical Assistance Percentages for any state which has a significant number of evacuees from Hurricane Katrina. Additionally, Sections 1905(b) and 1101(a)(8)(B) of the Social Security Act required the Secretary of Health and Human Services to publish the Federal Medical Assistance Percentages each year and the revised FMAPs and EFMAPs for 2008 rates are as follows:

	Calculated 2008	2008 Adjusted
FMAP	60.53	60.56
EFMAP	72.37	72.39

The modification of the Federal Medical Assistance Percentages and the Enhanced Federal Medical Assistance Percentages under the Deficit Reduction Act affect only medical expenditure payments under Title XIX and expenditure payments for the State Children's Health Insurance Program (SCHIP) under Title XXI. Based on Federal Register dated August 7, 2007 (Volume 72, Number 151), the percentages in this rule do not apply to payments under Title IV of the Social Security Act. In addition, the Title XIX statute provides separately for Federal matching of administrative costs, which is not affected by the subject Deficit Reduction Act provision.

The Department of Family and Protective Services (DFPS) misinterpreted the regulation noted above and utilized the 2008 adjusted rates for all programs at DFPS which utilized the FMAP rates from October 1, 2007 through September 30, 2008 when only Medicaid and SCHIP were eligible for the adjusted rates. DFPS quantified the difference in the 60.56% utilized and the 60.53% as $90,777 for the federal fiscal year ended September 30, 2008.

	Over charged Amount for Fiscal Year 2008
Adoption subsidy payments, CFDA 93.569	$ 30,859
Foster care payments, CFDA 93.658	59,918
Total	$ 90,777

Recommendation:

DFPS should work with Health and Human Services to return the excess funds drawn during the 2008 federal fiscal year.

Management Response and Corrective Action Plan:

DFPS concurs with this finding and is making the financial adjustments needed to correct claiming at the published federal medical assistance percentage of 60.53% rather than the adjusted rate of 60.56% for federal fiscal year 2008. Prior period adjustments should be reflected on the Form IV-E-1 for the quarter ended March 31, 2009.

Implementation Date: *March 31, 2009*

Responsible Person: *Janis Brown and Trey Wall III*

Health and Human Services Commission

Reference No. 09-14
Allowable Costs/Cost Principles
(Prior Audit Issue 08-09, 07-11)

CFDA 93.767 - State Children's Insurance Program
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006, and October 1, 2004 to September 30, 2005
Award number - 0805TX5021, 0705TX5021, 0605TX5021, and 0505TX5021

Medicaid Cluster
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 31, 2007, and October 1, 2005 to September 31, 2006
Award number - 0805TX5028, 0805TX5048, 0705TX5028, 0705TX5048, 0605TX5028, and 0605TX5048
Type of finding - Significant Deficiency

Questioned Cost:	$ 0
U.S. Department of Health and Human Services	

Funds can only be used for Medicaid benefit payments (as specified in the State plan, Federal regulations, or an approved waiver), expenditures for administration and training, expenditures for the State Survey and Certification Program, and expenditures for State Medicaid Fraud Control Units (42 CFR sections 435.10, 440.210, 440.220, and 440.180). Also, states must have a system to identify medical services that are the legal obligation of third parties, such as private health or accident insurers. Such third-party resources should be exhausted prior to paying claims with program funds. Where a third-party liability is established after the claim is paid, reimbursement from the third party should be sought (42 CFR sections 433.135 through 433.154).

The Health and Human Services Commission (HHSC) currently utilizes the First Health Services Corporation (FHSC) First Rebate application to validate and bill drug manufacturers for drug rebates. Access to the First Rebate production server AZPH-SRV-DB09 and the First Rebate database is not restricted appropriately as an excessive number of employees have administrative access rights to the Windows server and a developer has been granted administrative access in the application and database. In addition, password controls are not in accordance to policy. Specifically:

- Approximately 37 user IDs have administrative access to the First Rebate production server AZPH-SRV-DB09 at CVTY\CVTY-SE-Sever-Admin group. There are two generic IDs in this group.
- Approximately 46 user IDs have administrative access to the First Rebate production server AZPH-SRV-DB09 at CVTY\Domain Admin group. There are 11 generic IDs in this group.
- Approximately 86 user IDs have administrative access to the First Rebate production server AZPH-SRV-DB09 at RICNTDOM0 Domain admin group. There are 12 generic IDs in this group.
- No formal review of users is done by management to determine the appropriateness of access and ensure proper segregation of duties on the First Rebate server.
- Novell logon and passwords are required for First Rebate Application. The security policy requires passwords to expire in 40 days and contains at least one numeric character. However, the password age is set to 95 days and Novell cannot enforce complexity requirements.
- Windows is the operating system for First Rebate Application. The security policy requires passwords to contain at least 8 characters, however, only 6 characters are configured.

With full update access, user IDs can be used to provide system access to add, update, or delete data. Sophisticated users with broad enterprise skills and experience might have the knowledge to violate the requirement for appropriate segregation of duties. Users with inappropriate rights to modify application code or data create a risk of unauthorized changes to the production environment and/or a risk of unintentional errors or omissions in processing.

No compliance exceptions were noted related to the allowable costs/cost principles related to the major programs noted above.

Recommendation:

Employees who perform development should not have access to the production environment. Access to administrative IDs should be restricted to a limited number of authorized employees. Unused generic IDs should be locked or monitored. User access and privileges should be periodically reviewed and approved by management. Finally, passwords should be brought into compliance with policy.

Management Response and Corrective Action Plan:

HHSC is working with its vendor to improve security, and has placed FHSC under a Corrective Action Plan to address these deficiencies.

Regarding the high number of users with administrative access to the production server, although there is no objective and reliable standard upon which to determine the maximum appropriate number of users who require that level of access to adequately support a large data center, HHSC will work with FHSC in an effort to keep the number to a minimum.

HHSC will require that FHSC increase the frequency of its user reviews and ensure its password practices comply with applicable policies.

HHSC contracted with Clifton Gunderson, LLP on December 14, 2008, to perform a SAS 70, Type II audit to review and test relevant FHSC system controls. The final report is due by July 2009.

Implementation Date: *On or before December 2009*

Responsible Person: *Andy Vasquez*

Reference No. 09-15

Allowable Costs/Cost Principles

(Prior Audit Issue - 08-10 and 07-10)

Medicaid Cluster
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 31, 2007, and October 1, 2005 to September 31, 2006
Award number - 0805TX5028, 0805TX5048, 0705TX5028, 0705TX5048, 0605TX5028, and 0605TX5048
Type of finding - Non-Compliance

Questioned Cost: $ 0

U.S. Department of Health and Human Services

During fiscal year 2006, the Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS), regional office from Dallas Texas issued a disallowance letter dated November 29, 2006. On December 22, 2006, Health and Human Services Commission (HHSC) appealed the disallowance. The following information is quoted from the CMS letter:

"This letter is notice of a disallowance in the amount of $14,849,602 Federal Financial participation (FFP) for medical transportation costs claimed during federal fiscal years 2004 and 2005. The transportation costs were improperly claimed at the Federal Medical Assistance Percentage (FMAP) for medical services instead of the 50 percent administration matching rate. (See deferral letter dated January 17, 2006)

The Texas Department of Health and Human Services Commission (HHSC) provides Medicaid reimbursement to the Texas Department of Transportation (TX-DOT) for administration of the State's Medicaid non-emergency transportation program. TX-DOT subcontracts with transportation providers, who actually provide the transportation services.

The Secretary has specified by regulation that transportation (when necessary to secure medical care) may be treated as medical assistance only when furnished "by a provider to whom a direct vendor payment can appropriately be made by the agency. If other arrangements are made to assure transportation…FFP is available as an administrative cost.'" 42 CFR Section 440.170(a)(2)(1991) (unchanged in relevant years). Administrative costs are normally reimbursed at a 50% rate under Section 1903(a)(7) of the Act.

Also, the recipients' freedom of choice of providers is limited under the TX-DOT transportation program. Regulation cited in 42 CFR Section 431.51 provides that Medicaid recipients may obtain Medicaid services from any entity that is qualified and willing to furnish them. Therefore, Texas may not restrict transportation providers to those subcontracts with TX-DOT without an approved freedom of choice waiver. Texas did not have a freedom of choice waiver for the provision of transportation services."

On September 17, 2007, in Decision No, 2114, the Departmental Appeals Board reversed the disallowance, in part, and upheld it, in part for services provided by brokers after June 1, 2006.

Recommendation:

HHSC should continue to work with CMS to revise the calculation of the appropriate disallowance amount based on the September 17, 2007 decision of the Departmental Appeals Board noted above.

Management Response and Corrective Action Plan:

As indicated above, in Decision No. 2114, the Departmental Appeals Board reversed the amount of the disallowance related to expenditures in periods prior to June 1, 2006. For periods after June 1, 2006, State Plan amendment (SPA) 06-022 requires HHSC to claim the appropriate federal match for transportation services according to 42 CFR section 440.170(a)(2)(1991) and Section 1903(a)(7) of the Act. HHSC is still working with CMS on the final disallowance amount for periods after June 1, 2006. HHSC is expected to have the final disallowance amounts by March 2009.

Implementation Date: *March 2009*

Responsible Person: *Sheryl Woolsey*

Reference No. 09-16
Eligibility
(Prior Audit Issue - 08-11 and 07-12)

CFDA 93.767 - State Children's Insurance Program
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006, and October 1, 2004 to September 30, 2005
Award number - 0805TX5021, 0705TX5021, 0605TX5021, and 0505TX5021
Type of finding - Significant Deficiency and Material Non-Compliance

Questioned Cost: $12,526

U.S. Department of Health and Human Services

States have flexibility in determining eligibility levels for individuals for whom the state will receive enhanced matching funds within the guidelines established under the Social Security Act. Generally, a state may not cover children with higher family income without covering children with a lower family income, nor deny eligibility based on a child having a preexisting medical condition. States are required to include in their state plans a description of the standards used to determine eligibility of targeted low-income children. State plans should be consulted for specific information concerning individual eligibility requirements (42 USC 1397bb(b)).

Specifically, State Children's Insurance Program (SCHIP) Administrator Business Rules 370.42, *Eligibility Applicant Children*, SCHIP children are eligible if they are: birth through age 18, live in a household with a Federal Poverty Level (FPL) of at or below 200 percent and are not otherwise eligible for Medicaid, citizens or legal immigrants, and uninsured for at least 90 days. Additionally, families with gross income above 150% FPL and less than or equal to 200% FPL must pass a resource test to qualify for SCHIP. Resource limit is $10,000 or less in countable liquid value plus excess vehicle value.

Eight of 40 cases did not have the application for benefits. These eight cases were all deemed from Medicaid personnel. For one of the eight files, the eligibility system has two different household sizes (2 and 4) documented. With a household size of two, the cost share required to be paid by the beneficiary is $295 and with a household size of four, the cost share required to be paid by the beneficiary is $590. Without an application we could not verify which household size was correct. Additionally, for one case, the application did not indicate whether or not the child had health insurance. The amount of benefits paid for the nine cases that did not have applications during fiscal year 2008 was $10,195.

Health and Human Services Commission (HHSC) currently maintains two systems for determining eligibility for Medicaid - the legacy system, System of Application, Verification, Eligibility, Referral, and Reporting (SAVERR), and the pilot system, Texas Integrated Eligibility Reporting System (TIERS). Frequently cases are referred from Medicaid to SCHIP. The original design of the TIERS application did not include resource tests for SCHIP eligibility. HHSC determined to rely on the caseworkers to manually identify the affected SCHIP cases. SCHIP eligibility is generally determined by MAXe which has system edit checks to verify resource limitations. However for cases that originate in TIERS, TIERS only denied the clients for Medicaid and does not verify the resource limits for SCHIP. These children are "deemed eligible" without verification of the resource limits and interfaced into MAXe bypassing the resource edit checks.

For two children, the resource value was over the SCHIP limits (income >100%FPIL, age of 10 and age of 19) and these two cases originated in TIERS. HHSC quantified all children paid SCHIP funds in fiscal year 2008 that were incorrectly deemed eligible. These questioned costs were $2,331 for four children.

Recommendation:

HHSC should ensure that an application is maintained for every individual receiving benefits that enroll based on a referral from Medicaid. Additionally, HHSC should consider automating the process to check resource limits for the cases that do not meet Medicaid eligibility requirements, but are potentially eligible for SCHIP benefits.

Management Response and Corrective Action Plan:

As part of its corrective action in response to the fiscal year 2007 Single State audit, the Office of Eligibility Services reviewed regional processes for case maintenance and found issues with maintaining records related to cases transferred from the regions to Iron Mountain. These issues were addressed with the implementation of improved processes in August 2008. The effectiveness of the regional processes are being evaluated based on each region's ability to provide case data when requested for various audits, Quality Control reviews, Office Management Support (OMS) surveys, and other internal OES case reviews. Although OES is currently in the process of determining whether a consistent statewide process, rather than maintaining separate processes in each region, should be implemented, the results of initiatives implemented in the regions indicate there has been a significant improvement in case record maintenance.

HHSC relies on existing eligibility processes to identify cases with resource values that exceed SCHIP eligibility requirements. Analysis provided to the auditors indicates that .07%, or only four clients, were found to be over the SCHIP assets limit of $10,000. Currently, the SCHIP enrollment broker considers clients deemed from Medicaid as verification that the child is eligible for SCHIP; hence assets limits are not verified again in MAXe. When eligibility is recertified, which is typically every 12 months, household resources are verified during the re-enrollment process. If found to be over the limit, eligibility is terminated.

SCHIP resource testing will be implemented with the planned SCHIP eligibility migration into TIERS, which is scheduled for deployment in fiscal year 2010.

Implementation Dates: *Implement statewide case maintenance process - June 30, 2009*
SCHIP eligibility migration into TIERS - fiscal year 2010

Responsible Person: *Implement statewide process - Kirsten Jumper*
SCHIP eligibility migration into TIERS - Leah Burton

Reference No. 09-17
Eligibility
(Prior Audit Issue - 08-12 and 07-13)

CFDA 93.558 - Temporary Assistance for Needy Families
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007 and October 1, 2005 to September 30, 2006
Award number - G0802TXTANF, G0702TXTANF and G0602TXTANF

Food Stamp Cluster
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 31, 2007 and October 1, 2005 to September 31, 2006
Award number - 6TX400105

Medicaid Cluster
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 31, 2007, and October 1, 2005 to September 31, 2006
Award number - 0805TX5028, 0805TX5048, 0705TX5028, 0705TX5048, 0605TX5028, and 0605TX5048
Type of finding - Material Weakness Control and Non-Compliance

Questioned Cost: $51,085

U.S. Department of Health and Human Services
U.S. Department of Agriculture

Health and Human Services Commission (HHSC) currently maintains two systems for determining eligibility for Medicaid, Temporary Assistance for Needy Families (TANF) and Food Stamp - the legacy system, System of Application, Verification, Eligibility, Referral, and Reporting (SAVERR), and the pilot system, Texas Integrated Eligibility Reporting System (TIERS).

Per review of the regulations and State Plan documents for Medicaid, TANF and Food Stamp benefits, individuals must generally meet the following criteria to be eligible for any of the three forms of aid, and the information is required to be verified per a third party source of information. Any exceptions are noted below:

- Completed and signed an application for benefits with eligibility determined at least every 12 months for Medicaid (42 CFR 435.916(a)), TANF (per State Plan), and Food Stamps (7 CFR 273.10(f)). In some situations, Medicaid cases are not required to be redetermined such as for earned income transitional coverage.
- Be a Texas resident. Verification of residency is not required for Medicaid recipients. Verification is required for TANF, per State Policy, and Food Stamps per 7 CFR 273.2(f)(1)(vi).
- Be a U.S. citizen or non-citizen in certain recognized categories. Verification is not required for non-cash TANF recipients. Verification is required for Medicaid by State Policy and federal regulations effective July 1, 2006; cash TANF by State Policy; and Food Stamps if receiving cash TANF benefits based on TANF State Policy.

- Meet certain resource and income limits, which vary by eligibility group, including proof of unemployment. Verification is required for all programs by State Policy and additionally for Food Stamps verification of "gross non-exempt income" is required by 7 CFR 273.2(f)(i).
- Social security number. Verification of social security numbers is required for Medicaid by 42 CFR 435.910(g); TANF by State Policy; and Food Stamps by State Policy and 7 CFR 273.2(f)(1)(v).

TIERS

Audit procedures included review of certain general and application level controls designed for TIERS along with review of selected case files, as noted below. The following were noted with regard to the general control procedures performed:

- Developers with access to production environment thru the "wasadmin" account.
- No password configurations set for Oracle database for one selected server.
- Three inactive generic accounts exist on the sudoers list for one selected server. These accounts were removed upon notification.
- 33 inactive generic accounts on Oracle database for one selected server. These accounts were locked upon notification.
- The URL for the TIERS login screen is available on the internet and while User ID and password are required, it does not require authentication through a VPN to the HHSC network. In addition, improvements were noted for the administration and configuration of the firewall during the fiscal year.

In addition, the eligibility process does not enforce the respective eligibility decisions necessary to ensure clients are eligible and receive proper benefit amounts.

- Consistent with current HHSC policy, TIERS is not designed to enforce third party verification for residency, social security number, or U.S. citizenship. HHSC's process should be improved by implementing automated controls to enforce third party verifications. For example, a field for each is required to be populated, however, one of the choices is "client statement" which does not constitute third party verification. Select of self declaration through "client statement" allows the respective case file to proceed to the next step toward benefit issuance with no third party verification. In limited circumstances (e.g. homeless person), self declaration for residency is acceptable. However in general circumstances, these three elements are required to be verified with a third party. Currently state eligibility workers assess the validity and accuracy of the client's statement. Eligibility policy should be modified to enable TIERS to prohibit case workers from continuing towards benefit issuance until verification is obtained. A manual system override by a supervisor would be necessary in the limited circumstances self declaration is acceptable.
- TIERS interfaces with the Social Security Administration (SSA) to verify social security numbers. TIERS is designed so that a correct match of a client's social security number will populate a field noting the respective social security number has been verified. For social security numbers where a match is not successful, an alert is sent to the file for the case worker to investigate. However, TIERS is not designed nor are their manual controls to restrict benefits from being issued if the social security number has not been verified before the first recertification. HHSC's policy is to deny benefits after one year unless efforts are underway to obtain a social security number.

- The Federal Income, Eligibility, and Verification System (IEVS) is used to verify applicant's income information from the Social Security Administration, Internal Revenue Service, and the State of Texas Workforce Commission. Through IEVS, applicants' social security numbers are matched to respective agencies' records to verify earned and unearned sources of income. The automated IEVS interface is currently not in production in TIERS. Use of IEVS is required for Medicaid by 42 CFR 435.940 and TANF by the State Plan. IEVS is optional for Food Stamps (7 CFR 272.8).

- Certain fields are noted as required on various screens within TIERS. Within a set of "logical unit of work" screens, a case worker is not able to advance to the next input screen without entering information into all the required fields. The system design requires case workers to pend from the "questions" page that precedes the logical unit of work when all of the required detail information is not available. However once the case worker unpends the question page, they are committed to the logical unit of work. At this point, system design requires selected fields to be completed in order to advance to the remaining screens to enter information the case worker has obtained. If the caseworker does not have the information for these required fields, "placeholder" information can be entered in order to advance to the screens for which case information has been. TIERS is not designed to pend these "place holder" inputs nor does it require the case worker to return and validate the inputs.

- The design of TIERS does not provide an easily accessible case history for each case action, including changes made to the client's file. Therefore, when it is necessary to recreate eligibility determinations made at a certain point in time and to assess whether the benefits amounts were appropriate, users must view history on various screens and certain information for each recipient must be pulled from archive records located in the Data Collections Table in the database. Associated database time and date stamps are also required to recreate the case history.

For 50 files reviewed receiving Food Stamps, 11 files with benefits of $24,879 were found to be incomplete or the benefits calculated in error as noted below:

- For two files the Cost of Living Adjustment (COLA) was not processed timely due to the case file being in a pending status. TIERS is designed to not process updates to files if the file is in pending status. As a result, the benefit amount calculated by TIERS was based on outdated information. The incorrect benefit amount paid to this household during the fiscal year was $5,115.

- For three files the application for benefits was not available for review. In addition for one of the three files there was no support for income or support for citizenship. The benefit amount paid to the three households during the fiscal year was $5,049.

- For three files an incorrect amount was entered into the system for unearned income. For two files there is no questioned cost as the recipients received the correct amount of benefits. The benefit amount paid to the third household, during the fiscal year was $7,598.

- For two files the incorrect gross earned income was entered into the system. The benefit amount paid to these households during the fiscal year was $6,117.

- For one file there was insufficient support for income used in determining eligibility. The benefit amount paid to this household, during the fiscal year was $1,000.

- For three of the 11 files, the benefit amount could not be independently recalculated as proof of income or household size was not provided for review. Information was recalculated based on the information in TIERS. The benefit amount paid to these households is included in the bullets above.

For 50 files reviewed receiving TANF, five files with benefits paid of $8,793 were found to be incomplete or had benefits calculated in error as noted below:

- For two files the eligibility re-determination application was not available for review. The benefit amount paid to this household, during the fiscal year was $6,146.
- For one file the Cost of Living Adjustment (COLA) was not processed timely due to the case file being in a pending status. TIERS is designed to not process updates to files if the file is in pending status. As a result, the benefit amount calculated by TIERS was based on outdated information. The incorrect benefit amount paid to this household during the fiscal year was $621.
- For one file there was no support for Texas residency. The benefit amount paid to this household, during the fiscal year was $160.
- For one file unearned income was erroneously used in determining the benefit amount resulting in an underpayment during the fiscal year of $1,866.

For 50 files reviewed receiving Medicaid, four files with total benefits paid of $8,274 were found to be incomplete or had benefits calculated in error as noted below:

- One file was not available for review. Benefits paid to the family during the fiscal year were $138.
- One file included self employment income twice in calculating eligibility. Benefits paid to the family were not affected as they were eligible for the benefits received.
- One file was missing a signed application. Benefits paid to this household during the fiscal year were $2,345.
- One file did not contain support for income used in determining eligibility. Benefits paid for fiscal year were $5,791.

SAVERR

For 50 files reviewed receiving Medicaid, seven files with total benefits paid of $8,170 were found to be incomplete or had benefits calculated in error as noted below:

- Two files were not made available for review. Therefore, eligibility could not be verified. Benefits paid to these individuals were $2,619.
- One file did not contain an application or support for income used in eligibility determination. Therefore, the benefit amount could not be determined. Benefits paid to this individual during the fiscal year were $3,385.
- One file did not contain support for income used in determining eligibility. Benefits paid to this individual were $1,805.
- For one file the budget for determining eligibility was not calculated correctly. Using the correct budget the family is not eligible for benefits. Benefits paid to this household were $361.
- For two files the incorrect income amount was used in determining eligibility. The households were still eligible for benefits using the correct income amount.

For 50 files reviewed receiving TANF, one file with total benefits paid of $969 was not available for review. Therefore eligibility could not be verified.

In addition, access controls are inappropriately designed for the SAVERR database. User identification numbers with production update access have not been limited to the database based on the principle of least access. Forty-seven user IDs have full demand access to update both the production and development SAVERR databases on the Unisys mainframe. These IDs belong to developers, IT support staff and contractors.

With full update access, the user ID can be used to provide system access to add, update, or delete data such as pricing data or eligibility data in SAVERR. The complexity of the databases and associated systems is such that personnel without in-depth knowledge of specific applications and schema could not perform changes without detection through either end-user identification of errors or problems occurring in operation. However, sophisticated users or contractors, especially those with broad HHSC enterprise skills and experience, might have the knowledge to violate the requirement for appropriate segregation of duties. Users or contractors with excessive rights to modify pricing, eligibility, and other tables across the enterprise create a risk of unauthorized changes to the production environment and/or a risk of unintentional errors or omissions in processing.

The Federal Income, Eligibility, and Verification System (IEVS) is used to verify applicant's income information from the Social Security Administration, Internal Revenue Service, and the State of Texas Workforce Commission. Through IEVS, applicants' social security numbers are matched to respective agencies' records to verify earned and unearned sources of income. Use of IEVS is required for Medicaid by 42 CFR 435.940 and TANF by the State Plan. IEVS is optional for Food Stamps (7 CFR 272.8). The automated IEVS interface related to Internal Revenue Service was not functional from September 2007 to March 2008. Therefore during this time period earned and unearned income from Internal Revenue Service was not being verified.

Summary

The following analysis provides perspective for the above three programs:

		Food Stamps	TANF	Medicaid
Approximate amount of benefits paid for clients processed through TIERS for Fiscal year 2008	$	379,289,329	9,993,832	1,852,335,778
Approximate amount of benefits paid for clients processed through SAVERR for Fiscal year 2008	$	2,734,176,739	211,592,990	11,227,742,680
Approximate amount of benefits paid for clients processed through non HHSC eligibility system for Emergency Assistance (EA)	$	—	345,116,839	—
Approximate total expenditures per 2008 Federal Schedule	$	3,113,466,068	566,703,661	13,080,078,458
Approximate total number of clients served through SAVERR in August 2008		2,324,763	110,422	2,481,342
Approximate total number of clients served through TIERS in August 2008		424,965	15,782	409,368
Approximate total number of clients served in August 2008, excluding EA		2,749,728	126,204	2,890,710

Recommendation:

The State's policies of what is "required" documentation to support the eligibility determinations should be refined and documented in a manner that will increase the efficiency of the case workers and provide concise, consistent guidance. Documentation does not need to be redundant but sufficient to support the eligibility determinations based on the information maintained in the client file or readily accessible through other State systems. When refining the State policies, consideration should be given to the existing eligibility quality control program that Texas has in place. Documentation standards should be sufficient to enable the quality control personnel to accomplish their task without having to obtain additional documentation from the client, even if a face-to-face interview is required by the quality control policies. In addition, HHSC should continue to focus on their training of case workers with regard to State policy which will further enhance the consistent use of TIERS. HHSC should retain all required documentation supporting the verification of eligibility.

TIERS

HHSC should continue to address the requirement issues as defined by the eligibility process supported by TIERS for:

- the automated control functions and interfaces
- the consideration of additional data validation and/or eligibility rules to TIERS, and
- the consideration of additional manual compensating controls for the eligibility process.

SAVERR

HHSC management should implement procedures in accordance with their security access policies that provide database access security controls based on the individual's demonstrated need to view, add, change, or delete data. Additionally, IT and functional management, in a cooperative effort, should have a control process in place to review and confirm Unisys database access rights periodically.

Management Response and Corrective Action Plan:

TIERS

Automated Control Functions and Interfaces

Enterprise IT has implemented a tool to automate the code deployment process which will minimize the need for developers to access the wasadmin account.

Enterprise IT has processes in place to periodically review operating system and database user accounts, and disable or remove accounts no longer needed. All Oracle database user IDs were reviewed and obsolete accounts de-activated/removed by August 31, 2008. HHSC's password policies, which require the use of complex passwords and regular, forced password changes will be implemented for the non-compliant Oracle database.

HHSC has examined the feasibility of using VPN access for external TIERS users and determined that this method is too costly, and is not practical or efficient. Alternatively, automated access control software has been implemented to provide web-based entry into TIERS. This service facilitates statewide access by authorized parties who are not part of the HHSC network, such as HHSC's trading partners. A number of corresponding controls to offset potential vulnerabilities associated with placing the TIERS portal on the public Internet are in place, including: (a) logging and analyzing all unsuccessful web portal log-ins through automated reporting mechanisms, (b) screening logs for evidence of any brute force password attacks, and (c) promptly disabling all accounts that have been inactive in excess of 90 days.

Enterprise IT and Commission IT continue to work towards implementing automation changes to implement the IEVS interface with TIERS cases. Automation changes are slated to be implemented in March 2009.

Data Validation and/or Eligibility Rules

Office of Family Services completed a review and revision of verification and documentation policies with the results published in the Texas Works Handbook Revision, #08-3, effective July 1, 2008.

The business requirements document, outlining the proposed automation changes to support the revised processes, was approved in December 2008. These changes have been submitted to the TIERS Change Control Board as a priority, with an estimated implementation date of April 2009.

HHSC has improved processes and training of case workers to ensure timely follow up with clients when an automated alert from SSA is received. When a notice from SSA is received indicating that the social security number is un-verified, a task is created in the State Portal and routed to the Customer Care Center for processing and disposition.

The TIERS Historical Case Report application is available to OIG investigators. TIERS users will be provided access to the application in fiscal year 2009.

Manual Compensating Controls

As part of its review and revision of verification and documentation policies, HHSC identified automation changes to support the revised business processes, which included system controls to ensure key support documents are properly maintained. Automation changes are slated for implementation in April 2009. Until automation changes are in place to enforce these requirements, eligibility staff have been instructed and trained to verify required information and enter documentation in the case comments section.

SAVERR

Access to both the production and development environments is limited to appropriate staff through a request process that requires approval by supervisors in the development area as well as approval by Enterprise IT management responsible for maintaining the production environment. To further ensure appropriate access is established, Enterprise IT is in the process of replacing the SAVERR mainframe and separating the platforms for the development and production environments. Implementation is scheduled to be complete in August 2009. Once complete, the changes will facilitate enforcement of security in SAVERR.

Implementation Date:	*TIERS automation changes - April 2009* *Availability of TIERS Historical Case Report to TIERS users - August 2009* *TIERS manual compensating controls - April 2009* *SAVERR - August 2009*
Responsible Person:	*TIERS - Leah Burton* *SAVERR - Gary Gumbert*

Reference No. 09-18

Special Tests and Provisions - Child Support Non-Cooperation

(Prior Audit Issue - 08-15 and 07-15)

CFDA 93.558 - Temporary Assistance for Needy Families
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007 and October 1, 2005 to September 30, 2006
Award number - G0802TXTANF, G0702TXTANF and G0602TXTANF
Type of finding - Significant Deficiency and Material Non-Compliance

Questioned Cost: $20,563

U.S. Department of Health and Human Services

Per 45 CFR Sections 264.30 (b) and (c), if the IV-D agency (i.e., Texas Attorney General) determines that an individual is not cooperating, and the individual does not qualify for a good cause or other exception established by the State agency responsible for making good cause determinations in accordance with Section 454(29) of the Act or for a good cause domestic violence waiver granted in accordance with Section 260.52 of this chapter, then Texas Attorney General's agency must notify Health and Human Services Commission (HHSC) agency promptly. HHSC must then take appropriate action by; (1) Deducting from the assistance that would otherwise be provided to the family of the individual an amount equal to not less than 25 percent of the amount of such assistance; or (2) Denying the family any assistance under the program. Per A2140, the State policy is to reduce benefits 100% for non-cooperation.

HHSC currently maintains two systems for determining eligibility for Temporary Assistance for Needy Families (TANF) - the legacy system, System of Application, Verification, Eligibility, Referral, and Reporting (SAVERR), and the pilot system, Texas Integrated Eligibility Reporting System (TIERS).

In TIERS, sanctions are not being applied correctly on TANF adults who are non-certified payees. When EDBC (eligibility determination) is run after the sanction has been imposed, the sanction is incorrectly removed. TANF benefits should remain forfeited until individual cooperates. Decision tables in TIERS are not properly designed to check conditions that would properly determine if individuals should be included/excluded in sanction determination. HHSC performed a query noting that approximately $14,656 was paid in TANF benefits to ineligible recipients as a result of this system design issue. HHSC management identified this issue during fiscal year 2007 and corrected the issue as of September 2008.

A sample of 40 beneficiaries who should have had their benefits reduced was selected from SAVERR and a sample of 40 was selected from TIERS. Our review noted the following:

- Of the 40 cases reviewed in TIERS, benefits were not reduced timely for 16 cases. For 15 of the cases, benefits were reduced one to six months late and for one case the benefits were not reduced until the error was discovered during the audit and client erroneously received benefits for six months.
- Of the 40 cases reviewed in SAVERR, benefits were not reduced timely for three cases. For two of the cases, benefits were reduced two to three months late and for one case benefits were not reduced until the error was discovered during the audit and client received benefits for four months.

When HHSC is notified by the Texas Attorney General's office that benefits should be reduced, HHSC sends a denial notification letter to the respective individual and provides for one month to resolve. If the case worker does not manually set the benefit file to sanction status, benefits will continue to pay. In the above 19 instances, the case files were not noted as in sanction status. Total questioned cost for the 19 cases is $5,907.

Recommendation:

HHSC should implement procedures to ensure case files are properly classified when in sanction status. Also, HHSC management should continue to monitor the proper functioning of identifying and restricting benefits for individuals through TIERS. HHSC management should implement procedures to ensure manual sanctions are applied timely.

Management Response and Corrective Action Plan:

SAVERR - Effective July 1, 2008, HHSC implemented a new centralization and monitoring process for handling child support non-cooperation sanctions received from the Texas Attorney General's (AG) office for SAVERR cases statewide. Processing of sanction requests received from the AG was centralized at the regional level. Additionally, monitoring of sanction requests was reassigned from regional staff to State Office Service Improvement Program Specialists. These specialists monitor the processing of sanctions at a statewide level and prompt staff on an as-needed basis. A review of child support non-cooperation sanctions processing completed by the Office of Family Service Quality Control staff after centralizing the process shows improvement in this area. The information below shows cumulative totals for the first nine months or federal fiscal year 2008 prior to implementing the centralization of working child support non-cooperation sanctions, compared to the final three months of federal fiscal year 2008 after implementing centralization.

Prior to centralization (Oct 07 - June 08) - 195 out of 234 sanctions processed timely = 83.33%
After Centralization (July 08 - Sept 08) - 128 out of 130 sanctions processed timely = 98.46%

TIERS - Training has been completed by all staff who work TANF cases. Sanctions in TIERS are applied to non-cooperating individuals via automated update upon receipt of non-cooperation sanctions from the AG. A review of cases cited in error indicates these cases were not updated via the automated update because the cases were in a mode that, by design, exempts them from mass updates.

Office of Family Services (OFS), Office of Eligibility (OES) and Enterprise Applications (EA) staff identified short-term and long-term solutions to respond to this issue in the management response to the FY 2007 audit. A short-term solution was implemented but has not fully resolved the issue.

TIERS was designed with the fundamental logic that if a case is in a mode other than "ongoing," changes should not be applied and benefits should not be recalculated until case changes are verified. The long term solution to this issue involves modifications that will allow changes to TIERS cases that are in a mode other than "ongoing." Because this is a major change to TIERS, thorough analysis is required to determine in which instances the new rules would allow changes, and to what extent. An impact assessment was completed on January 14, 2009. Workgroup members will consider various options to determine the best way to resolve the issue without incorrectly affecting client benefits. The estimated implementation date for the selected solution is December 2009.

Implementation Date:	*SAVERR*	*Enhanced process implemented - July 1, 2008*
	TIERS	*High level estimate- January 14, 2009*
		Implementation of long-term solution - December 31, 2009
Responsible Person:	*SAVERR*	*Kirsten Jumper*
	TIERS	*Mary Catherine Bailey*

Reference No. 09-19

Special Tests and Provisions - Issuance Document Security

(Prior Audit Issue - 08-16, 07-16)

Food Stamp Cluster
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 31, 2007 and October 1, 2005 to September 31, 2006
Award number - 6TX400105
Type of finding - Significant Deficiency and Material Non-Compliance

Questioned Cost: $ 0

U.S. Department of Agriculture

The State is required to maintain adequate security over, and documentation/records for, Authorization to Participate (ATP) cards, other documents authorizing issuance, Electronic Benefit Transfer (EBT) cards (7 CFR Section 274.12(h)(3)), and the food stamp coupons themselves to prevent: couple theft, embezzlement, loss, damage, destruction, unauthorized transfer, negotiation, or use of coupons and alternating or counterfeiting of coupons and other documents authorizing issuance (7 CFR Section 274.7(b) and 274.11(c)).

Security over EBT Food Stamp cards (i.e., LoanStar cards) was reviewed for 40 local intake offices. Health and Human Services Commission (HHSC) policy is that logs are maintained at each office to denote receipt, issuance, and destruction of EBT cards. Daily reconciliations are prepared of EBT cards issued (including the recipient's name) between cards issued to clients and cards remaining. In addition, monthly inventories of the EBT cards are required to be conducted by management of the office and reconciled to the daily logs. HHSC regional offices perform reviews of selected offices for which the office must respond with a corrective action plan. HHSC policy is to perform these audits once every five years. Per review of 40 sites, 17 sites were identified with the following exceptions:

- For one site, the daily reconciliation did not include the name of the recipient the EBT card was issued to.
- For two sites, the EBT cards and/or PIN packet inventory were not maintained in a secure location.
- For one site, two sequential issuance control numbers were skipped.
- For two sites, there was no signature on the log maintained for several cards that were mailed to the recipients.
- For three sites, there was no authorizing signature validating the monthly inventory reconciliation or the monthly inventory contained errors.
- For 11 sites, there was no log of voided cards available for review or there was no signature of a witness to the destruction of the voided cards.
- For 11 sites, either the recipient or the staff did not sign the log maintained for physical receipt of EBT cards. For two of the eleven sites the recipient signature was crossed out on the log with no explanation.

Recommendation:

HHSC should enforce existing procedures at the various in-take offices to ensure compliance with Federal regulations.

Management Response and Corrective Action Plan:

The Office of Eligibility Services currently requires that Regional Directors conduct one EBT office review each month to confirm compliance with reporting, security, and records maintenance. Reports are submitted to State Operations on a quarterly basis. Effective March 2009, Regional Directors or their designee will be required to obtain a copy of the signed and witnessed voided card logs for each office in their respective regions. Monitoring of this requirement will be completed on a quarterly basis by State Operations.

Other issues were limited to two specific regions in the state. Regional Directors in these regions, Region 7 and Region 6, will be required to complete three office reviews per month, effective March 1, 2009, and submit quarterly reports to State Operations. In addition, a review of EBT reporting and record maintenance will become part of Office Management Support (OMS) Surveys, effective with reviews completed on or after April 1, 2009.

Implementation Date: *Voided Logs- March 1, 2009*
Additional Office Reviews (Regions 6 and 7) - March 1, 2009
OMS Review- April 1, 2009

Responsible Person: *Voided Logs- Kirsten Jumper*
Additional Office Reviews (Regions 6 and 7) - Kirsten Jumper
OMS Review- Sharon Dornak and Todd Byrnes

Reference No. 09-20
Special Tests and Provisions - Managed Care
(Prior Audit Issue - 08-17)

Medicaid Cluster
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 31, 2007, and October 1, 2005 to September 31, 2006
Award number - 0805TX5028, 0805TX5048, 0705TX5028, 0705TX5048, 0605TX5028, and 0605TX5048
Type of finding - Significant Deficiency and Non-Compliance

A State may obtain a waiver of statutory requirements in order to develop a system that more effectively addresses the health care needs of its population. A waiver may involve the use of a program of managed care for selected elements of the client population or allow the use of program funds to serve specified populations that would be otherwise ineligible (Sections 1115 of the Social Security Act).

Questioned Cost: $ 0

U.S. Department of Health and Human Services

A sample of 50 beneficiary and 50 provider complaints was selected for review with no compliance issues noted for beneficiary complaints. Health and Human Services Commission (HHSC) is required to send acknowledgement letters and resolution letters to the complaining provider notifying them that their complaint had been received and was being worked by Health Plan Operations. For three provider complaints, two acknowledgement letters and one resolution letter were not available for review.

Our review also found that there is no management review in place to ensure that beneficiary or provider complaints are processed according to HHSC policies and procedures regarding Medicaid Managed Care Complaints.

Recommendation:

HHSC should implement a control process to ensure that beneficiary and provider complaints are handled in accordance with policies and procedures, including maintenance of required documentation. The internal control implemented should ensure that someone other than the resolver of the complaint monitor the resolution for compliance with policies and procedures.

Management Response and Corrective Action Plan:

Health Plan Management's (HPM) Complaint Policy and Procedures were updated and implemented to reflect improved business practices, including the recommended segregation of duties. Training for all staff on updated policies and procedures and HEARTS processes was conducted. HPM implemented a review/control process to ensure beneficiary and provider complaints are processed in accordance with the revised HPM policy and procedures. The Compliance Administrator conducts the reviews using criteria related to all aspects of the complaints. Exceptions are verbally discussed with appropriate staff and documented accordingly. These reviews will determine if staff members need additional training or guidance.

Implementation Date: *December 2008*

Responsible Person: *Paula Swenson*

Reference No. 09-21

Special Tests and Provisions - Penalty for Refusal to Work

(Prior Audit Issue - 08-18)

CFDA 93.558 - Temporary Assistance for Needy Families
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007 and October 1, 2005 to September 30, 2006
Award number - G0802TXTANF, G0702TXTANF and G0602TXTANF
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $639

U.S. Department of Health and Human Services

Per 45 CFR 261.14, if an individual refuses to engage in work required under Section 407 of the Act, the State must reduce or terminate the amount of assistance payable to the family, subject to any good cause or other exceptions the State may establish. Such a reduction is governed by the provisions of §261.16. The State must, at a minimum, reduce the amount of assistance otherwise payable to the family pro rata with respect to any period during the month in which the individual refuses to work. The State may impose a greater reduction, including terminating assistance. A State that fails to impose penalties on individuals in accordance with the provisions of Section 407(e) of the Act may be subject to the State penalty specified at Section 261.54. The State's policy is to reduce benefits 100% for non-cooperation.

The Health and Human Services Commission (HHSC) currently maintains two systems for determining eligibility for Temporary Assistance for Needy Families (TANF) - the legacy system, System of Application, Verification, Eligibility, Referral, and Reporting (SAVERR), and the pilot system, Texas Integrated Eligibility Reporting System (TIERS).

A sample of 40 beneficiaries who should have had their benefits reduced was selected from SAVERR and a sample of 40 was selected from TIERS. For two of the 40 TIERS cases reviewed, the reduction in benefits was not processed timely. The two cases received one-two months of ineligible benefits, totaling $639. When a case file is in pending status in TIERS, the electronic data feeds from Texas Workforce Commission (TWC) noting noncompliance with TANF work provisions will not process timely as long as the case file remains in pending status. Once the status is cleared, the TWC provision is processed causing the delay in benefit reduction. For one additional TIERS case, the benefits should have been retroactively reinstated for one month at $259 which did not occur.

Recommendation:

HHSC should implement procedures to ensure that cases are processed timely.

Management Response and Corrective Action Plan:

Office of Family Services (OFS), Office of Eligibility (OES) and Enterprise Applications (EA) staff identified short-term and long-term solutions to respond to this issue in the management response to the fiscal year 2007 audit. A short-term solution was implemented but has not fully resolved the issue.

TIERS was designed with the fundamental logic that if a case is in a mode other than "ongoing," changes should not be applied and benefits should not be recalculated until case changes are verified. The long term solution to this issue involves modifications that will allow changes to TIERS cases that are in a mode other than "ongoing." Because this is a major change to TIERS, thorough analysis is required to determine in which instances the new rules would allow changes, and to what extent. An impact assessment was completed on January 14, 2009. Workgroup members will consider various options to determine the best way to resolve the issue without incorrectly affecting client benefits. The estimated implementation date for the selected solution is December 2009.

Implementation Date: *December 31, 2009*

Responsible Person: *Mary Catherine Bailey*

Reference No. 09-22

Special Tests and Provisions - Provider Eligibility

(Prior Audit Issue - 08-19)

Medicaid Cluster
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 31, 2007, and October 1, 2005 to September 31, 2006
Award number - 0805TX5028, 0805TX5048, 0705TX5028, 0705TX5048, 0605TX5028, and 0605TX5048
Type of finding - Significant Deficiency and Material Non-compliance

Questioned Cost: $ 0

U.S. Department of Health and Human Services

Per 42 CFR Sections 431.107, in order to receive Medicaid payments, providers of medical services must be licensed in accordance with Federal, State, and local laws and regulations to participate in the Medicaid program. 42 CFR Section 455.106 (a) before the Medicaid agency enters into or renews a provider agreement, the provider must disclose to the Medicaid agency the identity of any person who (1) has ownership or control interest in the provider, or is an agent or managing employee of the provider, and (2) has been convicted of a criminal offense related to that person's involvement in any program under Medicare, Medicaid, or the Title XX services program since the inception of those programs. Additionally, per 42 CFR Section 455.103 a State plan must provide that the requirements of 455.106 are met. Per review of the State plan a search should be conducted to ensure that the provider is not included on the Medicaid exclusion list.

A sample of 50 providers receiving Medicaid payments during fiscal year 2008 were selected for review and 33 files were noted to have the following exceptions:

- For three of the 50 provider files reviewed, there was no evidence that a current license to practice was obtained from the provider.
- For 33 of the 50 providers, a search to ensure the provider was not on the Medicaid exclusion list was not conducted.
- For eight of the 50 providers, there was no evidence that the State obtained disclosure of ownership and control interest information signed by the provider and for seven of the eight cases there was no evidence that the State obtained disclosure regarding a provider's owners and other persons convicted of criminal offenses against Medicare, Medicaid, or the other Title XX services provided signed by the provider.
- For two of the 50 providers, there was no application available for review. These two providers were enrolled in 1977 and 1999.
- For eight of the 50 provider files reviewed, there was no evidence that HHSC verified suspension and debarment. Upon review of the Excluded Parties List System, the providers were not suspended or debarred.

Recommendation:

The Health and Human Services Commission should implement procedures to ensure federal requirements and State plan requirements regarding provider eligibility are met.

Management Response and Corrective Action Plan:

The records that were reviewed during the audit date back to 1997 and many changes have occurred since that time. The contracted Medicaid claims administrator implemented new policies and procedures, beginning in 2004, to ensure proper enrollment and eligibility requirements are met prior to enrollment into the Texas Medicaid Program. Other improvements were made as recently as September 2007.

In the current process, all applications are checked against HHSC and HHSC OIG exclusion lists (performed since January 2004) and screened by OIG against its Open Investigations List (performed since January 2006). These processes were automated in September 2007.

The process includes a two-tier quality analysis process for provider enrollment applications. First, TMHP enrollment staff conduct a 100% review of all applications that have been checked and screened, and are determined to be ready for enrollment. Second, the TMHP Quality Division performs daily and monthly post-enrollment reviews on a sample of provider applications finalized for enrollment.

In addition, TMHP accesses all appropriate licensure boards via the Internet to confirm valid licensure prior to enrollment of new providers and to review licenses set to expire within 60-days for all currently enrolled providers. For enrolled providers, if a current license cannot be located or obtained from the website, a payment denial code is placed on the provider's file to ensure no payments are made to the provider after the license expires.

Using this process, the monthly quality rating has averaged around 99% since May 2008.

HHSC is performing an analysis and obtaining cost estimates for possible solutions to address providers enrolled prior to TMHP's contract start date, January 1, 2004. HHSC plans to develop a final solution and begin the contract amendment process to implement the solution no later than Spring 2009. The timeline for completing implementation will be dependent upon which solution is selected; however, HHSC anticipates that the implementation may be completed within three to six months from the execution of the contract amendment.

Implementation Date: *In process*

Responsible Person: *Billy Millwee*

Reference No. 09-23

Special Tests and Provisions - EBT Reconciliation

Food Stamp Cluster
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 31, 2007 and October 1, 2005 to September 31, 2006
Award number - 6TX400105
Type of finding - Significant Deficiency

Questioned Cost: $ 0

U.S. Department of Agriculture

Per 7 CFR 274.12 (j) (5), the state agency must obtain an examination by an independent auditor of the transaction processing of the State Electronic Benefits Transfer (EBT) service provider regarding the issuance, redemption, and settlement of Food Stamp Program benefits. The examination must be done at least annually and the report must be completed within 90 days after the examination period ends. Subsequent examinations must cover the entire period since the previous examination. Examinations must follow the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards No. 70, Service Organizations (SAS 70), requirements for reports on controls placed in operation and tests of the operating effectiveness of the controls, as amended.

A service auditor's report covering the period September 1, 2007 through August 31, 2008 (covering the full 12 months of the fiscal year 2008) was issued for the EBT general controls environment. A qualified opinion was issued on the following control objectives:

Controls provide reasonable assurance that the EBT system functions in a manner consistent with its policies, and complies with applicable laws and regulations (Food Stamp Act of 1997, as amended (7 USC 2016(i)) and 7 CFR section 274.12.

Specifically, there was no evidence of the effectiveness of the following control activities:

- IBM's Business Conduct Guidelines address employee conduct and system security. Every employee must read, understand, and certify their commitment to these guidelines annually.
- All new hires for IBM attend a mandatory corporate orientation class. IBM managers are responsible for ensuring that all new employees receive all appropriate training, both in classroom and on the job.
- IBM employees are required to complete diversity training and agree to business conduct guidelines online on an annual basis.
- Every IBM employee, at time of employment, must sign an "Agreement Regarding Confidential Information, Intellectual Property, and Other Matters" form. This form addressed employees' handling of sensitive and confidential data. In addition, employees are required to follow IBM's Business Conduct Guideline and certify to this annually. These guidelines also address handling of sensitive data.
- IBM requires that all regular and non-regular candidates for hire in the U.S. have a criminal background check done as an integral part of the employment process.
- IBM employees agree to work toward achieving personal business commitments (PBCs) each year. All employees complete an individual development plan (IDP) for ongoing career growth.
- IBM employees are given a yearly performance evaluation.

Controls provide reasonable assurance that the EBT system is protected against unauthorized physical and logical access to production EBT systems.

Specifically, there was no evidence of the effectiveness of the following control activities:

- Internet firewall configurations are not compliant with IBM Information Security Controls for State of Texas standards.
- Windows server configurations are not compliant with IBM Information Security Controls for State of Texas standards.
- Password controls for servers and routers are not compliant with IBM Information Security Controls for State of Texas standards.
- Antivirus protection is not installed as required by IBM Information Security Controls for State of Texas standards.
- Servers have excessive system access privileges.

General controls over the information technology environment should be operating effectively to help ensure the proper functioning of the EBT systems. No compliance issues were noted regarding EBT reconciliation procedures performed.

Recommendation:

HHSC management should work with Texas EBT and their third party vendors to ensure information technology general controls are operating effectively.

Management Response and Corrective Action Plan:

HHSC requested and received a Corrective Action Plan from IBM to address the weaknesses identified in this finding. HHSC is working through DIR to obtain final agreement on the timeline. HHSC expects to reach final agreement by March 31, 2009.

Implementation Dates:

- *Information Security Controls will be implemented by March 31, 2009.*
- *Server system access privileges (control point 6.6a) will be modified as part of the EBT system upgrade transformation project (currently scheduled for completion in February 2010).*
- *Timeline for all other control points will be determined by March 31, 2009.*

Responsible Persons: Kay Jones and Ron Weiss

Reference No. 09-24

Special Tests and Provisions - Adult Custodial Parent of Child Under Six When Child Care Not Available

CFDA 93.558 - Temporary Assistance for Needy Families
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007 and October 1, 2005 to September 30, 2006
Award number - G0802TXTANF, G0702TXTANF and G0602TXTANF
Type of finding - Significant Deficiency and Non-compliance

Questioned Cost: $4,467

U.S. Department of Health and Human Services

Per 45 CFR 261.56(a)(1), if an individual is a single custodial parent caring for a child under age six, the State may not reduce or terminate assistance based on the parent's refusal to engage in required work if he or she demonstrates an inability to obtain needed child care for one or more of the following reasons: (i) Appropriate child care within a reasonable distance from the home or work site is unavailable; (ii) Informal child care by a relative or under other arrangements is unavailable or unsuitable; or (iii) Appropriate and affordable formal child care arrangements are unavailable; (2) Refusal to work when an acceptable form of child care is available is not protected from sanctioning. Per 45 CFR 261.15(b) A State that fails to impose penalties on individuals in accordance with the provisions of Section 407(e)(2) of the Act and the requirements at Section 261.56 may be subject to the State penalty specified at Section 261.57. The State's policy is to reduce benefits 100% for non-cooperation.

The Health and Human Services Commission (HHSC) currently maintains two systems for determining eligibility for Temporary Assistance for Needy Families (TANF) - the legacy system, System of Application, Verification, Eligibility, Referral, and Reporting (SAVERR), and the pilot system, Texas Integrated Eligibility Reporting System (TIERS).

A sample of 40 beneficiaries who should have had their benefits reduced was selected from SAVERR and a sample of 40 was selected from TIERS. For six of the 40 TIERS cases reviewed, the reduction in benefits was not processed timely. The six cases received two to four months of ineligible benefits, totaling $4,467. When a case file is in pending status in TIERS, the electronic data feeds from Texas Workforce Commission (TWC) noting noncompliance with TANF work provisions will not process timely as long as the case file remains in pending status. Once the status is cleared, the TWC provision is processed causing the delay in benefit reduction.

Recommendation:

HHSC should implement procedures to ensure that cases are processed timely.

Management Response and Corrective Action Plan:

TIERS was designed with the fundamental logic that if a case is in a mode other than "ongoing," changes should not be applied and benefits should not be recalculated until case changes are verified. The long term solution to this issue involves modifications that will allow changes to TIERS cases that are in a mode other than "ongoing." Because this is a major change to TIERS, thorough analysis is required to determine in which instances the new rules would allow changes, and to what extent. An impact assessment was completed on January 14, 2009. Based on this assessment, workgroup members from the Office of Family Services, the Office of Eligibility, and Enterprise Applications will consider various options to determine the best way to resolve the issue without incorrectly affecting client benefits. The estimated implementation date for the selected solution is December 2009.

Implementation Date: *December 31, 2009*

Responsible Person: *Mary Catherine Bailey*

Health and Human Services Commission
Department of Family and Protective Services
Department of State Health Services

Reference No. 09-25

Procurement and Suspension and Debarment

(Prior Audit Issue - 08-21, 07-19, 06-15, 06-14, 06-13, 05-17, 05-14, 05-05)

CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children
Award year - October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2007
Award number - 6TX700506

CFDA 93.268 - Immunization Grants
Award year - January 1, 2007 to December 31, 2007 and January 1, 2008 to December 31, 2008
Award number - 5H23IP622571-05 and 2H23IP622571-06

CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance
Award year - August 31, 2006 to August 30, 2007
Award number - U90/CCU617001

CFDA 93.558 - Temporary Assistance for Needy Families
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007 and October 1, 2005 to September 30, 2006
Award number - G0802TXTANF, G0702TXTANF and G0602TXTANF

CFDA 93.658 - Foster Care - Title IV-E
Award year - October 1, 2006 to September 30, 2007 and October 1, 2007 to September 30, 2008
Award number - G0701TX1401 AND G0801TX1401

CFDA 93.667 - Social Services Block Grant
Award year - October 1, 2006 to September 30, 2008 and October 1, 2007 to September 30, 2009
Award number - G0701TXSOSR and G0801TXSOSR

CFDA 93.767 - State Children's Insurance Program
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006, and October 1, 2004 to September 30, 2005
Award number - 0805TX5021, 0705TX5021, 0605TX5021, and 0505TX5021

CFDA 93.889 - Hospital Preparedness Program
Award year - September 1, 2006 to August 31, 2009, September 1, 2007 to August 08, 2009, and August 9, 2008 to August 8, 2009
Award number - U3RHS07583-01-07, U3REP070028-01-04, and U3REP080066-01-00

CFDA 93.917 - HIV Care Formula Grants
Award year - April 1, 2007 to March 31, 2008 and April 1, 2008 to March 31, 2009
Award number - 2 X07HA00054-17-04 and 2 X07HA00054-18-01

Food Stamp Cluster
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 31, 2007 and October 1, 2005 to September 31, 2006
Award number - 6TX400105

Medicaid Cluster
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 31, 2007, and October 1, 2005 to September 31, 2006
Award number - 0805TX5028, 0805TX5048, 0705TX5028, 0705TX5048, 0605TX5028, and 0605TX5048
Type of finding - Significant Deficiency and Non-Compliance

States shall use the same State policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations. U.S. Department of Health and Human Services requires the following for procurement (45CFR 92.36):

Questioned Cost: $34,770

U.S. Department of Health and Human Services
U.S. Department of Agriculture

- Verify the contract file documents the significant history of the procurement.
- Verify the procurements provide full and open competition.
- Verify that contract files exist and ascertain if appropriate cost or price analysis was performed in connection with procurement actions, including contract modifications and that this analysis supported the procurement action.
- Contracts greater than $25,000 must be reviewed to ensure the vendor is not suspended or debarred.

In addition, under the Texas Government Code, Chapter 2155, subchapter A General Provisions, Section 2155.005(a), a bidder offering to sell goods or services to the state shall certify on each bid submitted that neither the bidder, nor the person represented by the bidder, nor any person acting for the represented person has:

(1) Violated the antitrust laws codified by Chapter 15, Business & Commerce Code, or the Federal antitrust laws; or

(2) Directly or indirectly communicated the bid to a competitor or other person engaged in the same line of business.

Lastly, the Health and Human Services Commission Procurement Manual requires that purchases or other acquisitions that will cost more than $5,000 are to be competitively bid unless the purchasing of goods or services are exempt from competitive bidding in which case the exemption must be documented in the purchasing documentation. Health and Human Services Commission (HHSC) requires a signed bid document and a signed purchase to execute a contract with a vendor.

Upon review of selected vendor files, for the Department of State Health Services (DSHS), the following was noted:

- Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.557 - For one of the 21 selected and reviewed vendor files, there was no evidence that DSHS verified that the vendor was not suspended or debarred prior to renewing the contract. Upon review of the Excluded Parties List System (EPLS), the vendor was not suspended or debarred, so there are no questioned costs.
- Hospital Preparedness Program, CFDA 93.889 - For one of the five selected and reviewed vendor files, there was no evidence that DSHS verified that the vendor was not suspended or debarred prior to renewing the contract. Upon review of the EPLS, the vendor was not suspended or debarred, so there are no questioned costs.
- HIV Care Formula Grants, CFDA 93.917 - For one of the four selected and reviewed vendor files, there was no evidence that DSHS verified that the vendor was not suspended or debarred prior to renewing the contract. Upon review of the EPLS, the vendor was not suspended or debarred, so there are no questioned costs.
- Immunization Grants, CFDA 93.268 - For one of the seven selected and reviewed vendor files, there was no evidence that DSHS verified that the vendor was not suspended or debarred prior to awarding the contract. Upon review of the EPLS, the vendor was not suspended or debarred, so there are no questioned costs.

- Centers for Disease Control and Prevention - Investigations and Technical Assistance, CFDA 93.283 - For the 11 selected and reviewed vendor files, there was one file that contained a service agreement with terms and conditions but lacked the required statement of compliance with anti-trust laws and the suspension and debarment clauses. The contract amount for this one file was approximately $8,900.

The Health and Human Services Commission (HHSC) has a cost allocation plan for its federal programs. Therefore expenses are allocated to the various federal programs based on the prescribed methods in the respective plans. Upon review of 50 selected vendor files, for the Medicaid Cluster at HHSC, and 40 selected vendor files for Temporary Assistance for Needy Families (TANF) CFDA 93.558, Food Stamp Cluster, and State Insurance Children's Program (SCHIP) CFDA 93.767, one vendor procurement file affecting all four programs did not have documentation of bids submitted by vendors. The contract was for approximately $18,270.

The Department of Family and Protective Services (DFPS) has a cost allocation plan for its federal programs. Therefore expenses are allocated to the various federal programs based on the prescribed methods in the respective plans. Upon review of 40 selected vendor files, for Foster Care CFDA 93.658, Temporary Assistance for Needy Families (TANF) CFDA 93.558, and Social Services Block Grant CFDA 93.667, one vendor procurement file affecting all four programs had no documentation of bid tabulations or requests for bids. The contract was for approximately $7,600.

Recommendation:

The Enterprise Contract and Procurement Services Division (ECPS) of the Health and Human Services Commission (HHSC) is responsible for the centralized procurement activity for Department of State Health Services (DSHS) and HHSC vendors. ECPS should ensure that contracts include all required documentation and that an accurate record of the procurement history of each vendor is maintained.

Management Response and Corrective Action Plan:

Effective April 15, 2008, ECPS implemented an operating procedure which describes quality review monitoring by team managers of ECPS purchaser and contract administrator work products. Reviews focus on developing and improving quality in procurement processes. The reviews examine the time to process the order, quality of work products, and adherence to all applicable purchase requirements, including state statutes and rules, and agency policies and procedures. Reviews also verify completion of the Excluded Parties Listing System requirement and the existence of appropriate procurement file documentation. ECPS managers conduct the quality reviews monthly, using a Quality Review Checklist and a Purchase File Checklist as the primary review tools. Implementation of this review process to verify whether purchasers and contract administrators are performing in accordance with existing ECPS policies and procedures helps ensure all required documentation is maintained.

Implementation Date: *April 15, 2008*

Responsible Person: *Wayne Wilson*

Health and Human Services Commission
Department of Aging and Disability Services
Department of Assistive and Rehabilitative Services
Department of Family and Protective Services
Department of State Health Services

Reference No. 09-26
Allowable Costs/Cost Principles

CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Award year - October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2007
Award number - 6TX700506

CFDA 10.560 - State Administrative Expenses for Child Nutrition
Award year - October 1, 2006 to September 30, 2008
Award number - 6TX300312

CFDA 84.126 - Rehabilitation Services - Vocational Rehabilitation Grants to States
Award year - October 1, 2007 to September 30, 2009, October 1, 2007 to September 30, 2009, October 1, 2006 to September 30, 2008, October 1, 2005 to September 30, 2007, October 1, 2005 to September 30, 2007, and October 1, 2004 to September 30, 2006
Award number - H126A080064, H126A080065, H126A070064, H126A060064, H126A060065, H126A050065,

CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance
Award year - August 31, 2006 to August 30, 2007
Award number - U90/CCU617001-07

CFDA 93.558 - Temporary Assistance for Needy Families
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007 and October 1, 2005 to September 30, 2006
Award number - G0802TXTANF, G0702TXTANF and G0602TXTANF

CFDA 93.658 - Foster Care - Title IV-E
Award year - October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2007
Award number - G0701TX1401 AND G0801TX1401

CFDA 93.659 - Adoption Assistance
Award year - October 1, 2006 to September 30, 2007 and October 1, 2007 to September 30, 2008
Award number - G0601TX1407 and G0701TX1407

CFDA 93.667 - Social Services Block Grant
Award year - October 1, 2006 to September 30, 2008 and October 1, 2007 to September 30, 2009
Award number - G0701TXSOSR and G0801TXSOSR

CFDA 93.767 - State Children's Insurance Program
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006, and October 1, 2004 to September 30, 2005
Award number - 0805TX5021, 0705TX5021, 0605TX5021, and 0505TX5021

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse
Award year - October 1, 2007 to September 30, 2009 and October 1, 2006 to September 30, 2008
Award number - 08B1TXSAPT and 07B1TXSAPT

CFDA 93.994 - Maternal and Child Health Services Block Grants to the States
Award year - October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2007
Award number - 6 B04MC08891-01 and 6B04MC07774-01

Aging Cluster
Award year - October 1, 2006 to September 30, 2007 and October 1, 2005 to September 30, 2006
Award number - 06AATXT3SP, 06AATXNSIP, 07AATXT3SP, and 07AATXNSIP

Disability Insurance/SSI Cluster
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006, and October 1, 2003 to September 30, 2004
Award number - 0808TXD100, 0704TXD100, 0604TXD100, 0404TXD100

Food Stamp Cluster
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 31, 2007 and October 1, 2005 to September 31, 2006
Award number - 6TX400105

Medicaid Cluster
Award year - October 1, 2007 to September 30, 2008, October 1, 2006 to September 31, 2007, and October 1, 2005 to September 31, 2006
Award number - 0705TX5028, 0705TX5048, 0605TX5028, 0605TX5048, 0505TX5028, and 0505TX5048

Non-major Programs:

CFDA 10.559 - Summer Food Service Program for Children
CFDA 10.568 - Emergency Food Assistance Program (Administrative Costs)
CFDA 93.052 - National Family Caregiver Support
CFDA 93.110 - Maternal and Child Health Federal Consolidated Programs
CFDA 93.556 - Promoting Safe and Stable Families
CFDA 93.566 - Refugee and Entrant Assistance - State Administered Programs
CFDA 93.575 - Child Care and Development Block Grant
CFDA 93.590 - Community-Based Child Abuse Prevention Grants
CFDA 93.599 - Chafee Education and Training Vouchers Program
CFDA 93.645 - Child Welfare Services - State Grants
CFDA 93.674 - Chafee Foster Care Independence Program
CFDA 93.779 - Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations
CFDA 97.050 - Presidential Declared Disaster Assistance to Individuals and Households - Other Needs

Type of finding - Non-Compliance

Questioned Cost: $430,939

U.S. Department of Health and Human Services
U.S. Department of Agriculture
US Department of Education
US Department of Homeland Security
Social Security Administration

During fiscal year 2008, the Texas State Auditor's Office (SAO) performed an audit on the Human Resources Management at Health and Human Services Agencies. Part of the audit included verifying that when employees are terminated the payroll system is updated timely to prevent terminated employees from receiving paychecks. The SAO issued report No. 08-047 in August 2008 noted the Health and Human Services Commission (HHSC) continued to pay 1,229 individuals whose employment at the Enterprise agencies had been terminated in fiscal year 2007 and 2008. HHSC was able to provide updated information as of August 31, 2008, which reflects recoupments received and all affected employees for 2008 and preceding years. As of August 31, 2008, each agency analyzed total outstanding overpayments to terminated employees and determined the portion that was paid with federal dollars as noted below.

Agency	Balance Outstanding at August 31, 2008	Federal Portion of Balance Outstanding at August 31, 2008
Department of Aging and Disability Services	$ 362,642	218,211
Department of Assistive and Rehabilitative Services	15,870	14,840
Department of Family and Protective Services	166,794	125,131
Department of State Health Services	147,975	7,830
Health and Human Services Commission	122,119	64,927
Total	$ 815,400	430,939

Recommendation:

The Health and Human Services Commission should implement procedures to ensure that the payroll system is updated upon termination of an employee.

Management Response and Corrective Action Plan:

On July 23, 2008, executive management approved, and a strategy was implemented, to prevent future salary overpayments. This strategy includes a centralized daily query, instituted on October 1, 2008, to identify retroactive termination actions made after the payroll deadline. Comprehensive training was developed in September, 2008, covering payroll calendar deadlines, relationships of those deadlines to the proper calculation of pay, and how managers should accurately and timely perform employee separation/termination activities. This training is currently being delivered by instructor led courses and is also being made available as an on-line course. In addition, the strategy calls for system enhancements. These include the development of a new Employee Separation Page for employees to self-report intended separation, and an improved Managers' Separation Page designed to provide additional date fields of Last Date Physically Worked and Last Date Paid Through. These new fields will assist and be used in the calculation of an employee's final pay period. In addition, an e-mail notification process is being developed which will automatically prompt managers two business days prior to when on-cycle payrolls are calculated. This email will prompt managers for the separation entries of any departing employees in time to prevent overpayments from occurring and ask them to carefully review their "reports to" list to validate active employees. These system enhancements are in development and are expected to be in production within fiscal year 2009.

Effective October 1, 2008, the tracking and reporting of employee overpayments has moved directly under the control of HHS Payroll Services. Management tracking of overpayments is occurring monthly and is shared with HHS agency chief operating officers and chief financial officers. The report includes relevant overpayment amounts, employee, manager, and department, and is serving as a measure of performance and an aid to reinforce manager responsibility and accountability.

Implementation Date: *By August 31, 2009 - system enhancements implemented*

Responsible Person: *Mickey Gregory and Michael Markl*

Texas Department of Housing and Community Affairs

Reference No. 09-27
Cash Management
Earmarking
Subrecipient Monitoring
Reporting

CFDA 93.568 - Low-Income Home Energy Assistance
Award year - October 1, 2007 to September 30, 2009, October 1, 2006 to September 30, 2008, and October 1, 2005 to September 30, 2007
Award number - G-08B1TXLIEA, G-07B1TXLIEA, and G-06B1TXLIEA
Type of finding - Significant Deficiency

Questioned Cost: $ 0

U.S. Department of Health and Human Services

Texas Department of Housing and Community Affairs (TDHCA) utilizes two Community Affairs contract systems for monitoring contracts with subrecipients: the legacy Genesis Community Affairs Contract System and the new TDHCA Community Affairs Contract System (CACS). In addition, TDHCA utilizes PeopleSoft for its general ledger system. In each system, duties are not appropriately segregated between the application administrators, database administrators, and developers. Also, specific developers have access to move changes into the production environment of the individual systems. Users with inappropriate rights to modify applications create a risk of unauthorized changes to the production environment and/or risks of unintentional errors or omissions in processing.

Specifically, the following items were noted:

- Genesis - Six users have administrative privileges that allow them the ability to have access to application and database administrator roles and to migrate application code changes into production. In addition, two of these six users are developers. The other four users are user account administrators for Genesis.
- CACS - Two developers have application administrative access rights.
- PeopleSoft - One developer/analyst has database administrator privileges, application administrator rights, and access to migrate code changes into production. TDHCA's Director of Information Systems performs a quarterly review of a PeopleSoft report that includes all changes made to the application. However, the developer/analyst has the ability to alter the report with his high-privilege access rights which are assigned so he can migrate changes into production.
- At the network level, one developer has domain administrative privileges.

No compliance issues were noted with regard to the major program noted above.

Recommendation:

Duties should be segregated between application administrators, system administrators, database administrators, and developers. In addition, developers who have programming responsibilities should not have access to migrate changes to production. In cases where such condition is necessary, management should implement a monitoring control to help ensure that changes implemented to production are appropriate. Privileged access should only be granted to developers in the test environment. If monitoring controls such as report reviews are put in place, developers should not have access to modify the report.

Management Response and Corrective Action Plan:

Summary of Existing Processes and Monitoring Controls - Because of the size of the Department's Information Systems Division (ISD) and the number of systems supported, management has assigned some ISD employees responsibilities that cross between developer, application administrator, and database administrator roles to provide for efficient delivery of services in the support of production systems and to ensure adequate backup for critical ISD functions. Additionally, in the legacy Genesis system, technology limitations prevent the Department from systematically separating responsibilities between these roles.

Over the past five years, the Department has implemented both manual and systematic processes and monitoring controls for tracking software changes to compensate for the risks posed by advanced levels of systems access. These controls include a series of standard operating procedures governing software, database, and network changes, including a requirement to document approval of direct database updates requested by management within the Department's help desk system; the Software Change Acceptance form; the Object Change Report for PeopleSoft; and the Concurrent Versioning System (CVS), which systematically tracks all software changes promoted to the production environment for the new Community Affairs Contract System (CACS). In addition to these controls, the Department completely segregates developer access between front-end programmatic systems, such as Genesis and CACS, and the Department's general ledger system, PeopleSoft.

Corrective Action Plan - In order to strengthen segregation of duties and further reduce the risk of unauthorized changes to production environments, the Department will remove application administrator access from the two CACS developers and application and database administrator access from the PeopleSoft developer/analyst noted in the finding. While reducing the risks of unauthorized changes, removing these levels of access will pose some production support risks for PeopleSoft, because of limited backup.

Regarding Genesis, the Department will reduce the number of user account administrators from four to two. However, because of the technical limitations mentioned above and because the Department will retire the Genesis version of the Community Affairs Contract System from all but historical inquiry in April 2009, the Department will continue to grant administrative privileges to the two employees who both develop and support remaining Genesis applications, which are administrative in nature. Management will continue to apply manual monitoring controls to the Genesis environment.

Finally, the ISD employee identified as a developer with Windows domain administrative privileges performs no development duties in the Windows environment. The privileges are assigned for backup ISD Network and Technical Support section purposes. Because these privileges provide support benefits to the Department and there is no crossover between developer and administrative responsibilities in this environment, management does not plan to remove these privileges.

Implementation Date: *March 31, 2009*

Responsible Person: *Curtis Howe*

Parks and Wildlife Department

Reference No. 09-28
Reporting

Fish and Wildlife Cluster
Award year - June 1, 2003 to March 31, 2008; January 1, 2007 to December 31, 2007; January 1, 2007 to December 31, 2007; January 1, 2007 to December 31, 2007; September 1, 2007 to August 31, 2008; September 1, 2006 to August 31, 2007; September 1, 2006 to August 31, 2007 and September 1, 2006 to August 31, 2007
Award number - F117D, F59D, F92D, FW190, W104S, W128R, W129R, and W132R
Type of finding - Non-Compliance

Questioned Cost: $0

Department of the Interior

Texas Parks and Wildlife Department (TPWD) is required by OMB Circular A-133 and A-102 to submit an SF-269, Financial Status Report, for all programs under this cluster. The Financial Status Report (FSR) SF-269 (OMB No. 0348-0039) or SF-269A (OMB No. 0348-0038) is what recipients use to report the status of funds for all non-construction projects and for construction projects when the FSR is required in lieu of the SF-271. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency.

During test work over 30 SF-269 reports submitted in the current fiscal year, it was discovered that the entire state match was not always being reported. In cases where the grant was closed out and the SF-269 was reporting final expenditures, if there were expenditures that came in after the final report was submitted, these expenses were being paid by state funds but not reported on a revised SF-269. In other cases TPWD would only report the minimum state match, therefore the total outlays being reported would not match the system of record for TPWD because only a portion of the state expenditures for the project were being reported. TPWD was operating under verbal guidance from Region II that they had the option to submit a revised SF-269 when additional expenses are paid on a project, as long as those additional expenses were paid by the State. In addition, they were operating under similar verbal guidance that they were not required to report excess match, whether it be in a separate line item or combined with the minimum match amount.

Upon further clarification from Region II during the audit, it was noted that TPWD should submit an amended SF-269 report to show increased excess allowable costs, thus ensuring all SF-269 reports agree to the general ledger and reflect final state and federal expenses incurred. Region II also recommended that TPWD request an extension of the report due date when expenses are not final, rather than submitting a SF-269 that does not reflect final project expenditures.

The federal amounts reporting in the 30 SF-269 reports reviewed did agree to TPWD's general ledger.

Recommendation:

TPWD should revise their SF-269 reporting procedures to account for the clarification of reporting all federal and state expenditures.

Management Response and Corrective Action Plan:

The agency concurs with the finding. We will continue to report excess allowable costs captured within the federally-mandated 90 day close-out period. However, when appropriate, we will contact U S F & W's Region II and ask permission to file an amended Final SF-269. With the implementation of our new accounting system September 2009, the SF 269s will reconcile to what the general ledger shows as federal and state expenditures.

Implementation Date: *September 2009*

Responsible Person: *Ken Liles*

Department of State Health Services

Reference No. 09-29
Allowable Costs/Cost Principles
Period of Availability of Federal Funds
(Prior Audit Issue - 08-24 and 07-30)

CFDA 93.889 - Hospital Preparedness Program
Award year - September 1, 2006 to August 31, 2009 and September 1, 2007 to August 8, 2009, and August 9, 2008 to August 8, 2009
Award number - U3RHS07583-01, U3REP070028-01, U3REP080066-01
Type of finding - Significant Deficiency

Questioned Cost: $ 0

U.S. Department of Health and Human Services

In accordance with OMB Circular A-87, attachment B, section 8h(3), "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee."

For employees who are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages are required to be supported by personnel activity reports or equivalent documentation which:

- Reflect an after-the-fact distribution of the actual activity of each employee,
- Account for the total activity for which each employee is compensated,
- Are prepared at least monthly and must coincide with one or more pay periods, and
- Are signed by the employee

At the Department of State Health Services (DSHS), most employees are paid monthly and, regardless of whether they work solely on one Federal award or multiple awards, they are all required to complete timesheets at least monthly. Typical monthly timesheet activity consists of regularly scheduled hours worked and charged to the labor account codes assigned to the employee's position. Employees have a position number that is set up at the start of each year with a task profile containing the number of hours the employee is expected to work each week and the fund and labor account codes that the employee is budgeted to charge. When an employee does not deviate from their task profile during the month, all that is required is that they sign the timesheet and check the box that there were no deviations from task profile. When their actual time deviates from the task profile (e.g. sick time, vacation time, hours worked on different projects), the employee enters in the corresponding differences in hours and/or activities from the profile and signs the timesheet. Regardless of whether an employee deviates from their task profile or not, these monthly timesheets serve as certification of hours worked and are required by DSHS policy to be approved and signed by the employee and the employee's supervisor.

Out of 19 payroll items tested for CFDA 93.889 - Hospital Preparedness Program, one timesheet was not signed and certified by the employee's supervisor. Upon further review, the supervisor had been terminated prior to the submission of the employee's timesheet, and it was not forwarded to the next immediate supervisor for approval. Therefore, while the timesheet met compliance requirements that it was signed by the employee, the control in place that all timesheets get approved by the employee's supervisor was not met.

Approximately $2,500 was charged to the grant for this individual for this pay cycle. No other instances were noted during the vacancy of the supervisor position where the timesheets were not forwarded to the next immediate supervisor for approval. Total payroll and benefits charged to this grant for the fiscal year were approximately $1,840,000.

Recommendation:

DSHS does have a policy noting that the next immediate supervisor is responsible to approve and sign employee timesheets in the event of a resignation. DSHS should continue to reinforce the importance of monthly approval of the timesheet by the employees and supervisors and continue to have regular trainings/meetings on the importance of this process.

Management Response and Corrective Action Plan:

The Department of State Health Services (DSHS) concurs with the recommendation and will continue to reinforce the current policies and processes in place for approval of timesheets by employees and supervisors. Over the last three years, DSHS has made vast improvements in the accounting for time on federal grants, but understands it is a continuous process to train and educate staff on proper procedures. DSHS appreciates the professionalism from the auditors and their guidance on issues impacting the federal funds entrusted to our agency.

Implementation Date: *On-going*

Responsible Person: *Wilson M. Day*

Reference No. 09-30
Allowable Costs/Cost Principles
Special Tests and Provisions - Food Instrument Disposition
Special Tests and Provisions - Review of Food Instruments to Enforce Price Limitations and Detect Errors
Special Tests and Provisions - Authorization of Above-50-Percent Vendors
(Prior Audit Issue - 08-25 and 07-31)

CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Award year - October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2007
Award number - 6TX700506
Type of finding - Significant Deficiency

Questioned Cost: $ 0

U. S. Department of Agriculture

The Department of State Health Services (DSHS) utilizes the WIC EBT (Lone Star cards) and WIC TX WIN (paper voucher) systems to process the food vouchers for the Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.557 (WIC). Development Team Leads have access to migrate changes to the production environment for both systems. Access to migrate changes to production environment should be restricted appropriately based on job function to help ensure adequate internal controls are in place and appropriate segregation of duties exist. In general, programmers should not have access to migrate changes to production environment. In addition, no periodic review is performed of active users and user access right to identify and remove inappropriate system access to WIC EBT or WIC TX WIN.

No compliance exceptions were noted related to this test work for the major program above.

Recommendation:

DSHS management should restrict access based on the individual's job responsibility, including restricting developer access from migrating code into production. Also management should perform a periodic review of active users and user access rights to ensure appropriate segregation of duties is established.

Management Response and Corrective Action Plan:

KPMG's most recent Audit Finding cited deficiencies in WIC EBT System General IT Controls. In order to gain a better understanding of the security issues involved in the finding, the WIC Program met with KPMG to discuss the recent audit activity.

The WIC Program takes system security issues seriously and has recently implemented a work around process for migration approval to provide some immediate improvement in the issues cited in the Audit Findings. Actions taken by the WIC Program, based on prior year findings, have resulted in improved process controls and developer awareness, but not system General IT controls.

While the current WIC system has been developed with the USDA as a partner in the development process, it is essentially a legacy system using obsolete FoxPro for DOS. Due to the legacy components, the system has inherent limitations that make it difficult to meet current industry security practices. In addition, the system's current configuration and structure further limit efforts to mitigate some of the security issues identified without causing potential dire impact to our participants and services.

The WIC Program has identified additional security measures that the program plans to implement to strengthen system security in the near future, including changing certain system passwords and limiting access on the WIC production system.

Management is informed of the current limitations of the WIC EBT system security and the known and accepted risks for providing sufficient production support of the system. The WIC Program will continue working towards improving system security where possible, using incremental steps, with the staff resources and time available.

Implementation Date: *December 2009*

Responsible Person: *Everett Lamb*

Reference No. 09-31

Subrecipient Monitoring

(Prior Audit Issue - 08-30, 07-36, 06-16, 05-20, 05-18, 04-07, 04-27, 03-12, 02-11, 02-15, 02-19, 01-555-36)

CFDA 93.217 - Family Planning - Services
Award year - April 1, 2008 to March 31, 2009 and April 1, 2007 to March 31, 2008
Award number - 5 FPHPA060898-27 and 2 FPHPA060898-26

CFDA 93.268 - Immunization Grants
Award year - January 1, 2008 to December 31, 2008 and January 1, 2007 to December 31, 2007
Award number - 2H23IP622571-06 and 5H23IP622571-05

CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance
Award year - January 1, 2008 to December 31, 2008, June 30, 2007 to June 29, 2008, August 1, 2006 to November 30, 2008, December 30, 2006 to December 29, 2008, June 30, 2007 to June 29, 2008, June 30, 2007 to June 29, 2008, and September 1, 2007 to August 31, 2008
Award number - 5U50CI623773, 1U58DP000824-01, 3U50DD613232-10S2, 5U10CI623451-04, 3U58DP622789-05W1, 1U50DP000730-01, and 2U59EH624189-04

CFDA 93.889 - Hospital Preparedness Program
Award year - September 1, 2007 to August 8, 2009 and September 1, 2006 to August 31, 2009
Award number - 4 U3REP070028-01 and 6 U3RHS007583-01

CFDA 93.917 - HIV Care Formula Grants
Award year - April 1, 2008 to March 31, 2009 and April 1, 2007 to March 31, 2008
Award number - 2 X07HA00054-18 and 6 X07HA00054-17

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse
Award year - October 1, 2007 to September 30, 2009 and October 1, 2006 to September 30, 2008
Award number - 08B1TXSAPT and 07B1TXSAPT

CFDA 93.994 - Maternal and Child Health Services Block Grants to the States
Award year - October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2008
Award number - 6 B04MC08891-01 and 6 B04MC07774-01

Non-major Programs:

CFDA 14.241 - Housing Opportunities for Persons with AIDS
CFDA 93.000 - Hansen's Disease and Detection of Latent Tuberculosis Infection in Health Care Workers
CFDA 93.069 - Public Health Emergency Preparedness
CFDA 93.116 - Project Grants and Cooperative Agreements for Tuberculosis Control Programs
CFDA 93.150 - Projects for Assistance in Transition from Homelessness
CFDA 93.197 - Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children
CFDA 93.235 - Abstinence Education Program
CFDA 93.242 - Mental Health Research Grants
CFDA 93.243 - Substance Abuse and Mental Health Services - Projects of Regional and National Significance
CFDA 93.275 - Substance Abuse and Mental Health Services - Access to Recovery
CFDA 93.566 - Refugee and Entrant Assistance - State Administered Programs
CFDA 93.576 - Refugee and Entrant Assistance - Discretionary Grants
CFDA 93.667 - Social Services Block Grant
CFDA 93.769 - Demonstration to Maintain Independence and Employment
CFDA 93.779 - Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations
CFDA 93.940 - HIV Prevention Activities - Health Department Based
CFDA 93.944 - Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance
CFDA 93.958 - Block Grants for Community Mental Health
CFDA 93.974 - Family Planning - Service Delivery Improvement Research Grants
CFDA 93.977 - Preventative Health Services - Sexually Transmitted Diseases Control Grants
CFDA 93.978 - Preventative Health Services - Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants
CFDA 93.988 - Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems
CFDA 93.991 - Preventive Health and Health Services Block Grant

Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Health and Human Services
U.S. Department of Housing and Urban Development

Department of State Health Services (DSHS) is required by OMB Circular A-133, Section .400, to monitor subrecipients to ensure compliance with Federal rules and regulations, as well as the provisions of the contracts or grant agreements. According to OMB Circular A-133, DSHS also must ensure that subrecipients expending Federal funds in excess of $500,000 have an OMB Circular A-133 Single Audit performed and provide a copy to DSHS. DSHS is to review the report and to issue a management decision, if applicable. DSHS passed through approximately $278 million, or 15% of all federal funds received during fiscal year 2008.

DSHS' subrecipient monitoring procedures include use of standardized contracts, a risk assessment process, technical assistance, program monitoring, and financial monitoring. The A-133 audit report collection and review is centralized and performed by Health and Human Services Commission (HHSC) Office of Inspector General (OIG) for various state agencies, including DSHS. In addition, each of the five divisions of DSHS (Mental Health and Substance Abuse, Family and Community Health Services, Prevention and Preparedness, Regulatory, and Regional and Local Health Services) with subrecipient contracts also has a Contract Management Unit (CMU) to perform a variety of procedures for their respective grants. Some of the CMU procedures include: review and approval of requests for payments received from subrecipients, sometimes including review of source documents; monitoring of periodic reports received to ensure the respective subrecipient remains within the budget per the contract; closeout procedures; and coordination and communication with Division Director, Contract Oversight and Support Section, and other DSHS departments, to ensure subrecipient contracts include necessary elements, and necessary issues are being escalated when required.

While the risk assessment procedures have been enhanced and communication between the various departments involved in the subrecipient monitoring processes has increased, from contract set-up through contract close-out, there is still heavy reliance placed on the financial monitoring site visits and other fiscal related activities being performed by the Contract Oversight and Support Section (COS). The financial procedures conducted by the CMUs are primarily high level and do not appear to adequately supplement the site visits and other fiscal activities being performed by COS. While COS does perform other procedures including technical assistance and board oversight desk reviews, these procedures are again primarily high level and do not adequately supplement the financial monitoring site visits.

The 2008 level of funding included in the COS risk assessment at DSHS is noted below. The risk assessment includes all subrecipients for DSHS, even those subrecipients receiving only state funds. Therefore the contract values noted below of $712.7 million will not reconcile to the federal tables found below. The risk assessment scale ranges from one to five.

- 25 subrecipients receiving approximately $58.7 million in contracts were rated 3 or above,
- 374 subrecipients receiving approximately $390.3 million in contracts were rated between 2 and 2.9, and
- 199 subrecipients receiving approximately $263.7 million in contracts were rated less than 2.

Also included in the above risk assessed contract totals are an estimated 18% or $126.7 million of contracts that are paid on a unit rate/fee for service basis from state and federal sources; $21.3 million in contracts passes through to other state agencies; and $309.7 million of 100% state funded contracts. The unit rate/fee for service contracts consist mainly of a set fee paid for each service provided (i.e., shot given, claim processed, etc.). These unit rate contracts are monitored through programmatic reviews conducted every 2-3 years utilizing audit procedures such as review of claims, eligibility determinations, resulting deliverables, and vaccine usages. The $712.7 million in risk assessed contracts less the items detailed above, are contracts that are subject to financial monitoring as noted below.

Financial on-site monitoring of subrecipients by COS (including on-site technical assistance) is summarized below for the past three years. The three year average coverage of financial site visits performed is approximately 38% (228 site visits of approximately 600 subrecipients). Similarly, total 2008 contract value coverage associated with these 228 subrecipients monitored with a financial on-site visit during 2006-2008 is approximately $179 million or 70% of contract value.

- In fiscal year 2008, 55 of approximately 598 subrecipients, 27% of subrecipient contract values
- In fiscal year 2007, 90 of approximately 620 subrecipients, 19% of subrecipient contract values
- In fiscal year 2006, 83 of approximately 520 subrecipients, 30% of subrecipient contract values

In addition to site visits conducted for financial monitoring or technical assistance, some divisions have targeted reviews of source documents that support reimbursement requests. Total contract value for subrecipients subject to these reviews during fiscal year 2008 was approximately $9.1 million.

Therefore of the $278 million of fiscal year 2008 expenditures detailed below, DSHS performed on-site monitoring or review of source documents for selected reimbursement requests of approximately $188.2 million or 74% of the related contract values. Total payments to subrecipients charged to the major and non-major programs for fiscal year 2008 were:

Federal Program	Amount Charged to the Federal Program in FY08
CFDA 14.241	$ 2,886,092
CFDA 93.000	82,393
CFDA 93.069	12,647,602
CFDA 93.116	1,522,334
CFDA 93.150	3,373,364
CFDA 93.197	136,848
CFDA 93.217	14,851,180
CFDA 93.235	2,311,464
CFDA 93.242	2,261
CFDA 93.243	3,535,216
CFDA 93.268	11,617,487
CFDA 93.275	4,811,965
CFDA 93.283	3,228,982
CFDA 93.566	1,946,135
CFDA 93.576	8,300
CFDA 93.667	3,013,031
CFDA 93.769	3,361,775
CFDA 93.779	36,193
CFDA 93.889	30,672,309
CFDA 93.917	20,036,988
CFDA 93.940	8,477,306
CFDA 93.944	20,085
CFDA 93.958	20,872,731
CFDA 93.959	114,300,421
CFDA 93.974	266,699
CFDA 93.977	4,341,568
CFDA 93.978	164,073
CFDA 93.988	148,106
CFDA 93.991	2,164,875
CFDA 93.994	6,795,486
Total	$ 277,633,269

Recommendation:

In order to maximize both CMU and COS resources, consideration should be given to enhancing and standardizing other financial monitoring procedures in an effort to supplement financial on-site monitoring. These reviews should include procedures such as reviewing timesheets, invoices, and other source documents to support the costs reported by the subrecipients as well as other activities to address financial accountability. For example, CMUs and COS should both perform additional financial desk reviews of source documents provided by the subrecipients, in an effort to verify expenditures on a “real-time” basis. The DSHS executives should continue to reevaluate the sufficiency of all financial monitoring procedures being performed by CMU and COS personnel, including review of the risk assessment, to conclude on the sufficiency of the DSHS subrecipient monitoring process.

Management Response and Corrective Action Plan:

Again this year, the auditors note substantial improvements made by DSHS with its monitoring of subrecipient contractors. Communications between the various Divisions throughout the stages of subrecipient contracts have continually improved. The targeted fiscal monitoring risk assessment implemented the changes recommended by the auditors for SFY08.

The audit finding deficiency focuses on the agency's fiscal monitoring of federal expenditures for compliance with federal requirements. In addition to on-site fiscal monitoring and desk reviews, subrecipient monitoring includes activities such as the performance of a fiscal risk assessment, review and management of single audit reports, and proactive provision of fiscal assistance. When considering all fiscal and programmatic monitoring, 100% of the approximately 600 subrecipients received some type of oversight activity; 48% of the subrecipient contractors were subject to more than one oversight activity. These figures are obtained without the inclusion of performance monitoring, which is another facet of subrecipient monitoring. Based on the agency's overall efforts, DSHS believes that we are materially in compliance with the requirements of OMB Circular A-133, Section .400.

The agency will continue to implement policies, contract procedures, and tracking enhancements to improve contract review, documentation, and follow-up. During the remainder of SFY09, this will include working with Divisions to balance the performance and financial management activities that comprise their contract management. COS fiscal monitoring will enhance the desk review process and will use it to supplement the on-site fiscal reviews.

Implementation Date: *Starting immediately and ongoing through August 31, 2009*

Responsible Person: *Dee Porter*

Texas Education Agency

Reference No. 09-32

Subrecipient Monitoring

(Prior Audit Issue - 08-32)

CFDA 84.011 - Migrant Education - State Grant Program
Award year - July 1, 2008 to September 30, 2009; July 1, 2007 to September 30, 2008; July 1, 2006 to September 30, 2007; July 1, 2005 to September 30, 2006
Award number - S011A050044, S011A060044, S011A070044, S011A080044

CFDA 84.048 - Vocational Education - Basic Grants to States
Award year - July 1, 2008 to September 30, 2009; July 1, 2007 to September 30, 2008; July 1, 2006 to September 30, 2007; July 1, 2005 to September 30, 2006
Award number - V048A050043, V048A060043, V048A070043, V048A080043

CFDA 84.287 - Twenty-First Century Community Learning Centers
Award year - July 1, 2008 to September 30, 2009; July 1, 2007 to September 30, 2008; July 1, 2006 to September 30, 2007; July 1, 2005 to September 30, 2006
Award number- S287C050044, S287C060044, S287C070044, S287C080044

CFDA 84.357 - Reading First State Grants
Award year - July 1, 2008 to September 30, 2009; July 1, 2007 to September 30, 2008; July 1, 2006 to September 30, 2007; July 1, 2005 to September 30, 2006
Award number - S357A050045, S357A060045, S357A070045, S357A080045

Special Education Cluster
Award year - July 1, 2008 to September 30, 2009; July 1, 2007 to September 30, 2008; July 1, 2006 to September 30, 2007; July 1, 2005 to September 30, 2006
Award number - H027A050008 and H173A050004, H027A060008 and H173A060008, H027A070008 and H173A070008, H027A080008 and H173A080008

Non-major Programs:

CFDA 12.000 - Troops to Teachers
CFDA 84.002 - Adult Education - State Grant Program
CFDA 84.010 - Title I Grants to Local Educational Agencies
CFDA 84.013 - Title I Program for Neglected and Delinquent Children
CFDA 84.181 - Special Education - Grants for Infants and Families with Disabilities
CFDA 84.184 - Safe and Drug-Free Schools & Communities - National Programs
CFDA 84.186 - Safe & Drug-Free Schools & Communities - State Grants
CFDA 84.196 - Education for Homeless Children and Youth
CFDA 84.206 - Javits Gifted and Talented Students Education Grant Program
CFDA 84.213 - Even Start - State Educational Agencies
CFDA 84.282 - Charter Schools
CFDA 84.298 - State Grants for Innovative Programs
CFDA 84.318 - Education Technology State Grants
CFDA 84.334 - Gaining Early Awareness and Readiness for Undergraduate Programs
CFDA 84.358 - Rural Education
CFDA 84.365 - English Language Acquisition Grants
CFDA 84.366 - Mathematics and Science Partnerships
CFDA 84.367 - Improving Teacher Quality State Grants
CFDA 84.369 - Grants for State Assessments and Related Activities
CFDA 84.377 - School Improvement Grants
CFDA 84.938 - Hurricane Education Recovery
CFDA 93.558 - Temporary Assistance for Needy Families
CFDA 93.630 - Developmental Disabilities Basic Support and Advocacy Grants
CFDA 93.938 - Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems
CFDA 94.004 - Learn and Serve America - School and Community Based Programs
CFDA 97.036 - Public Assistance Grants (including CFDA 83.544)

Type of finding - Significant Deficiency and Material Non-Compliance

Questioned Cost: $ 0

U.S. Department of Defense
U.S. Department of Education
U.S. Department of Health and Human Services
U.S. Department of Homeland Security

The Texas Education Agency (TEA) passes through a significant amount of federal funds to subrecipients to carry out the objectives of the federal programs. The TEA is required by OMB Circular A-133, Section .400, to monitor subrecipients to ensure compliance with Federal rules and regulations, as well as the provisions of the contracts or grant agreements. According to OMB Circular A-133, the TEA must assure that subrecipients expending Federal funds in excess of $500,000 have an OMB Circular A-133 Single Audit performed and provide a copy to the TEA within 9 months of the subrecipient's fiscal year. The TEA is to review the report and to issue a management decision within six months, if applicable.

The TEA's subrecipient monitoring procedures include use of standard contracts, technical assistance, a risk assessment process, program monitoring, and financial monitoring including compliance reviews, site visits, and A-133 audit report collection and review. In addition, the TEA employs the use of certain edits within their computer system, TGIF, to assist with period of availability and reasonableness of monthly draw amounts based on total amounts awarded.

The monitoring of subrecipient compliance with fiscal requirements is performed primarily by the Grant Audits Section of the Division of Financial Audits. Specifically, this section uses a risk assessment process to identify subrecipients for financial monitoring. The risk assessment process includes the use of critical indicators, such as "independent auditor identified an instance(s) of material noncompliance and/or material weaknesses in internal controls," that classify subrecipients as high risk grantees. For the 2007 and 2008 fiscal years combined, the section completed compliance reviews of 10 subrecipients that failed three or more critical indicators and an additional 43 subrecipients who failed 1 or 2 critical risk indicators. During the conduct of the compliance reviews, section auditors requested certain fiscal records from the subrecipient and reviewed these records to determine compliance with federal fiscal requirements. In fiscal year 2008 all the compliance reviews conducted were a completion of those started in fiscal year 2007. A 2008 risk assessment was not prepared.

In addition to the compliance reviews, the section also received complaints from external parties or referrals from TEA program personnel or grant administrators to perform an audit, investigation, review or other monitoring activity of specific grantees and grants. In most instances, the audit, review or other monitoring activity was initiated as a correspondence or desk process. However, in certain instances, section auditors determined that an onsite visit was warranted due to the scope of the monitoring activity (e.g., multiple years, multiple grants) or the complexity of the issues identified. In 2007, section auditors initiated 11 audits or investigations pursuant to a complaint filed with the TEA or a referral from a TEA division. Of these 11, seven were closed by August 31, 2008. In 2008, division auditors initiated 16 audits or investigations pursuant to a complaint or referral, of which six are currently closed. To the degree feasible, TEA program personnel and auditors coordinated efforts as to the deployment of resources to review selected subrecipients.

In addition to the work performed by the Grant Audits Section, the Investigations Section of the Division of Financial Audits performed onsite follow up visits on selected corrective action plans submitted by grantees as part of the annual A-133 audit report. Section auditors exercised their professional judgment in assessing the severity of the compliance issues identified by independent auditors in the annual audit report to determine which issues warranted an in-depth onsite follow up visit. The onsite follow up visits included the selection of sample items to ascertain if the subrecipient corrected the identified deficiency. Auditors conducted 3 onsite follow up visits in 2007 and 11 in 2008. However, it was noted that the majority of the A-133 audit reports received in fiscal year 2008 were not reviewed by TEA within 6 months of receipt in order to promptly issue a management decision on any applicable audit findings.

Despite the coordination between program and fiscal personnel, TEA's primary focus is on performance and program results with a limited number of resources available to monitor fiscal compliance. Of the approximately 1,370 subrecipients, 444 were assessed as high risk in 2007. Of this number, a total of 84 subrecipients underwent a follow-up review, audit, investigation, or compliance review in the past two years (57 initiated in 2007 and 27 in 2008). These 84 subrecipients accounted for approximately 12.4% of the contract value for the total funds passed through in the past 2 years.

Total payments to subrecipients charged to the major and non-major programs for fiscal year 2008 were:

Federal Program	Amount Charged to the Federal Program
12.000	$ 310,288
84.002	41,007,889
84.010	1,153,861,249
84.011	55,834,879
84.013	8,117
84.048	51,231,181
84.181	66,076
84.184	102,214
84.186	20,599,684
84.196	6,037,019
84.206	181,201
84.213	6,997,241
84.282	5,318,601
84.287	70,525,306
84.298	9,630,565
84.318	22,883,325
84.334	834,938
84.357	75,241,567
84.358	7,149,295
84.365	87,253,894
84.366	1,631,524
84.367	231,308,570
84.369	3,797,131
84.377	2,892,702
84.938	75,357
93.558	18,476,645
93.630	2,563,952
93.938	263,934
94.004	1,317,264
97.036	4,405
Special Education Cluster	853,850,913
Total	$ 2,731,256,926

Recommendation:

TEA has developed a risk assessment process which does appear to identify the subrecipients with potential risk; however, they need to ensure that this risk assessment is updated on a yearly basis. They have allocated their resources between the required program audits, A-133 reviews, and financial monitoring components of their subrecipient monitoring process to incorporate not only federal requirements but state law as well. TEA should continue to add resources within their budget constraints in order to increase the amount of federal fiscal compliance performed.

Management Response and Corrective Action Plan:

The TEA will continue to perform its monitoring activities to ensure that subrecipients comply with federal program and fiscal requirements. Although neither federal regulations or guidance nor the auditors' finding discussed above quantify the degree to which the TEA is required to monitor its subrecipients, the TEA proposes to implement a short-term and long-term corrective action plan to improve its monitoring process to increase the degree to which it monitors subrecipients.

Status of Proposed Corrective Action Plan for Prior Year Finding

A detailed subrecipient monitoring methodology has been developed. The risk assessment surveys and the related scoring methodology as well as the subrecipient monitoring instruments require further development and refinement. The surveys and associated request for information will require review and approval by the Department of Information Resources Committee. Various factors, including staff turnover, staff recruitment and development, audits and investigations carried forward from prior years, and the scope and complexity of new and ongoing audits and investigations, reduced the availability of auditors for the development and implementation of the corrective action plan.

Short-Term Corrective Action Plan

Grants Monitoring

From March 1, 2009 through August 31, 2009, the TEA shall develop and implement a corrective action plan focused on changes to its monitoring methodology for federal awards. The improved monitoring process shall include a refined risk assessment methodology to facilitate the allocation of limited staff resources on specific areas of risk and a streamlined compliance review methodology that shall result in the more expedient monitoring of subrecipient compliance with federal requirements and a more timely review of subrecipient implementation of corrective actions that address material compliance issues identified in the single audits filed with the TEA. The compliance review process shall focus on the monitoring of specific fiscal compliance requirements, as discussed in the Compliance Supplement to OMB Circular A-133 and in the applicable federal statute and regulations, for the federal programs selected for review. Although the compliance reviews shall continue to be primarily a desk (or correspondence) based methodology, the monitoring system shall include specific criteria that will be used to determine when an onsite visit is warranted to address more pervasive or systemic issues that may be identified through the risk assessment process. The corrective action reviews shall focus on determining if subrecipients with material noncompliance adequately addressed the issues identified by the independent auditors. This activity shall be conducted primarily through onsite visits.

In addition to the improved monitoring process discussed above, the TEA shall also consider other changes and improvements, including the acquisition of technological tools, the identification of existing data resources, and the communication of federal requirements to subrecipients, to improve the monitoring process and overall subrecipient compliance with federal requirements.

Single Audit Reviews

The TEA scrutinized its process for reviewing the single audits filed by subrecipients and identified an opportunity for streamlining its review methodology. Accordingly, the TEA changed its review methodology and is currently implementing the new process. It is anticipated that the revised review methodology will result in the more timely resolution of a larger percentage of the single audits filed with the TEA.

Long-Term Corrective Action Plan

From March 1, 2009 through August 31, 2009, the TEA shall conclude its development of the monitoring methodology as originally proposed in its response to the prior year finding and incorporate it into the audit plan for the 2010 fiscal year. Effective September 1, 2009, the TEA shall implement an audit plan for the 2010 fiscal year that will include the short-term corrective action plan described above and a monitoring methodology that balances the TEA's responsibility to monitor subrecipient compliance with federal requirements to a notable degree with its responsibility to ensure that potential compliance and other audit issues are identified and adequately addressed. The audit plan shall include the use of the improved monitoring methodology described above and the conduct of more intensive audits focused on examining subrecipient compliance with general fiscal requirements, program specific fiscal requirements, and the particular provisions of the applicable grant awarded. Additionally, the audit plan shall include a limited allocation of staff resources to the continued investigation of specific allegations of fraud, abuse and waste filed with the TEA by subrecipient constituents. To augment the TEA's limited auditor resources, the TEA will consider the development and implementation of administrative rules requiring noncompliant subrecipients to procure the services of a certified public accountant to conduct an agreed-upon procedures audit. This process will require subrecipients to have an agreed-upon procedures audit performed if certain conditions apply. The agreed-upon procedures audit shall be conducted in accordance to a specific audit methodology and audit procedures developed by the TEA Division of Financial Audits.

In addition to the audit plan described above, the TEA shall also consider other changes and improvements, including the development of administrative rules specific to grants, the acquisition of software applications, the dedication of a systems analyst to the development of analytical tools, the dissemination of relevant and timely information regarding identified risks, audit findings, and compliance requirements at statewide conferences, and the provision of staff development and technical assistance that addresses compliance with federal fiscal requirements by regional education service centers, to improve the audit methodology described above and overall subrecipient compliance with federal requirements.

Implementation Date: *March 1, 2009*

Responsible Person: *Ramón Medina*

Reference No. 09-33

Allowable Costs/Cost Principles

(Prior Audit Issue - 08-31)

CFDA 84.048 - Vocational Education - Basic Grants to States
Award year - July 1, 2004 to September 30, 2005; July 1, 2005 to September 30, 2006; July 1, 2006 to September 30, 2007; July 1, 2007 to September 30, 2008
Award number - V048A040043, V048A050043, V048A060043, V048A070043

Special Education Cluster
Award year - July 1, 2004 to September 30, 2005; July 1, 2005 to September 30, 2006; July 1, 2006 to September 30, 2007; July 1, 2007 to September 30, 2008
Award number – H027A040008 and H173A040004, H027A050008 and H173A050004, H027A060008 and H173A060008, H027A070008 and H173A070008
Type of finding - Significant Deficiency

Questioned Cost: $ 0

U.S. Department of Education

Access to the Budget Analysis Tool (BAT) application production server is not restricted appropriately. One developer has "Budget Management User" access to the BAT application. Budget Management Users (BPM) are users within the Texas Education Agency (TEA) Budget Office that are authorized to perform all processes, generate any report, and modify any agency budget information from within BAT. This includes adjusting funding percentages/structures, adding/modifying division/sub object information and adding/adjusting position forecasting information for any division within TEA. Controls should be in place to restrict developer's access to the production environment.

No compliance exceptions were noted during the review of selected 2008 allowable cost transactions for the major program noted above.

Recommendation:

TEA remediated the above situation in February 2008.

Management Response and Corrective Action Plan:

The two developers (FTE, James Farrell and contractor, Narda Fisher) found in the Budget Analysis Tool (BAT) production application were In-activated by the Computer Access group effective 02/4/2008. Mrs. Fisher's contract ended August 2008, all access has been inactivated.

Effective April 2007 the BAT FTE developer was hired into another position within IS PMO as developer for the Security team. The BAT developer position remained vacant until August 2007. During this vacancy period, Mr. Farrell was responsible for the support of both BAT and Security.

The vacant BAT developer position was filled by Divya Chawla August 2007. Mr. Farrell provided training and mentoring to the new developer as well as support of the BAT application through fiscal year 2008 on an "as needed" basis because the BAT application is difficult to understand due to poor design and has a lengthy learning curve and no other internal staff has this knowledge.

Mrs. Chawla, lead FTE developer, took an extended vacation to India from November 11 to December 12, 2008. During this time, a contractor with limited BAT experience and part time availability was providing support and coverage of the BAT application. The Budget office was in the process of running REV and CAF processes under a tight schedule. Due to the nature of the work and the required timely response required, Mr. Farrell's assistance was needed and access granted to the BAT application. His access was removed December 2008 following Mrs. Chawla's return.

The agency's formal change management procedures are followed for all normal and emergency situations. Access to develop and deploy changes is segregated as follows:

Tracker change management software is used to submit software change requests (SCR) for an application. The project manager (PM) reviews the SCR and either approves or denies it to be worked. If approved, a developer is assigned to the SCR. The developer is responsible for making software code changes using Version Manager (VM), the source control versioning tool, to check out and version the code. The developer is responsible for testing software changes made for adherence to the requirement specifications and to verify accuracy in the development environment.

Once testing is successful, the developer submits a request to Software Configuration Management Administrators (SCM Admin) group to promote the change from Development to the Test environment by creating a new product build release. The request is forwarded to a Team-4-Texas (IBM) System Administrator who has access to the server and does the actual move to the Test environment.

Next, the customer is requested to test the change for accuracy in the Test environment. Once the customer updates the SCR Testing Status field to Passed, the developer submits the production move request to promote the code changes from Test to Production to the PM.

When the code has been through the entire development and test life cycle, the PM fills out an online form certifying that the code is ready for production and sends that form to SCM. The SCM team member assigned reviews the request and assures that it is ready for production. This includes a final quality check by a tester. (SQA check). When that is completed the request is forwarded to a Team-4-Texas System Administrator who has access to the server and does the actual move to the Production environment.

Upon completion of the move to production, the development team then verifies that the move was successful. The SCM group conducts a Software Quality Assurance (SQA) audit to ensure all the proper standards have been followed and are documented within the Software Change Request (SCR) and the module association to the Version Manager code is in alignment.

Upon completion of the change in Production, the customer is requested to verify the results of the change in Production to make sure the change works as intended and no unexpected results are discovered. The customer then updates the SCR Verified Production filed to Passed to indicate the production test is good and complete and verified. The SCR is closed as complete.

If an emergency situation arises that requires the technical developer to have access to production to resolve a production emergency, a special procedure utilizing a new security role for a lead technical developer, BATTech, will be used as defined below as an interim emergency work around.

The Corrective Action plan including Implementation Date and Responsible Person is as follows:

Controls to Implement for BAT	***Who***	**When**
Monitor and Review the roles and privileges of the Production application	*Budget Director or Budget Manager*	*Monthly; beginning February 1, 2009* *A monthly SCR to review production user access will be added to Tracker. The active user report will be attached to the SCR. Any access issues identified, the solution and supporting emails will be attached to the SCR in order to provide supporting documentation of this task.* *SCR 425 added for Feb 2009 review.*

Controls to Implement for BAT	***Who***	**When**
Monitor and Review the roles and privileges of the Training application	*Budget Director or Budget Manager*	*Annually; prior to Budprep training May 1, 2009.*
Monitor and Review the roles and privileges of Test application	*Project Manager*	*Monthly; beginning February 1, 2009* *A monthly SCR to review production user access will be added to Tracker. The active user report will be attached to the SCR. Any access issues identified, the solution and supporting emails will be attached to the SCR in order to provide supporting documentation of this task.* *SCR 425 added for Feb 2009 review.*
Monitor and Review the roles and privileges of the Dev application	*Project Manager*	*Monthly; beginning February 1, 2009* *A monthly SCR to review production user access will be added to Tracker. The active user report will be attached to the SCR. Any access issues identified, the solution and supporting emails will be attached to the SCR in order to provide supporting documentation of this task.* *SCR 425 added for February 2009 review.*
Incorporate TEA SE automation for Test and/or Development	*BAT and TEASE development teams*	*2009 Update and Change in Plans.* *It was determined it is not cost effective to implement the TEASE automation for Test or Development environments. Due to the following constraints:* *1) Shortage of resources to support the implementation* *2) Significant changes to TEASE would be needed to support Project Managers approving test & dev user accounts because they are not considered the cost center manager which is how TEASE workflow determines the appropriate approver.*

Controls to Implement for BAT	***Who***	**When**
Incorporate TEASE automation for Test and/or Development	*BAT and TEASE development teams*	*3) TEA is currently working on implementing a new security system and changes to TEASE are limited to defects not enhancements.* *4) Also, application owners for application in test and dev would have to be assigned to each application in dev and test. This would be very time consuming for the customer/application owners.* *5) The email approval method by the applications Project Manager allows request for dev & test to be handled in a timely and efficient manner.*
1) Implement reports to review access accounts without any activity within last 3 month period. *2) Implement an application user review process where each TEASE approver re-certifies all the users of that application on a regular basis. The frequency will be determined by the criticality of the application and the number of users. In the case of BAT, this will be done quarterly.*	*1) BAT developer will create the report, NT Admin will create and schedule batch job to run monthly (1st of each month); automate email report to user with notice if no activity within next 10 days, account will become In-active. The Budget Director and/or Budget Manager will be responsible for monitoring these* *2) Security group will initiate this effort and Budget Director to re-certify.*	*Update and Change in plans.* *It was confirmed that an automated report of account in-activity can not be created because TEA SE does not have all the data needed to determine in-activity of a given account for a given time period. One user account is used for many applications so we can not determine when a user last used BAT or some other application.* *Note: When a user leaves, we disable the whole TEASE account, but don't delete it, because of the need to avoid duplicate user IDs. This will be fixed when we move to TIM/TAM as a replacement for TEASE. This product will give the agency greater ability and flexibility to automated monitoring.* *2) Until the new security product, TIM/TAM, is implemented for production use, we will implement a monthly application user access review.*

Controls to Implement for BAT	***Who***	**When**
Create a new TEA SE access role for the Technical Lead resource to separate functional duties from technical duties. (Such as BATTech). This account will remain In-Active until determined necessary by management to be used at which time it will follow the process to Activate an account via the Computer Access group.	*Two groups would require a change to support this request. TEASE group would require a minor change. The BAT application will require a software change request to incorporate this new role (SCR).*	*An enhancement request SCR 421 has been submitted to add new BATTECH role. Testing of change is currently in progress. Goal is to complete and implement this change by February 27, 2009.*
As an interim emergency work around, we will implement the following procedure using the new BATTECH role. Create the new Technical role in BAT for Technical Lead; BATTECH. *1) Grant (Activate) "BATTECH" access for the lead developer whenever required to make a change due to an emergency SCR via a request to the Computer Access group.* *2) Change request will be reviewed by a second person(s) PM and Budget Manager.* *3) BATTECH makes the documented change.* *4) Customer reviews, tests and verifies results of change.* *5) Remove production access by submitting a request Computer Access group to make BATTech In-Active.* *6) BATTECH will document the change(s) made in an SCR.* *a. Include the change information* *b. Name of person making change* *c. Name of reviewer and approver* *d. Reason for change* *e. Tests conducted and results*	*BAT developer and TEA SE developer to setup the access. Budget Manager and Project Manager to approve access and SCR. Developer will perform the update. Budget Director will approve and Activate/In-Activate the BATTECH account.*	*On Emergency basis only.* *Addition of the new BATTECH role into the BAT application and TEASE is underway with testing in progress. The goal is to have SCR 421 coded, tested and implemented by February 27, 2009.*

7) Notify Budget Director of this activity. *8) SCM will review and monitor to ensure only change requested is change made and promoted through to production.*	*BAT developer and TEA SE developer to setup the access. Budget Manager and Project Manager to approve access and SCR. Developer will perform the update. Budget Director will approve and Activate/In-Activate the BATTech account.*	*On Emergency basis only.* *Addition of the new BATTECH role into the BAT application and TEASE is underway with testing in progress. The goal is to have SCR 421 coded, tested and implemented by February 27, 2009.*

Reference No. 09-34

Level of Effort - Maintenance of Effort

CFDA 84.287 - Twenty-First Century Community Learning Centers
Award year - July 1, 2007 to September 30, 2008
Award number - S287C070044
Type of finding - Non-Compliance

Questioned Cost: $ 25,639

U.S. Department of Education

For maintenance of effort (MOE), a Local Education Agency (LEA) may receive funds under an applicable program only if the State Education Agency (SEA) finds that the combined fiscal effort per student or the aggregate expenditures of the LEA from State and local funds for free public education for the preceding year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding year, unless specifically waived by the Department of Education.

An LEA's expenditures from State and local funds for free public education include expenditures for administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenditures to cover deficits for food services and student body activities. They do not include the following expenditures: (a) any expenditures for community services, capital outlay, debt services and supplementary expenses as a result of a Presidentially declared disaster and (b) any expenditures made from funds provided by the Federal government.

If an LEA fails to maintain fiscal effort, the SEA may reduce the amount of the allocation of funds under an applicable program in any fiscal year in the exact proportion by which the LEA fails to maintain effort by falling below 90 percent of both the combined fiscal effort per student and aggregate expenditures (using the measure most favorable to the LEA) (Section 9521 of ESEA (20 USC 7901); 34 CFR section 299.5).

Texas Education Agency (TEA) requires its school districts, charter schools and educational service centers (ESCs) to comply with state mandated accounting requirements discussed in its Financial Accounting and Reporting Manual. The implementation of financial accounting systems that use the state mandated account code structure provides for uniformity and consistency in financial accounting and reporting. The Public Education Information Management System (PEIMS) is a data collection system developed by TEA to provide a single system for collecting school district information and to maintain the information in one common database. The PEIMS system allows for all school districts and charter schools to collect and report a uniform and consistent set of financial information. The Division of Financial Audits at TEA (DFA) uses the PEIMS data to run MOE reports every year. The DFA ran the MOE reports in fiscal year 2008 for the 2006-2007 school year that was closed out in fiscal year 2008. Once the MOE reports are run and non-compliant schools are identified, the DFA forwards the list to the applicable program department managers to address the MOE non-compliance for each of their respective programs. Individual letters are sent to the schools with the calculation to notify them of the non-compliance and the adjustment to the entitlement of federal funds for awards pursuant to the applicable provisions.

There were three LEAs receiving 21st Century funding that did not obtain the required MOE. These LEAs were overlooked by TEA during the close-out process. These were properly included on the MOE report noted above. During the audit, letters were sent to the non-compliant LEAs and their grant awards were adjusted for the non-compliance. The total dollar adjustment for these three LEAs was $25,639 for the 2008-2009 21st Century Notice of Grant Awards.

Recommendation:

TEA should ensure that the MOE requirements are enforced and the resulting LEA awards are appropriately adjusted for non-compliance.

Management Response and Corrective Action Plan:

TEA will ensure that the MOE requirements are enforced and the resulting LEA awards are appropriately adjusted for non-compliance. The Division of Discretionary Grants is in the process of remedying the lack of MOE for those 3 LEAs in question. A letter was mailed to each grantee on January 13, 2009, requiring them to submit an amendment to reduce their grant budget by the corresponding percentage that they are not in compliance with MOE. The Notices of Grant Award (NOGAs) for these 3 grantees were immediately placed on hold when this came to light so that no additional payments will be made to these grantees until their NOGAs are reduced by the appropriate percentage or they forfeit the grant.

Implementation Date: *January-February 2009*

Responsible Person: *Earin M. Martin*

Reference No. 09-35

Reporting
Special Tests and Provisions - Subgrant Process
Special Tests and Provisions - Priority for Services

CFDA 84.011 - Migrant Education - State Grant Program
Award year - July 1, 2005 to September 30, 2006; July 1, 2006 to September 30, 2007; July 1, 2007 to September 30, 2008; July 1, 2008 to September 30, 2009
Award number - S011A050044, S011A060044, S011A070044, S011A080044
Type of finding - Material Weakness

Questioned Cost: $ 0

U.S. Department of Education

Due to the size of the information technology organization within the Northrop Grumman group that manages, hosts, and administers the NGS application for Migrant Education, there is a lack of segregation of duties. Developers have server, database and application administration capabilities in production which also allows them access to deploy code changes into production. The group currently also does not have security policies and procedures formally defined and documented.

Change management procedures for authorization, testing and approval are followed informally. No formal approval is required prior to production moves and only informal discussion emails exist as evidence of approval prior to production deployment. For one out of two releases tested, no response of formal final approval was documented. Also no formal change management procedures have been documented.

Texas Education Agency (TEA) utilizes the NGS application to produce the Consolidated State Performance Report (CSPR). Also TEA defines priority for services but the LEAs are responsible for identifying and counting these children. The LEAs report the priority for services children to TEA through the NGS application. In addition, TEA utilized the information in the NGS application to the grants through the subgrant process. No compliance exceptions were noted during the review of selected reporting and special tests and provisions transactions for the major program noted above.

Recommendation:

Access to develop and deploy changes should be segregated. If developers require access to production due to the size of the systems team, formal change management procedures should be followed prior to deployment, and additional monitoring controls should be in place post-deployment to determine whether all changes placed in production are authorized and appropriate. Security polices and procedures including procedures regarding system administrative access, termination and addition of individuals, etc. should be formally documented.

For change management, procedures addressing authorization, testing, final approval, documentation and proper implementation should be documented and followed. Also changes should be formally approved prior to production.

Management Response and Corrective Action Plan:

The Division of NCLB Program Coordination agrees with the recommendation. The Texas Education Agency and Northrop Grumman will establish the following process for the Change Management procedures for authorization, testing, and approval of NGS new build items.

1. *The Northrop Grumman Project Manager will document all new build items in an excel spreadsheet with an estimated level of effort for each build item. In addition a "TEA Approval" column will be created in the spreadsheet for formal approval of each item.*
2. *Northrop Grumman will transmit the "NGS New Build Version X.X", (where X.X is the current version level of the NGS application build), spreadsheet to the TEA Migrant Director or designee by email with a request for review and approval.*
3. *Northrop Grumman will track and request approval on each new build item before work can begin on each item.*
4. *Upon receipt of approved items the Northrop Grumman Project Manager will assign the new build items to the appropriate NGS Programmer for coding.*
5. *Changes to any individual New Build item must be made in writing.*

Changes requested by Northrop Grumman:

a. *Changes by Northrop Grumman - will be requested in writing to the TEA Migrant Program Director or designee. The Northrop Grumman Project Manager will submit a change request explaining the nature of the change, the impact to schedule, and any repercussions to the New Build.*

b. *The TEA Migrant Program Director or designee will approve or disapprove each change request in writing.*

c. *The Northrop Grumman Project Manager will document the decision concerning approval of each change request in the "New Build Version X.X" spreadsheet.*

Changes requested by TEA or Consortium States:

a. *Changes by TEA or Consortium States - will be requested in writing to the Northrop Grumman Project Manager. The requesting entity will submit a change request explaining the nature of the change as well as all criteria and requirements necessary to the requesting entity.*
b. *The Northrop Grumman Project Manager will document the level of effort for the change and submit a written level of effort to the TEA Migrant Program Director or designee documenting the impact of the requested change to the New Build schedule, recommendation for approval/disapproval, along with reasons explaining Northrop Grumman's recommendation.*

If approved:

i. *The TEA Migrant Director or designee will provide approval in writing to the Northrop Grumman Project Manager.*
ii. *The Northrop Grumman Project Manager will record the approval in the NGS New Build spreadsheet, update the New Build implementation schedule if necessary, and assign the work to the NGS programmers.*

If unapproved:

iii. *The TEA Migrant Director or designee will provide unapproved status in writing to the Northrop Grumman Project Manager.*
iv. *The Northrop Grumman Project Manager will record the unapproved status in the change request document.*

6. *When a new build item has been coded and tested by the Northrop Grumman alpha testing group the Northrop Grumman Project Manager will draft testing documentation and send that documentation to the NGS Beta Testing group.*
7. *The NGS Beta Testing group will test and record testing results in the documentation provided by the Northrop Grumman Project Manager. The NGS Beta Testing group will return their recorded testing results to the NGS Project Manager.*
8. *The Northrop Grumman Project Manager will record the testing group results in the "NGS New Build Version X.X" spreadsheet as well as file all testing documents for future reference or review.*
9. *The Northrop Grumman Project Manager will provide a copy of the "NGS New Build Version X.X" spreadsheet to the TEA Migrant Director or designee on a bi-weekly basis.*
10. *When all new build items have been tested by the NGS Beta Testing group and all new build items are ready for deployment, the Northrop Grumman Project Manager will send the final version of the "NGS New Build Version X.X" spreadsheet for final formal approval by the TEA Migrant Director or designee.*
11. *The TEA Migrant Director or designee must provide, in writing, final formal approval to implement all new build items in the "NGS New Build Version X.X" spreadsheet.*
12. *Upon receipt of the formal approval the Northrop Grumman Project Manager will begin the NGS new build implementation process.*

New Build Item Implementation Process:

The following new build item implementation process will segregate the development and deployment of new build items into the production environment by the NGS programmers.

1 *The Northrop Grumman Project Manager will provide authorization to the NGS System Administrator to implement the deployment of the approved NGS New Build Items*

2 *The Northrop Grumman NGS System Administrator will provide the NGS developer(s) the password to the "Fire Call ID" account.*

<u>The "Fire Call ID" Account:</u>

- *This account will be used to move all new build items into the production environment. The Northrop Grumman programmer accounts have been modified so that they can no longer make any changes to the production environment. The "Fire Call ID" account will be used to control programmer access to the production environment thereby creating a separation of the development and production environments for the Northrop Grumman NGS programmers.*

- *The "Fire Call ID" account will be maintained by the Northrop Grumman NGS System Administrator with oversight by the Northrop Grumman NGS Project Manager. The Northrop Grumman NGS System Administrator and Northrop Grumman Project Manager will be the only individuals that will know the current "Fire Call ID" password. Once new build items or changes to the production environment have been made the password to the "Fire Call ID" account will be changed.*

3 *The Northrop Grumman NGS programmer(s) will use the "Fire Call ID" account to deploy the approved new build items into production with oversight by the Northrop Grumman NGS System Administrator and/or Northrop Grumman Project Manager. Once the new build items have been moved into production the "Fire Call ID" account password will be changed.*

4 *Upon completion of new build item deployment into production and testing by the Northrop Grumman staff, the Northrop Grumman Project Manager will issue an email notification to the TEA Migrant Director or designee that all approved changes to the production environment have been completed.*

5 *The Northrop Grumman Project Manager will document the new build production implementation in the "NGS New Build Version X.X" spreadsheet.*

Implementation Date: *February 23, 2009*

Responsible Person: *Christina Villarreal*

Texas Workforce Commission

Reference No. 09-118
Matching

Non-major Programs:

CFDA 93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Type of finding - Non-Compliance

Questioned Cost: $ 0

U.S. Department of Health and Human Services

Section 6053(b) of the Deficit Reduction Act provided for a modification of the Federal Medical Assistance Percentages (FMAP) for any state which has a significant number of evacuees from Hurricane Katrina. Additionally, Sections 1905(b) and 1101(a)(8)(B) of the Social Security Act required the Secretary of Health and Human Services to publish the FMAP each year. The adjusted FMAP and Enhanced Federal Medical Assistance Percentage (EFMAP) for 2008 rates are as follows:

	Calculated 2008	2008 Adjusted
FMAP	60.53	60.56
EFMAP	72.37	72.39

The modification of the FMAP and the EFMAP under the Deficit Reduction Act affect only medical expenditure payments under Title XIX and expenditure payments for the State Children's Health Insurance Program (SCHIP) under Title XXI. Based on Federal Register dated August 7, 2007 (Volume 72, Number 151), the percentages in this rule do not apply to payments under Title IV of the Social Security Act. In addition, the Title XIX statute provides separately for Federal matching of administrative costs, which is not affected by the subject Deficit Reduction Act provision.

The Texas Workforce Commission (TWC) relied on the FMAP rate posted to the Health and Human Services, Administration for Children and Families (ACF) On-line Data Collection reporting system, which is a system used to report CFDA 93.596, Child Care Mandatory and Matching expenditures. The On-line Data Collection reporting system published and hard coded an edit at the adjusted FMAP rate. In addition, ACF published on their website the adjusted FMAP rate in the *FY 2008 CCDF Final Allocations (Including Realloted Funds)*. TWC quantified the difference in the 60.56% utilized and the 60.53% as $86,614 for the federal fiscal year ended September 30, 2008. TWC incurred additional state expenditures in fiscal year 2008 that will be used to offset these additional federal funds; therefore there are no questioned costs.

Recommendation:

Once Health and Human Services, Administration for Children and Families makes the correction in the On-line Data Collection system by changing the FMAP, the Texas Workforce Commission should report the additional matching dollars to ACF for qualifying 2008 expenditures needed to fully match the federal funds drawn.

Management Response and Corrective Action Plan:

The Texas Workforce Commission will make the necessary adjustments and will report the additional matching dollars in the On-line Data Collection system when ACF makes the appropriate correction to the FMAP rate.

Implementation Date: *March 31, 2009*

Responsible Person: *Randy Townsend*

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Section 3b:

Federal Award Findings and Questioned Costs - Other Auditors

This section identifies significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, as required to be reported by *Office of Management and Budget Circular A-133*, Section .510(a). This section reports on clusters and programs audited by other auditors.

Angelo State University

Reference No. 09-36
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.063 P063P072258
Type of finding - Significant Deficiency and Non-Compliance

The University Did Not Always Award the Correct Pell Amount

Questioned Cost: $ 0
U.S. Department of Education

The amount of a student's Pell Grant for an academic year is based upon the payment and disbursement schedules published by the Secretary for each award year (Title 34, Code of Federal Regulations, Section 690.62).

Angelo State University (University) awarded 1 (4 percent) of 23 Pell-eligible students tested an incorrect amount for the student's Pell award. The student was eligible to receive $2,155, but the University awarded $2,077. The University did not have sufficient controls in place to ensure that it awarded students the correct amounts.

The University Did Not Always Maintain Appropriate Access to Banner, Its Financial Aid System

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300(b)).

The University did not always maintain appropriate user access over Banner, its financial aid system. Three users had excessive access to modify the cost of attendance, min/max tables, and Banner rules for each of the funds.

Recommendations:

The University should:

- Ensure that it has controls in place to calculate and award Pell Grants correctly.
- Restrict access to Banner based on employee job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

Recommendation: The University should ensure that it has controls in place to calculate and award Pell Grants correctly.

It was determined that this was a data entry error which occurred while changing an existing fall/spring award to a spring only award. Instead of using the system's electronic process to package the appropriate Pell amount of the spring only award, the award was determined and entered manually. Since the manual award amount entered was within the maximum award allowed based on the student's eligibility, the system accepted and allowed the entry - depending on the student's individual situation, pro-rated awards could be appropriate.

The processing of budget changes and the corresponding award revisions will be processed only by appropriate staff levels in the office. Academic year Pell award calculations due to budget changes will be limited to the system delivered Pell process both in batch and through the immediate process ensuring appropriate award amounts. In addition, with the assistance of soon to be implemented reporting tools which can be used in the Banner system, specific reports will be created to run on a regular basis to ensure all Pell awards are correct.

Implementation Date: Immediately

Responsible Person: Lyn Wheeler

Recommendation: Restrict access to Banner based on employee job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

The three individuals in question have modification access to RFRMGMT, RBRCOMP, RPRGFND, and RORRULES. Two of the individuals are full-time employees in the Financial Aid Office (Accounts/Reports Coordinator and Manager of Scholarship Programs) and one is currently contracted by ASU as a Consultant on financial aid Banner issues. The two full-time employees were initially given update access due to their individual job responsibilities with fund management. The Consultant has remote access to fulfill his consulting responsibilities under the terms of his contract.

Due to the limited use of their current update authority, the access level of the two full-time employees will be changed from their current level 1 to a level 3. Employees under level 3 do not have modification access to RFRMGMT, RBRCOMP, RPRGFND, and RORRULES - only query access. This will require these employees to request modifications to these forms through level 1 access employees as needed to fulfill their job responsibilities. The Consultant's access will be terminated at the conclusion of his contract - the end of FY2009.

Implementation Date: Immediately/Upon termination of contract

Responsible Person: Lyn Wheeler

Reference No. 09-37

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable and CFDA 84.063 P063P072258
Type of finding - Significant Deficiency and Non-Compliance

The University Did Not Always Send Disbursement Notification Letters within Required Time Frames

Questioned Cost: $ 0

U.S. Department of Education

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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 electronic (Title 34, Code of Federal Regulations, Section 668.165).

Angelo State University (University) did not send notifications to all FFELP loan recipients tested for the Fall 2007 and/or Spring 2008 semesters. Eight (19 percent) of 43 students tested who were eligible for FFELP loans did not receive disbursement notification letters for the Fall 2007 and/or Spring 2008 semesters. The University does not have adequate controls to ensure that it sends disbursement notifications within the required time frames. The University conducts a manual process to issue disbursement notification letters and records the dates that it sent letters to students and/or parents in its student financial aid information system. When the FFELP funds are disbursed, the disbursement is flagged in the University's financial aid information system to indicate that a letter must be sent to the student. The disbursement is flagged only on the date of disbursement.

Information in the Common Origination and Disbursement System Did Not Always Match Student Records

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 2008, Part 5, Student Financial Assistance Cluster, III.L.1.e, page 5-3-18)). 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 5-3-27).

Four (14 percent) of 28 students tested who were eligible for Pell awards did not have COD System dates that matched their student records. The University stated that it reconciles information in the COD System to the University's student financial aid information system periodically to ensure that funds the University disburses are later reimbursed to the University by the U. S. Department of Education. Upon reconciliation, if the University is not reimbursed for a disbursement of a Pell award, the University manually enters the data in the COD System. The University uses the default date of ten days prior to the beginning of a semester, which is the earliest date the University is allowed to disburse funds. The date in the COD System should be the actual disbursement date.

Recommendations:

The University should:

- Send all students and parents the required disbursement notifications regarding FFELP and FPL loans.
- Report actual disbursement dates and amounts to the COD System.

Management Response and Corrective Action Plan:

Recommendation: Send all students and parents the required disbursement notifications regarding FFELP and FPL loans.

A batch process is currently requested manually on a daily basis to produce the required disbursement notification regarding FFELP and FPL loans. It was discovered that loan disbursements applied on an individual student basis after the daily batch process had been requested were not always being picked up on the daily process. Only those individual disbursements which happened prior to the batch process were being included in the daily batch.

To ensure that disbursement notifications are sent to all loan recipients who received a disbursement on a daily basis, the batch process will be programmed by the IT staff into AppWorx and run automatically each evening. The output will include information concerning all loans disbursed during the day and will automatically be sent to the Financial Aid Office for letter generation and mailing the following morning.

Implementation Date: *February 2009*

Responsible Person: *Lyn Wheeler*

Recommendation: Report actual disbursement dates and amounts to the COD System.

A batch process is currently run on a regular basis to originate and export Pell awards and current disbursement information from Banner to COD. The batch process reports the actual disbursement dates as required. If an award or disbursement errors out during the electronic process due to an edit problem, it is not reported as disbursed to COD until the edit problem is reviewed internally and corrected by our office staff. The edit problem is produced on an error report as part of the batch process. When the error report is reviewed and the information reconciled, the staff member in charge of reporting and/or correcting the information does so directly into the COD system. It was discovered that this staff member was incorrectly reporting the earliest date of possible disbursement (10 days prior to the first class day) for these situations instead of the actual date of the disbursement.

The error reports will be reviewed and corrections will be made using the actual date of disbursement.

Implementation Date: *Immediately*

Responsible Person: *Lyn Wheeler*

Department of Public Safety

Reference No. 09-38
Allowable Costs/Cost Principles

Homeland Security Cluster
Award year - see below
Award number - see below
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $34,382

U.S. Department of Homeland Security

In accordance with Title 2, Code of Federal Regulations, Chapter 225, when employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications must be prepared at least semi-annually and signed by the employee or supervisory official having firsthand knowledge of the work performed by the employees. For employees who are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that:

- Reflect an after-the-fact distribution of the actual activity of each employee.
- Account for the total activity for which each employee is compensated.
- Are prepared at least monthly and must coincide with one or more pay periods.
- Are signed by the employee.

Budget estimates that are developed before the services are performed do not qualify as support for charges to federal awards but may be used for interim purposes, provided that at least quarterly comparisons of actual costs to budgeted amounts are made and any adjustments are reflected in the amounts billed to the federal program. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show that the differences between budgeted and actual costs are less than 10 percent.

Additionally, according to Title 2, Code of Federal Regulations, Chapter 225, to be allowable under federal awards, costs must be adequately documented.

The Department of Public Safety (Department) uses a revenue allocation methodology to charge time for employees who work on multiple grant programs. If an employee works on only one program, then 100 percent of that employee's time will be charged to that specific program. For employees who work on multiple grants, the Department charges time to multiple programs, but not according to the number of hours that the employees worked on each program. Department staff maintain a spreadsheet that details grant management and administration amounts by year in order to calculate the percentage of total revenue that each program represents. If an employee works on multiple programs and one of those programs is one of the smaller programs, the Department uses the small program's percentage of total revenue and applies it to the employee's salary. Any salary amounts not covered by the small program are applied to one of the large programs until all of the funds for that program have been exhausted, then the Department moves on to the next large program and repeats the process until all funds are expended.

For 5 (45 percent) of 11 Homeland Security payroll expenditures tested, the Department did not (1) correctly allocate payroll expenses to various grants or (2) lacked supporting documentation. Specifically:

- Four payroll expenditures totaling $30,787.99 were charged to one grant, but supporting timesheets showed that the employees worked on multiple grants. There were no indications that the Department adjusted these charges based on the results of after-the-fact confirmation.

- One payroll expenditure totaling $3,594.80 was not supported with timesheets or other supporting documentation.

This finding applies to the following Homeland Security grant awards:

Award Number	Award Year
2006-GE-T6-0068	7/1/2006-6/30/2009
2007-GE-T7-0024	7/1/2007-6/30/2010

Recommendations:

The Department should:

- Make the required adjustments to effort charged to grants based on activity actually performed.

- Maintain adequate supporting documentation for all federal expenditures.

- Ensure that it charges costs incurred to the programs that benefited from those costs.

Management Response and Corrective Action Plan:

The Department agrees with the finding regarding payroll expenditures.
The payroll expenditures stated in the above finding will be corrected no later than March 31st. All adjustments of future expenditures, to be reallocated, will be created and processed during or after the month of the original request. Additional personnel may be requested to ensure the completeness of this task on a regular basis.

Implementation Date: *April 1, 2009*

Responsible Person: *Janet Espinosa*

The Department agrees with the finding regarding time accounting.
The personnel assigned to the grant and their supervisor have been provided Weekly Workload Submittal forms to track actual hours worked on the grant. This form, which is used by other grant-funded employees, will be completed weekly, approved by the supervisor, and submitted to the SAA for their records.

Implementation Date: *March 1, 2009*

Responsible Person: *Dee Harrison*

Reference No. 09-39

Cash Management

Homeland Security Cluster
Award year - see below
Award number - see below
Type of finding - Significant Deficiency

Questioned Cost: $ 0

U.S. Department of Homeland Security

According to the Treasury-State agreement for the State of Texas, the Homeland Security Cluster at the Department of Public Safety is not included in Title 31, Code of Federal Regulation (CFR), Part 205, Subpart A, which implements the Cash Management Improvement Act. Therefore, the Homeland Security Cluster at the Department of Public Safety (Department) should comply with Subpart B, which applies to programs that are not subject to Subpart A. Subpart B, Section 205.33, states that, "A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes." Additionally, "the timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs."

The Homeland Security Cluster provides grants to local government entities for various projects intended to increase the security and safety of the State of Texas. The Homeland Security Cluster is a reimbursement program through which all subrecipients are required to provide evidence that local governments have expended funds for grant-related activities prior to the Department drawing down federal funds for reimbursement purposes. However, the Department does not have any procedures in place to determine the length of time that elapses between the Department's drawdown of federal funds and the disbursement of federal funds to the subrecipients or vendors for expenses incurred by the Department. During fiscal year 2008, the Department passed through $72,548,218 to subrecipients for the Homeland Security Cluster.

Auditors tested 22 disbursements and noted that all of them were made within 7 days or fewer of the Department's drawdown of federal funds, which is within the "administratively feasible" requirement.

The Homeland Security Cluster has multiple awards and award years as noted below:

Award Number	Award Year
2005-GE-T5-4025	October 1, 2004 – December 31, 2008
2006-GE-T6-0068	July 1, 2006 – June 30, 2009
2007-SG-N6-0002	November 1, 2006 – April 30, 2009
2007-SG-N6-0006	November 1, 2006 – September 30, 2008
2007-GE-T7-0024	July 1, 2006 – June 30, 2010

Recommendation:

The Department should develop and implement procedures to ensure that the length of time that elapses between the drawing down of federal funds and the disbursement of funds for program purposes is minimized.

Management Response and Corrective Action Plan:

The Department agrees with this finding.

The 7 day or less timeline from the drawdown of federal funds to disbursement has been covered verbally during employee training. The Department will develop and distribute a written policy that outlines the payment timeline but also emphasizes the need to minimize the time between the drawdown of federal funds and disbursement of those funds no later than April 1, 2009

Implementation Date: *April 1, 2009*

Responsible Person *Janet Espinosa/Vicki Newlin*

Reference No. 09-40

Equipment and Real Property Management

Homeland Security Cluster
Award year - see below
Award number - see below

CFDA 20.233 Border Enforcement Grant
Award year - see below
Award number - see below
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Homeland Security
U.S. Department of Transportation

Office of Management and Budget A-133 Compliance Supplement, Part 3, Section F, mandates that states receiving federal awards must comply with the states' policies and procedures for management and disposition of equipment. Texas Government Code, Section 403.273, specifies that "A state agency shall conduct an annual physical inventory of all property in its possession" and "at all times, the property records of a state agency must accurately reflect the property possessed by the agency." Additionally, Appendix B of the *State Property Accounting Process Users Guide* maintained by the office of the Texas Comptroller of Public Accounts has designated an acquisition method code of "01" for equipment acquired from federal sources, such as "capital assets purchased with federal appropriations, grants and/or other federal sources."

Homeland Security Cluster

The Department of Public Safety (Department) did not ensure that state property records accurately reflected the property the Department possessed. Auditors tested property records for 19 equipment items purchased with Homeland Security Cluster funds. Six (32 percent) of the 19 property records tested did not have correct identifying information in the State Property Accounting System (SPA). Of the 6 items that did not have correct identifying information in SPA, 5 did not have a serial number entered into SPA, and 1 had a serial number that differed from the serial number entered into SPA.

The Homeland Security Cluster has the following award numbers and award years:

Award Number	Award Year
2005-GE-T5-4025	October 1, 2004 – December 31, 2008
2006-GE-T6-0068	July 1, 2006 – June 30, 2009
2007-SG-N6-0002	November 1, 2006 – April 30, 2009
2007-SG-N6-0006	November 1, 2006 – September 30, 2008
2007-GE-T7-0024	July 1, 2006 – June 30, 2010

Border Enforcement Grants

Auditors tested property records for 50 equipment items the Department purchased with Border Enforcement Grant funds. One (2 percent) of 50 property records tested had a serial number that differed from the serial number entered into SPA, and 1 (2 percent) of these 50 property records tested did not have the federal acquisition code of "01" entered into SPA.

Additionally, auditors noted nine instances in which the Department had to change the initial inventory number assigned to equipment purchased with federal funds because the numbers had already been assigned to other equipment items. This occurred because the Department initially assigns the inventory number using a manual process that includes the use of inventory spreadsheets, and controls within this process were not adequate to prevent the duplication of inventory numbers. After the Department receives confirmation that it has paid for equipment items, the equipment items are entered into its inventory management system (Venice). Venice will produce an error message if the inventory number being entered into the system is a duplicate. When Venice identifies duplicate numbers, the Department must make corrections to records that are external to the Venice system. These corrections include the assignment of new inventory numbers, and identification tags have to be recreated and routed to the location where the property is being used. Errors related to the duplication of inventory numbers increase the risk of inaccurate property accounting records and could weaken the physical security of the equipment.

The Border Enforcement Grant has multiple grant sub awards and award years as noted below:

Award Number	**Award Year**
BE-07-48-2	October 1, 2006 – September 30, 2008
BE-08-48-1	October 1, 2007 – September 30, 2009
BE-07-48-4	September 1, 2007 – September 30, 2008
BE-06-48-3	April 1, 2006 – September 30, 2007

Recommendations:

The Department should:

- Ensure that property records maintained in SPA agree with the actual property the Department possesses.
- Ensure that it enters the correct acquisition code into SPA for equipment items purchased with federal funds.
- Establish controls to eliminate the possibility of inventory numbers changing between the initial receipt of the equipment and when the equipment is entered into the Department's Inventory management system (Venice).

Management Response and Corrective Action Plan:

The Department agrees with the finding and recommendations.

The property records in question have been corrected. An additional employee being added to the Capital Assets Section that will produce reports between Venice and SPA to keep the systems reconciled.

There are controls being implemented in the Capital Assets Section to eliminate the possibility of duplicating the inventory numbers between the initial receipts until the asset is entered into the Venice System. No numbers will be pre-assigned -- all items will be assigned an inventory number upon receiving voucher information from Accounts Payable in the Capital Assets Section.

Implementation Date: *March 1, 2009*

Responsible Person: *Carl Newstrom*

Reference No. 09-41

Matching, Level of Effort, Earmarking

Homeland Security Cluster
Award year - October 1, 2004 to December 31, 2008
Award number - 2005-GE-T5-4025
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $198,447
U.S.Department of Homeland Security

The Office of Management and Budget Circular A-133 *Compliance Supplement* prohibits the State of Texas from spending a cumulative amount (from award issue to current year) that exceeds 3 percent of grants awarded in fiscal year 2005 and 5 percent of grants awarded in fiscal year 2006 and 2007 under the State Homeland Security Program (SHSP), the Urban Areas Security Initiative (UASI), and the Law Enforcement Terrorism Prevention Program (LETPP) on State of Texas management and administrative costs.

The Department of Public Safety (Department) expended more than the allowed amount for management and administrative costs for 1 of the 9 grants that were active during fiscal year 2008 and were awarded to the Department during fiscal years 2005, 2006, and 2007. Specifically, the Department had cumulative management and administrative costs of $806,556.17 for the LETPP grant awarded in fiscal year 2005, which was $198,447.68 more than the threshold of $608,108.49 for that grant.

All of the funds over the threshold that the Department spent on management and administrative costs are not allowable and should not have been paid for using federal funds.

Recommendation:

The Department should develop and implement processes to ensure that management and administrative costs that are paid for with federal funds do not exceed thresholds established by federal requirements.

Management Response and Corrective Action Plan:

The Department agrees with this finding.

During Fiscal Year 2008, the Department had more than one individual requesting and documenting requests due to personnel turnover; consequently the Department submitted requests for management and administrative costs in excess of the 3 percent threshold under the 2005 Homeland Security cluster.

Management discovered the error prior to the audit and was in the process of making the correction before the auditors cited a finding. The State Administrative Agency (SAA) is making adjustment to the 2005 LETPP expenditure budget. The SAA will be moving expenses charged to the 2005 LETPP budget and charging them to the 2006 Homeland Security Cluster. Once these expenses are moved, there will be a remaining balance of $198,447.68 in the 2005 LETPP budget that will be returned to the Department of Homeland Security.

In order to prevent this kind of error from occurring again, management will limit the number of persons performing this task to one and implement procedures to conduct quarterly reconciliation of management and administrative costs budgets to prevent expending above the 3 or 5 percent management and administration expense caps for various grants.

Implementation Date: *April 1, 2009*

Responsible Person: *Oralia Huggins*

Reference No. 09-42

Procurement and Suspension and Debarment

Homeland Security Cluster
Award year - see below
Award number - see below
Type of finding - Significant Deficiency and Non-Compliance

Procurement

Texas Government Code, Section 2155.067, requires that when state agencies make purchases that are proprietary to one vendor (proprietary purchases), the requesting state agency must justify in writing the specifications or conditions, and the "agency head or presiding officer of the agency's governing body must sign the written justification."

Questioned Cost: $0

U.S Department of Homeland Security

For 1 (33 percent) of 3 procurement files tested, the Department of Public Safety had a proprietary justification letter on file, but that letter was not signed.

Suspension and Debarment

Federal rules require that, when a non-federal entity enters into a covered transaction that is expected to equal or exceed $25,000 with an entity at a lower tier, the non-federal entity must verify that the entity at the lower tier is not suspended, debarred, or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the U.S. General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code of Federal Regulations, Part 1532).

To determine whether vendors are suspended or debarred, the Department's policy is to check the suspension and debarment status using the EPLS Web site, print the support, and maintain the support in the contract files. However, the Department did not always maintain the support for its suspension and debarment determination. Specifically, for 7 (35 percent) of 20 procurement files tested, the Department did not have suspension and debarment certifications or other supporting documentation (for example, printouts from the EPLS Web site) demonstrating that the Department verified the suspension and debarment status of its vendors prior to making the procurements.

Auditors reviewed the EPLS Web site for all of the vendors for which the Board did not have a suspension and debarment certification and determined that the vendors were not currently suspended or debarred.

The Homeland Security Cluster has multiple awards and award years as noted below:

Award Number	Award Year
2005-GE-T5-4025	October 1, 2004 – December 31, 2008
2006-GE-T6-0068	July 1, 2006 – June 30, 2009
2007-SG-N6-0002	November 1, 2006 – April 30, 2009
2007-SG-N6-0006	November 1, 2006 – September 30, 2008
2007-GE-T7-0024	July 1, 2006 – June 30, 2010

Recommendations:

The Department should:

- Ensure it maintains justification letters that have been signed at the appropriate level for all proprietary purchases.
- Verify that it receives all required suspension and debarment certifications for procurements and subawards.

Management Response and Corrective Action Plan:

The Department agrees with the finding regarding procurement.

The proprietary letter approval form was initialed by the Procurement & Contract Administrator and the Chief of Finance that the proprietary letter was okay to sign. A purchaser failed to make sure the letter was signed before contract award. All purchasers will be briefed in staff meetings and by follow-up e-mail of the importance of verifying all required and approved paperwork before contract award.

Implementation Date: *February 5, 2009 (address requirement at staff meeting and send email)*

Responsible Person: *Kevin Jones*

The department agrees with the finding regarding suspension and debarment.

The files that were tested and did not include documentation verifying suspension and debarment status checks were done by a purchaser no longer working for DPS. All purchasers have previously been instructed to use checklists to make sure all required documents are in the procurement file. The checklists include the requirement to check the EPLS prior to award. This process has been in place but will be addressed again in staff meetings and followed up in writing by email to purchasers.

Implementation Date: *February 5, 2009 (address requirement at staff meeting and send email)*

Responsible Person: *Kevin Jones*

Reference No. 09-43

Subrecipient Monitoring

Homeland Security Cluster
Award year - July 1, 2006 to June 30, 2009
Award number - 2006-GE-T6-0068
Type of finding - Significant Deficiency and Non-Compliance

Award Identification

Questioned Cost: $86,652

U.S. Department of Homeland Security

Office of Management and Budget (OMB) Circular A-133, Subpart D, Section 400, requires pass-through entities to "identity Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency." Additionally, the pass-through entity is required to "advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity."

The Department of Public Safety (Department) did not always maintain initial award documents (such as the signed award contract) indicating that, when appropriate, it made subrecipients aware of the award information, including CFDA title, award name, name of the federal agency, and applicable compliance requirements. Specifically, the Department did not retain sufficient support that it communicated the required federal award information, including applicable compliance requirements, for 1 (2 percent) of 50 subrecipients tested.

Subrecipient Monitoring

Office of Management and Budget (OMB) Circular A-133, Subpart D, Section 400, requires pass-through entities to "monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."

The Department's internal controls for subrecipient monitoring were not effective for the Homeland Security Cluster during fiscal year 2008. For 2 (4 percent) of 50 files tested, the Department did not maintain reimbursement vouchers or invoices to support a reimbursement. The payments without supporting documentation totaled $86,652.75. For one of those two exceptions, the Department could not locate the subrecipient monitoring file.

Recommendations:

The Department should:

- Maintain initial award information in the support files for each subrecipient.
- Maintain proper supporting documentation for reimbursement vouchers and invoices in the subrecipient files.
- Maintain all files for subrecipients that receive federal funds in a central location that can be readily located.

Management Response and Corrective Action Plan:

The Division of Emergency Management agrees with this finding.

The Division's State Administrative Agency (SAA) will develop and implement a Sub-recipient File Review Checklist. This checklist will be initiated on a scheduled basis to ensure all required documents are maintained in correct files. The SAA has also initiated actions to provide the capability to maintain future grant year documents in electronic format.

Implementation Date: *May 2009*

Responsible Person: *Edwin Staples*

Reference No. 09-44

Matching, Level of Effort, Earmarking

CFDA 20.233 Border Enforcement Grant
Award year - see below
Award number - see below
Type of finding - Material Weakness

The grant agreement for the Border Enforcement Grant requires the Department of Public Safety (Department) to maintain a level of effort of $3,579,084 (state share) in state expenditures on border commercial motor vehicle safety programs and related enforcement activities and projects. The total expenditures for fiscal year 2008 contingent on maintaining the required level of effort was $16,003,693.05

Questioned Cost: $ 0

U.S. Department of Transportation

The Department has no significant controls or processes--such as periodic monitoring of qualified expenditures throughout the fiscal year--that ensure that it meets the level of effort threshold for the Border Enforcement Grant. However, auditors reviewed qualified expenditures and determined that the Department satisfied the minimum level of effort required for fiscal year 2008.

The border enforcement grant has multiple grant sub awards and award years as noted below:

Award Number	Award Year
BE-07-48-2	October 1, 2006 – September 30, 2008
BE-08-48-1	October 1, 2007 – September 30, 2009
BE-07-48-4	October 1, 2007 – September 30, 2008
BE-06-48-3	April 1, 2006 – September 31, 2007

Recommendation:

The Department should develop and implement processes and procedures to adequately monitor and ensure that it meets the level of effort requirement for the Border Enforcement Grant.

Management Response and Corrective Action Plan:

The Department concurs with the finding related to the level or maintenance of effort controls.

In the past, the Department's controls for monitoring the level of effort were generally based on the mere fact that the agency has and continues to maintain at least the same number of state funded commercial vehicle enforcement personnel in the border areas.

However, based on this finding, the Department is implementing formal controls to ensure the Border Enforcement Grant's level of effort threshold is being met. A process is being established that will require the Texas Highway Patrol Division's Commercial Vehicle Enforcement budget analyst to monitor all border area state funded expenditure reports to ensure our compliance with level of effort requirements. These expenditures will be monitored monthly and will be reported to the State Commercial Vehicle Enforcement Coordinator for review.

Implementation Date: *February 2009*

Responsible Person: *Major David L. Palmer*

Reference No. 09-45

Procurement and Suspension and Debarment

CFDA 20.233 Border Enforcement Grant
Award year - see below
Award number - see below
Type of finding - Significant Deficiency and Non-Compliance

Texas Government Code, Section 2155.132 (e), requires competitive bidding, whether formal or informal, for a purchase by a state agency if the purchase exceeds $5,000 and is made under a written contract.

Questioned Cost: $ 0

U.S. Department of Transportation

For purchases made through its purchasing department, the Department of Public Safety (Department) uses *The State of Texas Procurement Manual*, maintained by the Texas Comptroller of Public Accounts, to determine the appropriate procurement method. Section 2.9.1 of the manual requires agencies to "obtain a price quote from as many TXMAS (Texas Multiple Award Schedule) vendors as are necessary to provide best value to the State. Document all price quotes in your purchasing file."

For 6 (86 percent) of 7 procurement files tested, the Department used a TXMAS vendor, but the only price quote the Department obtained was the price quote from the actual vendor it used. The Department did not maintain documentation indicating that it obtained price quotes from other vendors or otherwise explaining the method for selecting the vendor used.

The Border Enforcement Grant has multiple grant sub awards and award years as noted below:

Award Number	Award Year
BE-07-48-2	October 1, 2006 – September 30, 2008
BE-08-48-1	October 1, 2007 – September 30, 2009
BE-07-48-4	September 1, 2007 – September 30, 2008
BE-06-48-3	April 1, 2006 – September 30, 2007

Recommendation:

The Department should competitively bid purchases and contracts that exceed $5,000 and ensure that it follows all requirements of the *State of Texas Procurement Manual*.

Management Response and Corrective Action Plan:

The Department agrees with the finding.

These procurements were done at a time in which purchasers did not fully understand the requirements of TXMAS purchases. Since the beginning of FY09 (September 1, 2008), a procedure has been in place to contact at least two vendors, if available, with at least one being a Historically Underutilized Business (HUB) when using TXMAS contracts. This requirement will be addressed at the next staff meeting. The audit findings were on procurements from FY08.

Implementation Date: *September 1, 2008*

Responsible Person: *Kevin Jones*

Reference No. 09-46
Reporting

CFDA 20.233 Border Enforcement Grant
Award year - see below
Award number - see below
Type of finding - Significant Deficiency

The grant agreement for the Border Enforcement Grant requires that the Department of Public Safety (Department) present performance status reports to the Federal Motor Carrier Safety Administration (FMCSA) on a quarterly basis. The Department completes these reports using various sources of statistics related to commercial vehicle safety along the border, including inspection numbers, staffing reports, and the status of weigh stations.

Questioned Cost: $ 0

U.S. Department of Transportation

The Department does not have adequate controls related to the compilation of data and submission of the quarterly performance status reports. For example, Department management does not review or approve the information that staff include in these reports. Auditors reviewed all four performance reports the Department submitted for fiscal year 2008 and determined that the reports were completed accurately and in compliance with the grant agreement. However, the lack of controls related to the report preparation process increases the risk of errors in the information reported.

The border enforcement grant has multiple grant sub awards and award years as noted below:

Award Number	Award Year
BE-07-48-2	October 1, 2006 – September 30, 2008
BE-08-48-1	October 1, 2007 – September 30, 2009
BE-07-48-4	September 1, 2007 – September 30, 2008
BE-06-48-3	April 1, 2006 – September 30, 2007

Recommendation:

The Department should establish controls, including management review and approval, to ensure that performance reports include accurate and complete information.

Management Response and Corrective Action Plan:

The Department partially concurs with the above finding. While there has not been a formal control or verification process in the past for the quarterly performance reports, there has been an informal process. The fact that all four performance reports tested for fiscal year 2008 were found to have been completed accurately and in compliance with the grant agreement clearly indicates the informal process of review has been successful.

However, as a result of this finding, a formal control or review/verification process has been implemented. All future performance reports will be formally reviewed by a THP Division staff member other than the report's preparer prior to submission to the Federal Motor Carrier Safety Administration to help ensure accuracy and compliance with the grant agreement.

Implementation Date: *January 2009*

Responsible Person: *Major David L. Palmer*

Reference No. 09-47
Reporting
(Prior Audit Issues 08-91and 07-26)

CFDA 97.039 - Hazard Mitigation Grant (including CFDA 83.548)
Award year - see below
Award number - see below

CFDA 97.036 - Public Assistance Grants (including CFDA 83.544)
Award year - see below
Award number - see below
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Homeland Security

The Department of Public Safety (Department) must report on a quarterly basis for each Federal Emergency Management Agency (FEMA) approved project a FEMA form 20-10, *Financial Status Report*, per Office of Management and Budget A-133 Compliance Supplement, FEMA *Public Assistance Guide*, and FEMA Grant Applicant Resources. The FEMA *Public Assistance Guide* states that "FEMA has no reporting requirements for applicants, but the State is expected to impose some reporting requirements on applicants so that it can prepare quarterly reports." Additionally, the guide emphasizes that it is critical that applicants establish and maintain accurate records of events and expenditures related to grant funds.

A Department supervisor did review reports to ensure all required information was reported. However, supporting documentation related to the recipients' share of outlays is not obtained or reviewed, by report preparers or management, in sufficient level of detail to ensure the accuracy of the reports.

CFDA 97.039 - Hazard Mitigation Grant (including CFDA 83.548)

Auditors tested 13 reports that were filed during fiscal year 2008 for Hazard Mitigation. The non-federal share of a project's costs must be at least 25 percent of the expenditures. For 12 (92 percent) of the 13 reports tested, the matching share reported on the FEMA Form 20-10 was calculated using total outlay amounts reported (that is, 25 percent of the total project amount reported) instead of based on actual costs incurred.

During performance of matching, level of effort, and earmarking test work, auditors selected invoices for review and noted that the Department reimbursed only 75 percent of the total expenditures incurred to the jurisdiction.

The Hazard Mitigation grant has multiple grant sub awards and award years as noted below:

Disaster Number	Grant Number	Start Date
1257	FEMA-1257-DR-TX	October 21, 1998
1356	FEMA-1356-DR	January 8, 2001
1379	FEMA-1379-DR-TX	June 9, 2001
1425	FEMA-1425-DR-TX	July 4, 2002
1439	FEMA-1439-DR-TX	November 5, 2002
1434	FEMA-1434-DR-TX	September 26, 2002
1479	FEMA-1479-DR-TX	July 17, 2003
1606	FEMA-1606-DR-TX	September 24, 2005
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006
1697	FEMA-1697-DR	May 1, 2007
1709	FEMA-1709-DR	June 29, 2007

CFDA 97.036 - Public Assistance Grants (including CFDA 83.544)

Auditors tested 22 reports that were filed during fiscal year 2008 for Disaster Grants - Public Assistance. FEMA notifies the Department of the required non-federal share of a project's costs. For disasters that are currently open, the non-federal share of a project's costs must be 25 percent of the expenditures, with the following exceptions: Disasters 1606, 3216 and 3261 - 0 percent non federal share. For all 22 reports tested, the matching share reported on the FEMA Form 20-10 was calculated using total project outlay amounts reported (that is, 25 percent of the total project amount reported) instead of based on actual costs incurred.

The public assistance grant has multiple grant sub awards and award years as noted below:

Disaster Number	Grant Number	Start Date
1257	FEMA-1257-DR	October 21, 1998
1274	FEMA-1274-DR	May 6, 1999
1287	FEMA-1287-DR	August 22, 1999
1323	FEMA-1323-DR	April 7, 2000
1356	FEMA-1356-DR-TX	January 8, 2001
1379	FEMA-1379-DR	June 9, 2001
1425	FEMA-1287-DR	July 4, 2002
1479	FEMA-1323-DR	July 17, 2003
1606	FEMA-1606-DR	September 24, 2005
3216	FEMA-3216-DR	September 2, 2005
3261	FEMA-3261-DR	September 21, 2005
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006
1709	FEMA-1709-DR	June 29, 2007
3277	Hurricane Dean (EM)	August 18, 2007

Recommendation:

The Department should develop a process that would facilitate the collection of information related to actual amounts incurred by the jurisdictions as of the report date.

Management Response and Corrective Action Plan:

DPS management agrees with this finding. However, the Emergency Management Division (EMD) does not have the means to implement the recommendation.

Currently EMD has no means of capturing sub-recipient match costs on an ongoing basis as the FEMA NEMIS system, which FEMA used for grant status monitoring and required EMD to use, lacked the capability to provide the data needed for contemporaneous reporting of match costs. The NEMIS system provides cumulative expenditure information; it does not have the capability to provide data for a specific time frame, such as a quarter. This problem is exacerbated by the fact that small projects (under $55,000) are not routinely audited, and the majority of the grants that EMD administers are small projects. FEMA has been aware of the failings of NEMIS and has developed a new grant information system to replace it. The new system, Emergency Management Mission Environment (EMMIE), does not yet have a financial module and no accounting information can be obtained from the system. Because of this situation, FEMA has allowed states to report a "good faith estimate" of match amounts in quarterly reports. Previous auditors have been party to a conference call with the FEMA Region VI disaster grant manager on this subject.

It should be noted that the potential for sub-recipient failures to meet match requirements is limited because EMD reimburses only 75 percent of the total expenditures incurred by local and state grant sub-recipients and actual match amounts are carefully checked and confirmed during the final audit by EMD personnel.

Until a solution to this problem is put in place by FEMA, EMD will continue to report a "good faith estimate" of sub-recipient match costs in quarterly reports based on the appropriate percentage of match required.

Implementation Date: *Not applicable*

Responsible Person: *Loren Behrens*

Reference No. 09-48

Subrecipient Monitoring

CFDA 97.036 - Public Assistance Grants (including CFDA 83.544)
Award year - see below
Award number - see below
Type of finding - Significant Deficiency and Non-Compliance

During-the-Award Monitoring

Questioned Cost: $ 0

U.S. Department of Homeland Security

Office of Management and Budget (OMB) Circular A-133, Subpart D, Section 400, requires pass-through entities to "monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved." During-the-award monitoring of the subrecipients' use of federal awards may be achieved through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, Title 44, Code of Federal Regulations (CFR), Section 206.204 requires that the grantee submit progress reports to the Region Director (RD) on a quarterly basis. These reports describe the status of those projects on which a final payment of the federal share has not been made to the grantee and outline any problems or circumstances expected to result in non-compliance with the approved grant conditions.

The Department of Public Safety (Department) identified a total of 477 subrecipients (for small and large projects) by analyzing federal program funds it disbursed to subrecipients.

The Department does not have a formal tracking system that includes information for all subrecipients such as risk assessment, monitoring activities (such as reviewing financial and performance reports), and other contacts with its subrecipients. Additionally, the Department has not consistently submitted quarterly status reports for large projects as required by the *Disaster Recovery Manual* published by the Governor's Division of Emergency Management.

During fiscal year 2008, the Department passed through $109,315,078.15 in federal funds to subrecipients. Inadequate during-the-award monitoring increases the risk that funds may not be used to meet program objectives.

Final Accounting for Large Projects

Public Assistance grant funds are awarded to fund projects following a presidential declaration of a major disaster or an emergency. Projects are classified as large or small projects according to the cost of the eligible work for individual projects. Title 44, CFR, Section 206.205 requires that "the Grantee shall make an accounting to the RD of eligible costs for each approved large project. In submitting the accounting the Grantee shall certify that reported costs were incurred in the performance of eligible work, that the approved work was completed, that the project is in compliance with the provisions of the FEMA-State Agreement, and that payments for that project have been made in accordance with 44CFR 13.21 Payments. Each large project shall be submitted as soon as practicable after the subgrantee has completed the approved work and requested payment."

The Department satisfies the requirements related to certifying costs reported by the subgrantee by performing project audits on large projects when the subgrantees have completed the projects.

Auditors attempted to test 50 project audits the Department performed during fiscal year 2008. However, the Department was unable to locate 1 (2 percent) of the 50 project audits selected for testing. Although the Department could not locate documentation supporting one project audit, the supporting database showed that a project audit was completed for that project. Additionally, the 49 project audits the Department conducted satisfied federal requirements related to final project accounting.

Disaster Number	Grant Number	Start Date
1379	FEMA-1379-DR	June 9, 2001
1425	FEMA-1425-DR	July 4, 2002
1606	FEMA-1606-DR	September 24, 2005
1658	FEMA-1658-DR	August 15, 2006
3216	FEMA-3216-EM	September 2, 2005
1709	FEMA-1709-DR	June 29, 2007
3277	FEMA-3277-EM	August 18, 2007

Recommendations:

The Department should:

- Develop a formal tracking system for monitoring and contact with subrecipients and ensure that quarterly status reports are consistently submitted.
- Ensure that all completed projects audits have a signed copy of the audit in the project file.

Management Response and Corrective Action Plan:

a. With respect to During-the-Award Monitoring:

The Department concurs with the finding. The Emergency Management Division will implement a sub-recipient monitoring spreadsheet to facilitate planning and implementing an enhanced program of monitoring visits, informal progress updates, and more personal contact with sub-grantees. We believe this will improve grant monitoring, but that the basic problem with sub-recipient monitoring has not been the lack of tools, but rather lack of personnel. In the last 18 months, virtually all of the Public Assistance staff has been deployed to plan and implement recovery programs for new disasters, leaving insufficient staff for monitoring existing grants. We have recently added additional temporary staff to both the Public Assistance and Hazard Mitigation staffs and the DPS FY 2010-11 Legislative Appropriations Request includes a request for additional personnel. This should give us sufficient staff to deal with new disasters while properly servicing older ones. Because of the number of major disasters that impacted Texas in 2008, this past fall EMD requested extensions for submission of quarterly reports based on extenuating circumstances (the ongoing response and recovery operations for new disasters) and that request was approved by FEMA Region 6.

Implementation Date: *May 2009*

Responsible Person: *Joan Haun*

b. With respect to Final Accounting for Large Projects:

The Department concurs with the finding. The Division of Emergency Management will implement a procedure to check files for inclusion of project audit reports every quarter using the sub-recipient monitoring spreadsheet.

Implementation Date: *May 2009*

Responsible Person: *Joan Haun*

Sul Ross State University

Reference No. 09-49
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not applicable, CFDA 84.063 P063P072316, CFDA 84.375 P375A072316, CFDA 84.376 P376S072316, CFDA 84.007 P007A074130, and CFDA 84.033 P033A074130
Type of finding - Significant Deficiency and Non-Compliance

Cost of Attendance Calculation

Questioned Cost: $ 1,300
U.S. Department of Education

The determination of the federal student assistance award amount is based on financial need. Financial need is defined as the student's cost of attendance (COA) minus the expected family contribution (EFC). For Title IV programs, the amount of financial resources available is generally the EFC that is computed by the federal central processor and included on the student's Institutional Student Information Report (ISIR) provided to the institution. Awards must be coordinated among the various programs and with other federal and non-federal assistance to ensure that total assistance is not awarded in excess of the student's financial need (Federal Perkins Loan, Federal Work Study, and Federal Supplemental Educational Opportunity Grant, Title 34, Code of Federal Regulations, Sections 673.5 and 673.6; Federal Family Education Loans, Title 34, Code of Federal Regulations, Section 682.603).

COA refers to the "tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." Institutions also may include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087ll).

Sul Ross State University (University) incorrectly calculated the COA for 2 (4 percent) of 50 students tested. University staff performed manual adjustments to the system-programmed COA, resulting in incorrect COA calculations. However, the incorrect COA calculations did not have an effect on the amount of assistance awarded to students.

ACG Minimum GPA Requirements

The Academic Competitiveness Grant (ACG) program provides grants to eligible, full-time, regular, undergraduate students enrolled in their first and second academic years in an ACG-eligible program at a 2-year or 4-year degree granting institution. Grants are for up to $750 for first-year students and up to $1,300 for second-year students (Title 34, Code of Federal Regulations, Sections 691.2(d), 691.6, 691.15, and 691.62).

An eligible student must have successfully completed a rigorous secondary school program of study recognized by the Secretary of the U.S. Department of Education. The institution must document a student's completion of such a program of study. For ACG, the student must have obtained a grade-point average (GPA) of 3.0 or higher on a 4.0 scale (Title 34, Code of Federal Regulations, Section 691.15(b)(iii)(B)). This requirement is to be checked one time only, at the end of the first academic year. Subsequent changes to the student's GPA do not affect ACG eligibility for the second year.

For 1 (50 percent) of 2 ACGs tested, the University did not verify whether the receiving student had obtained a GPA of 3.0 or higher. As a result, the student was incorrectly awarded an ACG of $1,300.

Recommendations:

The University should:

- Establish controls over manual adjustments it uses in determining financial need.
- Ensure that it provides adequate training and establishes controls to ensure ACG recipients meet federal requirements.

Management Response and Corrective Action Plan:

SRSU has implemented an internal office auditing process by which no budget adjustments can be made by Financial Counselors without verification of calculations by another staff member.

Implementation Date: *Fall 2008*

Responsible Person: *Rena Gallego*

Through the new Banner system disbursement rules have been developed that prevent disbursement of ACG grants to students who do not meet criteria (including GPA requirements and program eligibility). SRSU developed, tested, and implemented these disbursement rules in the Fall 2008 Semester.

Implementation Date: *Fall 2008*

Responsible Person: *Melinda Cullins*

Reference No. 09-50

Special Tests and Provisions - Disbursements To or On Behalf of Students

(Prior Audit Issue 07-43)

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable and CFDA 84.063 P063P072316
Type of finding - Significant Deficiency and Non-Compliance

Disbursement Notices

Questioned Cost: $ 0

U.S. Department of Education

If an institution credits a student's account at the institution with Federal Family Education Loan Program (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 electronic (Title 34, Code of Federal Regulations, Section 668.165).

For 24 (48 percent) of 50 FFELP loans tested, Sul Ross State University (University) did not send disbursement notifications within the required 30 days. The University implemented a new financial aid system and was unable to determine how to generate disbursement notifications until October 2007. The University corrected the problem and routinely generated disbursement notifications for spring disbursements. Twenty-three of the 24 disbursements that did not result in timely notices occurred before October 2007; the twenty-fourth occurred in March 2008.

The University included all of the required provisions in the wording of its disbursement notifications.

COD System Disbursement Dates and Amounts

All institutions submit Pell payment data to the Department through the Common Origination and Disbursement (COD) System. Institutions submit Pell origination records and disbursement records to the COD System. Origination records can be sent well in advance of any disbursements, as early as the institution chooses to submit them for any student the institution reasonably believes will be eligible for a payment. An institution follows up with a disbursement record for that student no more than 30 days before a disbursement is to be paid. 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 the institution makes a payment; or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data. (Title 34, Code of Federal Regulations, Section 690.83; Office of Management and Budget (OMB) March 2008 Compliance Supplement A-133, Part 5, Student Financial Assistance Cluster, III.L.1.e).

For 10 (32 percent) of 31 students with Pell disbursements tested, the information the University reported to the COD System did not match information in the students' accounts. At least one disbursement date, amount, or both were not recorded accurately in COD. Specifically:

- For eight students, the date and amount of one Pell disbursement was not recorded in the COD System. Due to the implementation of a new financial aid system, the University financial aid staff fell behind in reporting to the COD System.

- The University recorded the amounts correctly for two students; however, the dates were inaccurate. University staff stated that the COD System sometimes forces a disbursement date to undergo a process called "substantiation," which changes the disbursement date to the date when the data were transmitted to the COD System. One of these two students also had a disbursement that had not been recorded at the time of testing.

- For one student, a Pell disbursement was recorded in the COD System as occurring on a single date (August 13, 2007), but the University's computer system recorded part of the disbursement as occurring on a later date (August 22, 2007).

Recommendations:

The University should:

- Maintain controls to ensure that it sends disbursement notices within 30 days before or after crediting a student's account for FFELP loans.

- Establish controls to ensure that Pell disbursement dates and amounts are accurately reported to the COD System within 30 calendar days after the University makes a payment, or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data.

Management Response and Corrective Action Plan:

Procedures are in place to produce disbursement notifications and return notification within 72 hours of action. Additional procedures have been implemented to double check that all appropriate notifications are produced and students notified.

Implementation Date: *Fall 2008*

Responsible Person: *Melinda Cullins*

SRSU currently transmits COD data (Pell, ACG, and Smart Grant) no less that twice weekly to insure that all payments and adjustments are reported in a timely manner. The Financial Aid Office reconciles individual student awards to COD on a monthly basis and coordinates with the Controllers Office to maintain a current agreement of the funds received, pending, and adjusted. The Controller's Office records and the Financial Office records are fully reconciled at the end of each semester.

Implementation Date: *Fall 2008*

Responsible Person: *Melinda Cullins*

Texas A&M University

Reference No. 09-51

Special Tests and Provisions - Return of Title IV Funds

(Prior Audit Issue 08-45)

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A074136, and CFDA 84.063 P063J075286
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Education

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV assistance earned by the student as of the student's withdrawal date (Title 34, Code of Federal Regulations, Sections 668.22(a)(1)-(3)). If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs and no additional disbursements may be made to the student for the payment period or period of enrollment. If the amount the student earned is more than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (Title 34, Code of Federal Regulations, Sections 668.22(a) (1)-(4)).

Returns of Title IV funds are required to be deposited or transferred into the student financial aid account or electronic fund transfer must be initiated to the U.S. Department of Education or the appropriate Federal Family Education Loan (FFEL) lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew (Title 34, Code of Federal Regulations, Section 668.173(b)).

For 12 (30 percent) of 40 students tested, Texas A&M University (University) did not return the proper amount of funds. For 6 of those students, calculation errors by the University resulted in students not returning the proper amount of funds. For 2 of those students, the University did not return funds in a timely manner. All of the exceptions were the result of the University using 110 days for the length of the Spring 2008 semester instead of the 107 days that was the actual length of the semester.

In all 40 cases tested, the University applied Title IV funds to federal programs as required.

Recommendation:

The University should ensure that it completes the Return of Title IV Funds form correctly, and that it returns funds within the allowed timeframe.

Management Response and Corrective Action Plan:

Scholarships and Financial Aid acknowledges and agrees with the finding. The spring 2008 semester timeframe did not exclude the weekend days before and after spring break when no classes were held. For Spring 2009, the timeframe has been calculated to exclude the weekends of spring break in which no classes are held to ensure accurate calculation of Return of Title IV funds. Dates are now included in the review process for setup of the software used to make the calculations.

Implementation Date: *January 2009*

Responsible Person: *Joseph P. Pettibon II*

Reference No. 09-52

Special Tests and Provisions - Student Status Changes

(Prior Audit Issues 08-46 and 07-47)

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

Questioned Cost: $ 0

U.S. Department of Education

Under the Federal Family Education Loan Program (FFELP) and Direct Loan Program, institutions must complete and return within 30 days of receipt the Student Status Confirmation Report (SSCR) sent by the U.S. Department of Education (Department) or a guaranty agency (Office of Management and Budget No. 1845-0035) The SSCR is transmitted electronically. The institution determines how often it receives the SSCR, but the minimum is twice a year. Once the SSCR is received, the institution must update it for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the National Student Loan Data System (NSLDS) Web site. Unless the institution expects to complete its next SSCR within 60 days, the institution must notify the lender or the guaranty agency within 30 days if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (FFELP, Title 34, Code of Federal Regulations, Section 682.610; Direct Loan Program, Title 34 Code of Federal Regulations, Section 685.309).

Texas A&M University (University) uses the services of the National Student Clearinghouse (NSC) to report student status changes to NSLDS. Under this arrangement, NSLDS (rather than the University) sends the SSCR to NSC. NSC then communicates student status changes to lenders and guaranty agencies, as appropriate, and NSLDS. Although the University uses the services of NSC, it is still the University's responsibility to submit timely, accurate, and complete responses to the SSCR and to maintain documentation (NSLDS *Enrollment Reporting Guide*, Chapter 1.3.1.1).

The University did not report 9 (19 percent) of 47 student status changes tested to the NSLDS within the required time period. In 2 (22 percent) of these 9 cases, the University did not notify the lender or the guaranty agency within the required 30 days.

Recommendation:

The University should ensure that student status changes are reported to NSLDS within the required time period.

Management Response and Corrective Action Plan:

In June 2008 in response to 2006-07 audit findings, we increased the frequency of our enrollment transmissions to the National Student Clearinghouse to every 30 days, as noted in last year's documented management response and corrective action. However, the 2007-08 academic year audit indicated ongoing issues in reporting student status changes. The increased frequency of enrollment transmissions did not begin until June 2008, and although the NSLDS (National Student Loan Data System) requirement of receiving an SSCR (Student Status Confirmation Report) within 60 days was met, the findings of the 2007-08 audit indicated students status changes, whether to the Lenders, Guarantors, and Services or to the NSLDS, should be reported within 30 days. To ensure this deadline is met, student status changes will now be reported to the Clearinghouse every 14 days. In addition, we have requested that SSCR's be sent to the Clearinghouse from the NSLDS at least every 14 days to ensure that student status changes are reported within 30 days. This NSLDS SSCR schedule was requested on January 31, 2009 and is awaiting processing by the Department of Education. These changes will allow us to meet the reporting deadline.

Implementation Date: *January 2009*

Responsible Person: *Donald D. Carter*

Reference No. 09-53

Special Tests and Provisions - Student Loan Repayments

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.038 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Education

Under the federal Perkins Loan Program institutions are required to make contact with the borrower during the initial and post deferment grace periods. For loans with a nine-month initial grace period, the institution is required to contact the borrower three times within the initial grace period. The institution is required to contact the borrower for the first time 90 days after the beginning of the grace period; the second contact should be 150 days after the beginning of the grace period, and the third contact should be 240 days after the beginning of the grace period (Title 34, Code of Federal Regulations, Section 674.42(4)(c)).

Under the Federal Perkins Loan Program institutions are required to send the borrower a written notice and a statement of account at least 30 days before their first payment is due (Title 34, Code of Federal Regulations, Section 674.43 (a)(2)(i)).

The institution is required to send a first overdue notice to a borrower within 15 days after the payment due date if the institution has not received payment or a request for deferment, postponement, or cancellation. The institution must send a second overdue notice within 30 days after the first overdue notice is sent, and it must send a final demand letter within 15 days after the second overdue notice is sent (Title 34, Code of Federal Regulations, Section 674.43(a-c)).

Although Texas A&M University (University) made contact with borrowers, it did not make contact at required intervals. Specifically:

- The University did not make first contact with 38 (100 percent) of 38 borrowers tested within 90 days after the start of their grace period.
- The University did not make second contact with 50 (100 percent) of 50 borrowers tested within 150 days after the start of their grace period.
- The University did not make third contact with 50 (100 percent) of 50 borrowers tested within 240 days after the start of their grace period.

Although the University sent billing notices, it did not send billing notices at required intervals. Specifically:

- The University did not send the first billing notice at least 30 days before the first payment due date to 50 (100 percent) of 50 borrowers tested. The grace period notices were sent two weeks late, and the first bill was sent two weeks early due to errors within the University's automated system.
- The University did not send the first overdue notice within 15 days after the first payment due date for 50 (100 percent) of 50 borrowers tested.
- The University did send the second and final overdue notices within the required timeframes. However, 22 (44 percent) of 50 second and 21 (42 percent) of 50 final overdue notices tested did not contain the appropriate information.

Recommendations:

The University should:

- Ensure that it sends grace period contact letters and the initial billing notices to borrowers within the required time frames.

- Ensure that it sends Perkins Loan overdue notices and final demand letter to all borrowers who do not make the first payment or make a request for deferment, postponement, or cancellation.

Management Response and Corrective Action Plan:

In response to grace period notifications:

Each of these notifications is generated by our Benefit Mail program in our loan management software. Although our setup of the job was correct, the timing of the job run caused the notifications to be sent two weeks early/late. In July of 2008, we moved the date of the job run from the 2nd of each month to the 16th. Because our loan due date is the 15th of each month, this change in timing of the job run corrected the issue and grace notifications have been on a schedule in line with the requirements since that time.

In response to due diligence requirements:

First overdue notice - Although our system configuration was correct and the programming code behind the due diligence job in our loan software was designed to generate due diligence regardless of prior past due loans, these invoices did not generate for the 21 borrowers who had a previous loan overdue at the time. After consulting with our software vendor, they believe they have identified a "time stamp" issue that was preventing these due diligence statements from being generated. They made the modification and we tested it with the most recent due diligence job to ensure that the first overdue notice and final demand letters were generated for all borrowers as required, regardless of other past due loans. The timing of our due diligence job has been changed to run exactly 15 days after the due date. In turn, the timing of our monthly invoice job has also been changed to prevent borrowers from receiving notices only four days apart from each other due to the change in timing of the due diligence job.

Second overdue notice and final overdue notice - We will work with our software vendor to ensure that invoices with the appropriate language are generated at the required intervals.

Implementation Date: *Grace Period Notifications — July 2008*
First Overdue Notice — February 2009
Second Overdue Notice and Final Overdue Notice — May 2009

Responsible Person: *Bob Piwonka*

Texas A&M University - Corpus Christi

Reference No. 09-54
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.007 P007A074138, CFDA 84.032 Award Number Not Applicable, and CFDA 84.063 P063P073425
Type of finding - Significant Deficiency and Non-Compliance

Awards of Pell Grants and Federal Supplemental Education Opportunity Grants to Post-baccalaureate Students

Questioned Cost: $ 16,437

U.S. Department of Education

Except for certain post-baccalaureate programs leading to initial teacher certification or licensing credential within a state, a student is eligible to receive a federal Pell Grant only for the period of time required to complete his or her first undergraduate baccalaureate course of study. The institution must determine when the student has completed the academic curriculum requirements for that first undergraduate baccalaureate course of study. Any noncredit or remedial course taken by a student, including a course in English language instruction, is not included in the institution's determination of that student's period of federal Pell Grant eligibility (Title 34, Code of Federal Regulations, Section 690.6).

The Federal Supplemental Education Opportunity Grants (FSEOG) program provides grants to eligible undergraduate students. In selecting among eligible students for FSEOG awards in each award year, an institution shall select those students with the lowest expected family contributions who will also receive federal Pell Grants in that year. The institution decides the amount of the grant, which can be up to $4,000 but not less than $100, for an academic year. The maximum amount may be increased to $4,400 for a student participating in a study abroad program that is approved for credit by the student's home institution (Title 34, Code of Federal Regulations, Sections 676.10 and 676.20).

Texas A&M University - Corpus Christi (University) awarded Pell and FSEOG funds to 11 students who were post-baccalaureate students in the semester in which they received these awards. During the spring 2008 semester, these students received $15,937 in Pell awards and $500 in FSEOG awards for which they were not eligible. The students' classification changed from undergraduate to post-baccalaureate after funds were awarded, but the University did not adjust these students' awards.

Financial Need

The determination of the federal student assistance award amount is based on financial need. Financial need is defined as the student's cost of attendance (COA) minus the expected family contribution (EFC). For Title IV programs, the amount of financial resources available is generally the EFC that is computed by the federal central processor and included on the student's Institutional Student Information Report (ISIR) provided to the institution. Awards must be coordinated among the various programs and with other federal and non-federal assistance to ensure that total assistance is not awarded in excess of the student's financial need (Federal Perkins Loan, Federal Work Study, and FSEOG, Title 34, Code of Federal Regulations, Sections 673.5 and 673.6; Federal Family Education Loans, Title 34, Code of Federal Regulations, Section 682.603).

COA refers to the "tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." Institutions also may include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087ll).

For 1 of 50 (2 percent) students tested, the University calculated the COA budget incorrectly, and the COA did not match the student financial aid budget schedule. The University used the fall 2005 and spring 2006 budget in error. As a result, the University underestimated the student's financial need by $1,917.

In addition, for 1 of 25 (4 percent) students tested, the University miscalculated the federal Pell Grant amount. The student had an original EFC of $2,211. After the ISIR was corrected, the EFC was $0. The student received an incorrect federal Pell Grant award of $2,060 instead of $4,310. The University corrected the Federal Pell Grant award to that student.

Recommendations:

The University should:

- Ensure that controls in its financial aid system prevent making Pell and FSEOG awards to ineligible students.
- Improve its process for reviewing its Student Financial Aid System's financial need calculations and awards to ensure that (1) the information in that system is accurate and (2) the University bases awards on the correct information.

Management Response and Corrective Action Plan:

Awards of Pell Grants and Federal Supplemental Education Opportunity Grants to Post-baccalaureate Students.

It was determined that 11students were awarded Pell and SEOG during the Spring semester while being classified as Post-baccalaureate. Those 11 students were corrected immediately upon being notified by the Auditors. The error occurred when students changed status mid-year and the financial aid portion of the student system did not pick up on the change of status. At the beginning of the Fall semester the students were Undergraduate and graduated in the Fall 2008 semester. In the Spring semester the students returned to school as a Post-Baccalaureate student and the financial aid system did not recognize the change in status. This was our first year utilizing this new student system and the change of student status during mid year was not addressed. There is now a report created to identify students who have pending Pell or SEOG awards and have a change in status and are now classified in the student record as a Graduate or Post-baccalaureate student. This report is run prior to the first disbursement for each term by the Assistant Director of Financial Aid. Awards for students who are identified by the new report are reviewed and adjusted accordingly.

Implementation Date: *March 2008*

Responsible Person: *Jeannie Gage*

Financial Need

It was determined that one student was given a budget from a previous year which resulted in an underestimation of Financial Need. Immediately upon discovery of the error a correction was made to adjust the student's award package to match the COA for the 2007-2008 award year. During implementation of the new student system there is process to roll budgets from one award year to another but it was determined that the roll of budgets did not work properly. At the Beginning of the 2008-2009 award year (April 2008) the budget roll process in the student system is no longer being used. Budgets for the new award year are built and entered by the Assistant Director to ensure that correct budget numbers are being used.

Implementation Date: *April 2008*

Responsible Person: *Jeannie Gage*

Reference No. 09-55

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2007, to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable and CFDA 84.038 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Disbursement Notification Letters

Questioned Cost: $ 0
U.S. Department of Education

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education LoanProgram (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).

Texas A&M University-Corpus Christi (University) has established an automated process for notifying students when their accounts have been credited with a FPL or FFELP award. However, this program was not fully functioning and, as a result, the program was not posting the date the notification was sent in each student's file. In a sample of 50 students, 44 (88 percent) received a loan from either the FPL program or FFELP. Because of the programming error, however, auditors were not able to determine whether notifications were sent within the required timeframe to all students in the sample for the award year that received a loan.

Entrance Counseling

An institution must ensure that initial counseling is conducted with each Stafford loan borrower prior to its release of the first disbursement, unless the student borrower has received a prior Federal Stafford, Federal Supplemental Loan for Students, or direct subsidized or unsubsidized loan. (Title 34, Code of Federal Regulations, Section 682.604 (f)).

Of 44 students tested, 2 (4.5 percent) that did not have evidence of entrance counseling in Banner (the University's financial aid system). Banner still disbursed funds to these two students. Auditors determined that the students had received entrance counseling prior to disbursement; however, the automated system should not have disbursed the funds because Banner did not have evidence of the counseling. The control in Banner to prevent disbursement without entrance counseling was not activated.

Recommendations:

The University should:

- Correct the programming error related to notification letters dates and ensure that it maintains evidence of when it sends notification letters to students.
- Ensure that it establishes edits or reminders in the automated financial aid system to prevent loans from being disbursed to students who have not received entrance counseling.

Management Response and Corrective Action Plan:

Disbursement Notification Letters

An automated process has been established to send out Notification letter to students when their accounts have been credited with a student or parent loan. During the audit it was determined that the date of the notification was not being posted to the student system prior to July 8, 2008. The financial aid programmer was able to correct the issue and the system since that date has been tracking the notification information. Evidence of when notifications are sent is being tracked appropriately in Banner on RUAMAIL.

Implementation Date: *July 8, 2008*

Responsible Person: *Jeannie Gage*

Entrance Counseling

It was determined that two students did not have evidence of entrance counseling in the student system. Immediately upon discovery of the error, corrections were made to the appropriate student system forms to ensure that all entrances are properly tracked. Starting in April 2008, in addition to our regular loan processes, additional system processing jobs are run that are prior to disbursement and provide a report to identify any students who may not have an entrance record properly posted to their record in the student system. These additional jobs are run by the Assistant Director.

Implementation Date: *April 2008*

Responsible Person: *Jeannie Gage*

Texas Higher Education Coordinating Board

Reference No. 09-56
Special Tests and Provisions - Interest Benefits

CFDA 84.032 - Federal Family Education Loans (FFEL) - Lender
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Interest Benefit Calculations

Questioned Cost: $34

U.S. Department of Education

The U.S. Department of Education (Department) pays interest benefits to lenders on behalf of eligible borrowers with subsidized Federal Family Education Loan Program (FFELP) loans (subsidized Stafford and certain consolidated loans) when such loans are in qualifying status. The qualifying status includes the in-school loan period, the grace period, and any authorized deferment period or post-deferment grace period (Title 34, Code of Federal Regulations (CFR), Section 682.300). Generally, the Department's obligation to pay interest benefits ceases when the eligible borrower enters repayment status and does not qualify for deferment. Interest benefits to the lender also begin or terminate with certain other day-specific events enumerated in Title 34, CFR, section 682.300(b)(2) and (c).

A lender requests payment of interest benefits by submitting a *Lender's Interest and Special Allowance Request and Report (LaRS report)* to the Department. Applicable loan interest rates are provided in Title 34, CFR, Section 682.202(a). Interest benefits due to the lender may be calculated by using either the average daily balance or actual accrual methods as defined in Title 34, CFR, Sections 682.304(b) and (c). Adjustments for prior periods must be reported as separate line items.

For 2 (4 percent) of 50 loans reviewed, the Texas Higher Education Coordinating Board's (Coordinating Board) interest benefit calculations used incorrect dates. For one loan, interest calculations should have stopped on June 16, 2007; however, the Coordinating Board continued to calculate interest through September 15, 2007. The resulting interest calculation was overstated by $38.76 during the test period. The Coordinating Board stated that this was caused by user error while becoming familiar with the Higher Education Loan Management System (HELMS) during its implementation. In the other case, a data entry error caused the beginning date for interest calculation to be recorded as October 10, 2007, instead of October 1, 2007. The resulting interest calculation was understated by $4.28, an error that was in the Department's favor.

Access to the Student Information System

Institutions shall maintain internal control over Federal programs that provides reasonable assurance that the institutions are managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (OMB Circular A-133, Subpart C, Section300 (b)).

The Coordinating Board does not maintain appropriate user access over HELMS. Thirteen screen areas were evaluated in HELMS, and several employees were found to have excessive and inappropriate access that was not aligned with their job function. Specifically:

- Twenty-six (57 percent) of 46 users had full update access to the payment processing screen.
- Two (8 percent) of the 26 users were terminated and no longer with the Coordinating Board

- Sixteen (80 percent) of 20 users had full update access to the variable interest rate control record tables.

- Nineteen (100 percent) of 19 users had excessive update access to the Alternate Due Diligence update record screen.

Allowing employees to have excessive and inappropriate access to areas in HELMS that is outside of their job functions increases the risk of inappropriate changes and does not allow for segregation of duties.

Recommendations:

The Coordinating Board should:

- Implement controls to ensure that it uses the appropriate dates for interest benefit calculations.

- Restrict employee access to HELMS screens based on their job functions.

- Review all access to HELMS through reports extracted directly from HELMS on an annual basis.

Management Response and Corrective Action Plan:

Corrective actions were taken or are in process to remedy the exceptions noted during audit. Quality review of the corrective actions is occurring now and will be completed by February 20, 2009.

Control processes are being strengthened in Loan Program Operations (LPO) over the accurate and timely entry of information impacting the interest benefit data reported to the U.S. Department of Education by the Coordinating Board. By April 1, 2009, in conjunction with the next Federal quarterly cycle, an added control will now include monthly reviews by the Monitoring and Reporting section of LPO of the accuracy of changes to loan account information in the HELMS system. These accuracy reviews will be in addition to the current reasonableness reviews of variations that occur between quarterly Interest Benefit billings to be sent to the Department of Education.

LPO and Information Technology Services (ITS) are working together to strengthen the access controls to the HELMS student loan system. The HELMS Screen Access Matrix is automatically produced from data that is extracted from the HELMS system using a vendor supplied process. LPO reviewed the Screen Access Matrix in January 2008 and a review is currently in progress, to be completed by February 20, 2009. These reviews will be completed each year in conjunction with the annual ITS security risk assessment.

Implementation Dates: *February 20, 2009;April 1, 2009;February 20, 2009*

Responsible Persons: *Kyle Kelly and Darla Fent*

Reference No. 09-57

Special Tests and Provisions - Special Allowance Payments

(Prior Audit Issues 08-51, 07-51, 06-46, 06-47, and 06-48)

CFDA 84.032 - Federal Family Education Loans (FFEL) - Lender
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: Undetermined

U.S. Department of Education

The U.S. Department of Education (Department) pays a quarterly compensating special allowance to the lender/servicer on the average unpaid daily loan principal balances of eligible Federal Family Education Loan Program (FFELP) loans. The lender/servicer bills the Department on a quarterly basis for special allowance payments (SAP) through Part III of the *Lender's Interest and Special Allowance Request and Report* (LaRS Report). The lender/servicer must separate loans according to loan type, applicable interest rate, and special allowance category, and the lender /servicer must provide the sum of average daily balances for each loan within these groups. The Department then calculates a special allowance per category. SAP categories are defined by the Department according to the type of loan; the date the loan was disbursed; the loan period; and, in some cases, the number of quarters for which the loan has been outstanding or the loan's status (in-school, grace, deferment, or repayment) (Title 34, Code of Federal Regulations, Section 682.302 (c)).

The lender/servicer also must report the status and balance of each FFELP loan held and make any adjustments to submissions covering earlier quarters. The Department's obligation to pay a special allowance for an eligible loan ends on the earliest of the following dates, as applicable: the date the loan is repaid; the date the lender receives a claim payment on the loan; the date the loan ceases to be guaranteed or loses its re-insurability; 60 days after the date the borrower defaulted on the loan, unless the lender files a claim with the guarantor before the 60th day; and other dates, as applicable, as outlined in Title 34, Code of Federal Regulations, Section 682.302(d).

The Texas Higher Education Coordinating Board (Coordinating Board) inappropriately reported SAP on 11 (22 percent) of 50 loans tested. Specifically:

- The Coordinating Board classified and reported 10 loans using incorrect SAP categories. The category classifications depend on characteristics such as loan status, source of loan funds, disbursement dates, and rates of interest. Four loans that should have been reported in the "CB" category were reported in category "XK;" three loans that should have been reported in the "SG" category were reported in category "XG;" two loans that should have been reported in the "CA" category were reported in category "XJ;" and one loan that should have been reported in category "SK" was reported in category "XK." These errors related to sample items selected from the first and second quarters of the award year, and they appear to reflect the continuance of an issue noted in our prior audit that resulted from manual processing errors made during the Coordinating Board's conversion to its Higher Education Loan Management System (HELMS). Management subsequently made changes in HELMS, and all of these loans were found to be properly classified as of the fourth quarter of the award year.

- The Coordinating Board inappropriately reported and collected SAP on one loan that was no longer guaranteed. The HELMS system reported this loan as having been a permanently void account since January 20, 1999.

Recommendations:

The Coordinating Board should:

- Implement procedures to ensure that it categorizes loans accurately in the LaRS report.

- Complete all research and necessary adjustments to ensure that it includes only guaranteed loan amounts in its quarterly LaRS reports.

Management Response and Corrective Action Plan:

Corrective action has been taken by LPO to remedy the misclassified loans in the HELMS system and that action has been verified by the external audit team, as noted in the finding. Vendor programming changes have been implemented to HELMS to effectively address the reason for the misclassification in the first place.

LPO made the adjustment and removed the non-guaranteed loan from the quarterly report submitted June 30, 2008. LPO is also implementing a review process (noted in the above finding response) to strengthen the assurance that accurate and appropriate student loan information is reported to the Department of Education.

Implementation Date: *Completed - April 1, 2009*

Responsible Person: *Kyle Kelly*

Reference No. 09-58

Special Tests and Provisions - Student Status Changes

(Prior Audit Issues 08-52, 07-52, and 06-45)

CFDA 84.032 - Federal Family Education Loans (FFEL) - Lender
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Education

Federal regulations require that, after the Texas Higher Education Coordinating Board (Coordinating Board) is notified of a student status change, it must use that information to make proper adjustments to each loan in a timely manner. For purposes of this requirement, "timely" means adjustments are made in time to satisfy the time requirements outlined in Title 34, Code of Federal Regulations, Section 682.209, for converting and beginning the collection of loans. The accuracy of billings for interest benefits and special allowance payments, and the timely conversion of loans to repayment status, depend on the timely and accurate processing of student status changes.

The Texas Guaranteed Student Loan Corporation (TGSLC) and the National Student Clearinghouse (NSC) communicate student status changes to the Coordinating Board on a weekly basis. The Coordinating Board downloads electronic files from TGSLC and NSC each week for processing. Processing includes reviewing the downloaded information for each student and determining whether the downloaded information is more accurate than the Coordinating Board's records. Occasionally, students or institutions will have already contacted the Coordinating Board directly with information. If it is determined that an update is necessary, the Coordinating Board staff manually input the change.

The Coordinating Board did not process 13 (22 percent) of 58 enrollment status changes tested in a timely manner in accordance with regulations. Of the 13 not processed in a timely manner, 7 were not updated within the required time frame and 6 were not updated at all in the Higher Education Loan Management System (HELMS). The Coordinating Board did not have an adequate control process for identifying and making student status changes within HELMS.

The Coordinating Board had limited staff available to process the enrollment status changes in a timely manner. In February 2008 new staff and training became available to process enrollment status changes. All 13 exceptions occurred in the third and fourth quarters of 2007, which was prior to the addition of staff in 2008.

Recommendation:

The Coordinating Board should enhance its control procedures to ensure that student status changes are processed accurately and updated timely.

Management Response and Corrective Action Plan:

Corrective actions were taken to remedy the untimely student status updates noted during the audit. As the audit finding notes, LPO added staff to address the backlog of student status changes. Processing of student status changes is now current. Quality review of the corrective actions is occurring now will be completed by February 20, 2009.

Control processes are being strengthened in LPO over the accurate and timely entry of information impacting information reported to the U.S. Department of Education by the Coordinating Board. By April 1, 2009, in conjunction with the next Federal quarterly cycle, an added control will now include monthly reviews by the Monitoring and Reporting section of LPO of the accuracy and timeliness of changes to loan account information in the HELMS system.

Implementation Dates: *February 20, 2009;*
April 1, 2009

Responsible Person: *Kyle Kelly*

Reference No. 09-59

Special Tests and Provisions - Due Diligence by Lenders or Servicers in the Collection of Delinquent Loans

(Prior Audit Issue 08-53)

CFDA 84.032 - Federal Family Education Loans (FFEL) - Lender
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Education

A lender is required to maintain complete and accurate records of each loan that it holds. In determining whether the lender met the due diligence compliance requirements pertaining to collection of delinquent loans, the documentation maintained must include a collection history showing the date and subject of each communication between the lender and the borrower or endorser relating to collection of a delinquent loan; each communication (other than regular reports by the lender showing that an account is current) between the lender and a credit bureau regarding the loan; each effort to locate a borrower whose address is unknown at any time; and each request by the lender for default aversion assistance on the loan (Title 34, Code of Federal Regulations, Section 682.414(a)(4)).

When performing compliance testing for due diligence in collection of delinquent loans during the quarter ending September 30, 2007, auditors determined that the Texas Higher Education Coordinating Board (Coordinating Board) did not perform required efforts to contact 2 (5 percent) of 38 borrowers by telephone on or before the 90th day of delinquency as required by Title 34, Code of Federal Regulations, Section 682.411(d)(4). Specifically, in the quarter ending September 30, 2007, one borrower was 163 days delinquent and a second borrower was 194 days delinquent, yet the Coordinating Board did not engage in diligent telephone contact urging the borrowers to make the required payments on their loans on or before the 90th day of delinquency.

Recommendation:

The Coordinating Board should ensure that it engages in telephone contact with borrowers by following deadlines specified in Title 34, Code of Federal Regulations, Section 682.411(d)(4).

Management Response and Corrective Action Plan:

Corrective actions were taken to remedy the noncompliant due diligence exceptions noted during audit and prevent such occurrence in the future. A significant reorganization of staff responsibilities occurred in June 2008. There was also the addition of staff dedicated to all due diligence contacts, especially those required by regulation. Quality review of the corrective actions has occurred.

Control processes have been strengthened in LPO regarding the monitoring of due diligence activities and compliance with Federal regulations. Work flow and staff assignments have been aligned to improve compliance results. Verification has confirmed that work queues of needed contacts are within acceptable parameters.

Implementation Date: *Completed*

Responsible Person: *Janie Miramontes*

Reference No. 09-60

Special Tests and Provisions - Cures

(Prior Audit Issues - 08-54, 07-53, and 06-49)

CFDA 84.032 - Federal Family Education Loans (FFEL) - Lender
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Education

A lender requests payment of interest benefits and special allowance for eligible loans by billing the U.S. Department of Education (Department) at the end of each calendar quarter. The lender does this by submitting a *Lender's Interest and Special Allowance Request and Report* (LaRS report). A lender is prohibited from billing for federal interest benefits and special allowance payment on loans that are not eligible for federal reinsurance coverage. It is the lender's responsibility to repay immediately all federal interest benefits and special allowance payments on a loan that is, or was, ineligible to receive payments (Common Manual, Unified Student Loan Policy, Appendix A.3). A lender may have the guarantee on a loan reinstated by curing the applicable violation. Upon reinstatement of a loan's guarantee, the lender is again eligible to receive claim payments, interest benefits, and special allowance payments on the loan; the lender is ineligible to receive these payments from the date of the first unexcused violation to the date of the cure (Common Manual, Unified Student Loan Policy, Section 14.5). A lender must comply with the cure procedures in Title 34, Code of Federal Regulations, Part 682, Appendix D, for loans with due diligence or timely filing violations and related cure information must be accurately reported on the LaRS report.

When performing compliance testing for pending cures for the quarter ending June 30, 2008, auditors determined that the Texas Higher Education Coordinating Board (Coordinating Board) did not correctly adjust the LaRS report to rebate federal special allowance payments (SAP) for 1 (7 percent) of 15 accounts tested. A due diligence violation caused this loan to lose its guarantee effective February 9, 2007. The Coordinating Board is responsible for adjusting special allowance billings so that special allowance is not billed from February 9, 2007, to the date the loan regains eligibility for special allowance. A prior period adjustment from the February 9, 2007, violation date to the March 26, 2008, violation process date should have occurred in the quarter ending March 31, 2008. Due to programming corrections for LaRS billing in the Coordinating Board's new Higher Education Loan Management System (HELMS), the Coordinating Board did not correct special allowance for this loan in both the first and second quarters of 2008. There are no questioned costs because the Coordinating Board made necessary adjustments to the LaRS report for the quarter ending September 30, 2008.

Recommendation:

The Coordinating Board should ensure that programming changes in HELMS are migrated effectively and verify that LaRS billing data is reported correctly as a result of system-related programming changes.

Management Response and Corrective Action Plan:

The necessary adjustments have been made by LPO during the quarterly reporting period ending September 30, 2008, to correct the exception noted in the finding. Additionally, control processes have been strengthened in LPO to double check any accounts which are voided and cured on a quarterly basis. The Default Management Specialist, responsible for performing curing activities, submits a report to the Reports Analyst, responsible for completing the LaRS report, and includes information on accounts that have been cured the prior quarter. Comparative analysis is then performed to ensure the correct reporting of affected accounts.

Regarding any HELMS system programming changes, improved processes have been implemented in ITS for change control during migration of programming changes and for verification of functionality during user acceptance testing. LPO also has developed more structured testing and monitoring processes for all HELMS system programming changes, including those related to LaRS reporting, to increase assurance of the detection and resolution of possible adverse affects.

Implementation Date: *Completed*

Responsible Persons: *Kyle Kelly, Cheryl Bellesen and Darla Fent*

Texas Southern University

Reference No. 09-61
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.007 P007A074145
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 2,000

U.S. Department of Education

In selecting among eligible students for Federal Supplemental Educational Opportunity Grant (FSEOG) awards in each award year, an institution must select those students with the lowest expected family contributions (EFC) who will also receive federal Pell Grants in that year. (Title 34, Code of Federal Regulations, Section 676.10(a)).

According to the *Student Financial Aid Handbook* for award year 2007-2008 a student's application might be selected for verification after corrections are submitted and after the student has already been paid based on the previous unselected CPS transaction. You must verify his application before making further disbursements. If verification does not justify aid already disbursed, then the student is responsible for repaying all aid for which he is not eligible, though he may keep any Stafford loan money he received and FWS wages he earned. (Student Financial Aid Handbook 2007-2008, Application & Verification Guide, Chapter 4, page 88)

Two students at Texas Southern University (University) received FSEOG awards but did not receive Pell Grant awards. Specifically:

- One student did not initially report having a degree on the student's Institutional Student Information Report (ISIR). When the registration records were activated, the student's degree was identified, making the student ineligible for a Pell grant. The Pell grant was cancelled; however, the FSEOG was inadvertently not cancelled from the student's record and the student was issued an award amount of $1,000 for award year 2007-2008.

- The second student initially had an EFC of $0 and, therefore, was initially eligible for both Pell and FSEOG. After the completion of the University's verification the student's EFC was raised to $4,117, making the student ineligible for a Pell grant. However, the University's verification was completed after the first FSEOG disbursement of $500. Since verification did not justify FESOG already disbursed the student is responsible for repaying the FESOG. Also, the University should not have made a second payment of $500 to the student in the spring semester of award year 2007-2008 because this payment was after the student was determined to be ineligible for FESOG.

Recommendation:

The University should ensure that controls are in place to prevent awarding and disbursing FSEOG grants to students who are not eligible for Pell grants.

Management Response and Corrective Action Plan:

Management concurs. In regard to the two (2) students identified in the audit, the university reversed SEOG amounts prior to the submission of the FISAP; thereby, correcting the total expenditures and headcount for eligible recipients prior to the final submission of the report. The FISAP was correct at the time of submission to the Department of Education.

Future Corrective Actions

To prevent similar errors, effective immediately, the university has strengthened the disbursement rule in BANNER to systematically identify and cancel SEOG awards when the student's Pell Grant award is cancelled.

Implementation Date: *December 2008*

Responsible Person: *Linda Ballard*

Reference No. 09-62

Special Tests and Provisions - Return of Title IV Funds

(Prior Audit Issues 08-58)

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.063 P063P072327, CFDA 84.007 P007A074145, CFDA 84.375 P375A072327, CFDA 84.376 P376S072327
Type of finding - Material Weakness and Material Non-Compliance

Questioned Cost: Undetermined

U.S. Department of Education

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs as outlined in this section and no additional disbursements may be made to the student for the payment period or period of enrollment. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (Title 34, Code of Federal Regulations, Sections 668.22(a)(1)-(3)).

Returns of Title IV funds are required to be deposited or transferred into the Student Financial Assistance account or electronic fund transfers initiated to the U.S. Department of Education or the appropriate Federal Family Educational Loan Program lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew (Title 34, Code of Federal Regulations, Section 668.173(b)).

Texas Southern University (University) incorrectly calculated the amounts of Title IV aid to be returned for 46 (92 percent) of 50 students tested. The cause for the inaccurate calculations varies, including:

- The Spring semester return calculations did not take into account the days off for spring break, making the semester nine days longer for the calculation. Nineteen (38 percent) of the 50 tested were from the Spring semester

- The University's financial aid system (Banner) showed that the students' had earned a portion of their Title IV funds; however, the calculation for returning funds was based on the student not being enrolled.

- Banner system data did not match data used on the paper return of Title IV calculation which, in turn, did not match auditors' recalculation.

Questioned costs could not be determined with accuracy due to the extensive nature of the erroneous calculations.

Additionally, there is a lack of controls over the University's entire Return of Title IV calculation process. The University did not calculate or consistently calculate the students' portion of the return and did not consistently return the student's portion. The University does not have policies and procedures for the returning of the student's portion of the return.

Recommendation:

The University should establish controls to ensure that the amount of Title IV funds to be returned is calculated correctly and returned.

Management Response and Corrective Action Plan:

The Financial Aid Accountant has recalculated all information based on the identification of the omission of the Spring Break Week in the calendar and has conducted a full scope review and corrected all calculations. The university is currently realigning the Financial Aid Accountant position to report to the Financial Aid Office. The university has increased the Financial Aid staff by 2. One new accountant will work with compliance issues, such as this finding. Additional new operating procedures will require weekly updates. The position will be directly supervised by the Director of Financial Aid. A comprehensive spreadsheet and calendars are being developed to assist with the review process.

Implementation Date: *March 2009*

Responsible Person: *Albert Tezeno*

Reference No. 09-63

Special Tests and Provisions - Student Status Changes

(Prior Audit Issue 08-59)

Student Financial Assistance Cluster
Award year - July 1, 2007 to July 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Education

Unless an institution expects to submit its next student status confirmation report to the U.S. Secretary of Education or the guaranty agency within the next 60 days, it must notify the guaranty agency or lender within 30 days, if it (1) discovers that a Stafford, Supplemental Loan for Students (SLS), or Parent Loans for Undergraduate Students (PLUS) has been made to or on behalf of a student who enrolled at that institution, but who has ceased to be enrolled on at least a half-time basis; (2) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that institution, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (3) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (4) discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address (Title 34, Code of Federal Regulations, Section 682.610(c))

Texas Southern University (University) did not report 7 (14 percent) of 50 students tested to the National Student Loan Data System (NSLDS) within the required time period. On January 23, 2008, the University's submission of student status changes was changed from six submissions a year to the National Student Clearinghouse (NSC) to monthly submissions on the first day of each month directly to NSLDS. The seven errors identified were as follows:

- The University reported three (43 percent) of the seven students tested to the NSC in a timely manner, but it did not report them to the NSLDS. Although the University used the services of the NSC, it is the University's responsibility to submit timely, accurate, and complete responses to Enrollment Reporting roster files and to maintain proper documentation (*NSLDS Enrollment Reporting Guide*, Chapter 1.3.1.1).

- The University reported three (43 percent) of the seven students tested to NSLDS more than 60 days after the students' status changed, and the University did not notify the lender or guarantor.

- During the transition from using the NSC to only reporting to NSLDS, the University did not report one (14 percent) of the seven students tested to NSLDS.

Recommendation:

The University should implement changes to its reporting procedures to ensure that it reports student status changes to the NSLDS within the required time period.

Management Response and Corrective Action Plan:

Management concurs with the reporting of the remaining students. The university was experiencing concurrent audits during this time and the move to direct reporting was initiated after this date. The direct reporting to NSLDS has eliminated the lag time in the transmission NSC and NSLDS.

Implementation Date: *March 2008*

Responsible Party: *Marilyn Square*

Reference No. 09-64

Allowable Costs/Cost Principles

Research and Development Cluster
Award year - Multiple
Award number - All Grants with Effort Reported; CFDA 43.000, NCC 9-165; CFDA 20.701, DTRS99-G-0006/47300-00041, S080034
Type of finding - Significant Deficiency and Non-Compliance

Direct Costs - Time and Effort Reporting

Questioned Cost: $ 0
Federal Agencies that Provide R&D Grants

The method of payroll distribution used by entities that receive federal awards must recognize the principle of "after-the-fact" confirmation or determination so that the costs that are distributed from federal awards represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and facilities and administrative cost activities may be confirmed by responsible persons, with suitable means of verification that the work was performed. Additionally, for professorial and professional staff, activity reports must be prepared each academic term, but no less frequently than every six months. For other employees, unless alternate arrangements are agreed to, activity reports must be prepared no less frequently than monthly and must coincide with one or more pay periods (Office of Management and Budget (OMB) Circular A-21, Cost Principles for Educational Institutions, Section J.10).

Texas Southern University's (University) activity reports for one quarter contained inaccurate percentage of effort information for one month on the report. The percentage of effort for all signed reports for May 2008 was zero percent, while payroll charges for these employees were charged to federal grants. The original reports were generated in error and, after audit testing concluded, the University reissued the reports with the correct percentage and affirmed by appropriate personnel.

Indirect Costs

Indirect costs shall be distributed to applicable sponsored agreements and other benefiting activities within each major function on the basis of modified total direct costs, consisting of all salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontracts up to the first $25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract) (OMB Circular A-21, Cost Principles for Educational Institutions, Section G.2).

The University used an incorrect cost basis when calculating the indirect cost of a subgrant on 1 (2 percent) of 50 indirect cost charges tested. The University charged indirect costs on direct costs of a subgrant exceeding the first $25,000 of that subgrant. The University's policy includes a reconciliation of indirect costs at the end of the award period; however, this would have resulted in the University holding funds for an extended period of time. After audit testing concluded, the University reconciled the indirect cost charges and returned the incorrectly charged funds.

Internal Service Charges

Charges made from internal service, central service, pension, or similar activities or funds must follow the applicable cost principles provided in OMB Circular A-21. According to OMB Circular A-21, to be allowable under federal awards, costs must be charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that does not discriminate against federally-supported activities of the institution, including usage by the institution for internal purposes (OMB Circular A-21, Cost Principles for Educational Institutions, Section J.47).

Four (29 percent) of 14 University print service internal service charges were not processed in accordance with OMB Circular A-21. Specifically, the controls associated with determining the charges for print services were not consistent with the schedule of rates for the services. Two of the charges did not contain sufficient information regarding the charge to determine whether the cost was handled consistently (one of these charges was reversed by the University when documentation could not be located, and the University subsequently provided sufficient proof of the service to justify the costs for the other charge). The other two charges were charged less than the listed price for the services described in the documentation.

Recommendations:

The University should:

- Monitor its activity reports to verify that information matches actual charges prior to obtaining approval from principle investigators, and ensure that principle investigators review the reports for accuracy prior to approval.
- Ensure that indirect costs for sub-recipients are limited to the first $25,000 of direct costs.
- Properly and completely document the services received for internal service charges.

Management Response and Corrective Action Plan:

Time and Effort Reporting

Per the recommendations of the State Auditor's Office, the University will monitor its activity reports to verify that information matches actual charges prior to obtaining approval from principle investigators, and ensure that principle investigators review the reports for accuracy prior to approval. The action steps for corrective measures are as follows:

1. *The Vice President of Academic Affairs and Provost will disseminate a memo to all Principle Investigators of federal awards that outlines the importance of reviewing the time and effort reports for accuracy prior to approval. The memo will be distributed with the quarterly time and effort reports.*
2. *The Director of Research Enhancement and Compliance Services will monitor the activity reports to verify that the information matches actual charges each reporting period.*

Implementation Date: *February 2009*

Responsible Persons: *Sunny Ohia and Linda Gardiner*

Indirect Cost

Per the recommendation of the State Auditor's Office, the University will ensure that enhancements are made to existing BANNER functionality to establish that indirect cost for subrecipients are limited to the first $25,000 of direct costs. Effective immediately, the Grants and Contracts department will ensure that the subrecipient threshold limit is being addressed using a manual calculation process.

Implementation Date: *April 2009*

Responsible Persons: *Diane Lewis and Laurie Brown*

Internal Service Charges

Per the recommendations of the State Auditor's Office, the University will properly and completely document the services received for internal service charges. The action steps for corrective measures are as follows:

The Copy Center Request Form will be updated with more detailed instructions for better clarity on how to complete the form.

Implementation Date: *February 2009*

Responsible Persons: *Greg Williams and Ruben Joseph*

Texas State University - San Marcos

Reference No. 09-65
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.375 P375A070387
Type of finding - Significant Deficiency and Non-Compliance

Academic Competitiveness Grants Eligibility

The Academic Competitiveness Grants (ACG) program provides grants to eligible full-time regular undergraduate students enrolled in their first and second academic years in an ACG-eligible program at a two- or four-year degree granting institution. Grants are for up to $750 for first-year students and up to $1,300 for second year students (Title 34, Code of Federal Regulations, Sections 691.2(d), 691.6, 691.15, and 691.62)).

Questioned Costs:	$ 2,600
U.S. Department of Education	

Two (20 percent) of 10 ACG recipients tested at Texas State University - San Marcos (University) were not eligible to receive the grant. The students were awarded $1,300 each for the 2007-2008 academic year. The two students met eligibility requirements at the end of the 2007 Spring semester. However, the students both attended summer school at different universities which, upon completion of the 2007 Summer term, made them ineligible for the ACG grant based on completed hours. The University's control to prevent ineligible students from receiving an ACG grant did not work properly to ensure compliance.

Satisfactory Academic Progress

A student is eligible to receive Title IV, Higher Education Act (HEA) program assistance if the student maintains satisfactory progress in his or her course of study according to the institution's published standards of satisfactory progress that satisfy the provisions of Title 34, Code of Federal Regulations (CFR), Section 668.16(e), and, if applicable, the provisions of Title 34, CFR, Section 668.34 (Title 34, CFR, Section 668.32(f)). A student is making satisfactory progress if, at the end of the second year, the student has a grade point average of at least a "C" or its equivalent, or has academic standing consistent with the institution's requirements for graduation (Title 34, CFR, Section 668.34).

According to the University's satisfactory academic progress (SAP) policy, "At the end of each spring semester, your Satisfactory Academic Progress (SAP) for financial aid will be evaluated based on your previous year's work (summer / fall / spring). If you do not meet all of the SAP requirements, you will not be eligible to receive financial aid. The only exception is if it is your first time to become ineligible to receive aid (due to SAP) while working on your degree (i.e., bachelor's, master's, etc.). In such a case, you will be placed on financial aid probation (except in the case of exceeding the maximum hours requirement). When on financial aid probation, you will have one year (summer / fall / spring) to meet the SAP requirements." During the financial aid probation (or grace period) the student is still eligible for financial assistance. The three SAP standards students must meet at the end of each spring semester are a minimum GPA, a minimum completion rate, and a maximum hour limit.

One (4 percent) of 28 students was denied financial assistance when the student was eligible for financial assistance. The reasonable academic progress program (RAP) within the University's Financial Aid Management (FAM) system required a Free Application for Federal Student Aid (FAFSA) to be on file for the upcoming year to evaluate a student's eligibility for financial aid. The student did not have a FAFSA on file for the 2008 award year, so at the end of Spring 2007 no determination of the student's ability to meet SAP requirements was established. At the end of the Summer 2007 term, since the summer term is tied to the previous award year, the RAP program determined the student did not meet SAP requirements for Fall 2006 and the student was put into a grace period. When the FAFSA was submitted in September 2007 for the 2008 award year the RAP program reevaluated whether the student was meeting SAP requirements and determined that the student should be in a grace period, since the student was assigned a grace period for the summer, and the system denied financial assistance. The University's control process for determining financial aid eligibility, per SAP requirements, did not work properly by denying financial assistance to an eligible student.

Recommendations:

The University should:

- Verify that all ACG grant recipients are eligible prior to disbursement of funds by ensuring that controls in place are designed and working properly.
- Ensure that students who are denied financial assistance based on not meeting satisfactory academic progress are actually ineligible for financial assistance.

Management Response and Corrective Action Plan:

Academic Competitiveness Grant (ACG)

Management concurs. Procedures have been revised and implemented to assure eligibility prior to disbursements. ACG account will be reimbursed.

Implementation Date: January 2009

Responsible Person: Jesse Mangold

Satisfactory Academic Progress

Beginning with the 2008-2009 a new SAP policy was developed and implemented with new procedures in place to assure eligible students can receive appropriate aid.

Implementation Date: May 2009

Responsible Person: Jesse Mangold

Reference No. 09-66

Reporting

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.063 P063P070387
Type of finding - Significant Deficiency and Non-Compliance

Common Origination and Disbursement System Reporting

Questioned Cost: $ 0
U.S. Department of Education

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 2008, Part 5, Student Financial Assistance Cluster, III.L.1.e (page 5-3-18)). 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 5-3-27)).

For 40 (80 percent) of 50 students tested at Texas State University - San Marcos (University) who received Pell grants, the date and amount of the disbursement in the COD System did not tie to information in the University's financial aid system. The University commonly reports anticipated disbursements 30 days in advance of the actual expected date of disbursement. However, the University does not update information in the COD System once the disbursements have been made.

Recommendations:

The University should update actual disbursement dates and amounts in the COD System.

Management Response and Corrective Action Plan:

Common Origination and Disbursement System Reporting (Pell)

This requires major modification from SunGard, the company that owns the FAM software. SunGard has delegated this issue to Texas Connect.

Implementation Date: Request to SunGard sent February 2009; resolution from SunGard to be determined.

Responsible Person: Dede Gonzales

Reference No. 09-67

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable and CFDA 84.268 Award Number Not Applicable
Type of Finding - Significant Deficiency and Non-Compliance

Disbursement Notification

Questioned Cost: $ 0
U.S. Department of Education

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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).

Texas State University-San Marcos (University) does not have a documented process to ensure that it sends loan recipients disbursement notifications. Auditors were unable to verify that the University sent notifications for 45 (69 percent) of 65 disbursements for 46 FFELP and Direct Loan Program recipients tested.

Recommendation:

The University should maintain documentation to ensure that loan recipients are notified of the disbursement of funds.

Management Response and Corrective Action Plan:

Disbursement Notification

Although the financial aid disbursement process was notifying students/parents of disbursed aid via emails or letters, no electronic archive of this correspondence was maintained for an extended period of time. On September 16th, 2008, the SARS electronic report archiving program was modified to archive student/parent letters as well as log all student email addresses receiving notification of disbursement. This electronic archive will be maintained for no less than 5 years.

Implementation Date: *September 2008*

Responsible Person: *Marcus Bryant*

Reference No. 09-68

Special Tests and Provisions - Return of Title IV Funds

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable and CFDA 84.268 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: 0

U.S. Department of Education

A student is considered to have not begun attendance in a payment period or period of enrollment if the institution is unable to document the student's attendance at any class during the payment period or period of enrollment (Title 34, Code of Federal Regulations, Section 668.21 (c)).

Returns of Title IV funds are required to be deposited or transferred into the student financial assistance account or electronic fund transfers initiated to the U.S. Department of Education or the appropriate Federal Family Education Loan Program (FFELP) lender as soon as possible, but no later than 30 days after date that the institution becomes aware that the student will not or has not begun attendance. Returns by check are late if the check is issued more than 30 days after the institution becomes aware that the student will not or has not begun attendance or the date on the canceled check shows the check was endorsed more than 45 days after the date the institution becomes aware that the student will not or has not begun attendance (Title 34, Code of Federal Regulations, Section 668.21 (b) and (d)).

For 9 (53 percent) of 17 students who never began attendance, Texas State University - San Marcos did not ensure that Title IV loan funds were returned within 30 days after the date that it became aware the student would not or had not begun attendance.

Recommendation:

The University should establish controls to ensure that it returns Title IV funds within 30 days of becoming aware that students did not begin attendance.

Management Response and Corrective Action Plan:

Return of Title IV

The Financial Aid Office is now collaborating with our General Accounting Office and has established controls to ensure that Title IV funds are returned to the U.S. Department of Education and/or appropriate lender no later than 30 days of becoming aware that students did not begin attendance. The Reporting Team in the Financial Aid Office is tracking all students that failed to begin attendance and is advising the General Accounting Office of the approaching 30 day deadline to ensure that net draws/returns are completed within the required timeline.

Implementation Date: *January 2009*

Responsible Person: *Stephanie Lopez*

Reference No. 09-69

Special Tests and Provisions - Student Loan Repayments

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.038 Award Number Not Applicable
Type of finding - Material Weakness and Material Non-Compliance

Defaulted Loans

Questioned Cost: $ 0
U.S. Department of Education

Under the federal Perkins Loan Program institutions are required to make contact with the borrower during the initial and post deferment grace periods. For loans with a nine-month initial grace period, the institution is required to contact the borrower three times within the initial grace period. The institution is required to contact the borrower for the first time 90 days after the beginning of the grace period; the second contact should be 150 days after the beginning of the grace period, and the third contact should be 240 days after the beginning of the grace period (Title 34, Code of Federal Regulations, Section 674.42(4)(c)).

Under the federal Perkins Loan Program institutions are required to send the borrower a written notice and a statement of account at least 30 days before their first payment is due (Title 34, Code of Federal Regulations, Section 674.43 (a)(2)(i)).

The institution is required to send a first overdue notice to a borrower within 15 days after the payment due date if the institution has not received payment or a request for deferment, postponement, or cancellation. The institution must send a second overdue notice within 30 days after the first overdue notice is sent, and it must send a final demand letter within 15 days after the second overdue notice is sent (Title 34, Code of Federal Regulations, Section 674.43(a-c)).

Texas State University - San Marcos (University) did not make first contact with the borrower within 90 days after the start of their grace period, including the required terms and conditions, for 23 (100 percent) of 23 defaulted Perkins students tested. Specifically:

- For 2 students the University did not provide documentation for the first contact.
- For 1 student the University did not make first contact within 90 days after the start of the grace period.
- For 21 students (1 of these students was the same student noted above to whom the University did not make first contact within 90 days after the start of the grace period) the first contact letter did not inform the students of the amount of principal and interest and the projected life of the loan.

The University did not make second contact with the borrower within 150 days after the start of their grace period for 22 (96 percent) of 23 defaulted Perkins students tested. Specifically:

- For 3 students the University did not provide documentation for the second contact.
- For 19 students the University did not make the second contact within 150 days after the start of the grace period.

The University did not provide documentation showing the third contact with the borrower within 240 days after the start of their grace period for 2 (10 percent) of 21 defaulted Perkins students tested.

The University did not send the first billing notice to the borrower at 30 least days before their first payment due date for 5 (22 percent) of 23 defaulted Perkins students tested. Specifically:

- For 4 students the University did not provide documentation for the first billing notice.
- For 1 student the University did not send the first billing notice at least 30 days before the first payment was due.

The University did not send the first overdue notice to the borrower within 15 days after their first payment due date for 3 (14 percent) of 22 defaulted Perkins students tested. Specifically:

- For 2 students the University did not provide documentation for the first overdue notice.
- For 1 student the University did not send the first overdue notice within 15 days after the first payment due date.

The University did not send the second overdue notice to the borrower within 30 days after the first overdue notice for 2 (29 percent) of 7 defaulted Perkins students tested.

The University did not send the final demand letter 15 days after the second overdue notice was sent for 6 (75 percent) of 8 defaulted Perkins students tested. Specifically:

- For 1 student the University did not provide documentation for the first contact.
- For 5 students the University did not make first contact within 90 days after the start of the grace period.

Loans That Entered Repayment

For a federal Perkins loan, the institution must establish a repayment plan. The repayment period begins after an initial grace period of either six months or nine months after the student ceases to be at least a half-time student at an institution of higher education, depending on when the loan was made (Title 34, Code of Federal Regulations, Section 674.31(b)(2)).

For 7 (47 percent) of 15 students tested, the conversion to repayment status was not performed in a timely manner. Specifically, for those seven students, the repayment period did not begin after the grace period ended.

Recommendations:

The University should:

- Ensure that it sends grace period contact letters and initial billing notices to borrowers within the required time frames.
- Ensure that it sends Perkins Loan overdue notices and the final demand letter to all borrowers who do not make the first payment or make a request for deferment, postponement, or cancellation.
- Ensure that the conversion to repayment status for borrowers is performed in a timely manner.

Management Response and Corrective Action Plan:

Defaulted Loans and Loans that Entered Repayment

Management concurs. Procedures have been implemented to ensure required notices are sent to borrowers within the required time frame with the appropriate information and that conversion of loans to repayment status is performed in a timely manner.

Implementation Date: February 2009

Responsible Person: Nancy Meeks

Reference No. 09-70

Special Tests and Provisions - Borrower Data Transmission and Reconciliations (Direct Loans)

Student Financial Assistance Cluster
Award year - July 1, 2007 through June 30, 2008
Award number - CFDA 84.268 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Education

Institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the Common Origination and Disbursement (COD) System within 30 days of disbursement (Office of Management and Budget No. 1845-0021). If a student is enrolled in a credit-hour educational program that is offered in semester, trimester, or quarter academic terms, the earliest an institution may disburse Title IV, Higher Education Act program funds to a student or parent for any payment period is 10 days before the first day (Title 34, Code of Federal Regulations, Section 668.164(f).) Each month, the COD System provides institutions with a School Account Statement (SAS) data file that consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The institution is required to reconcile these files to the institution's financial records. Up to three Direct Loan program years may be open at any given time; therefore, institutions may receive three SAS data files each month (Title 34, Coded of Federal Regulations, Sections 685.102(b), 685.301, and 303).

For 25 (50 percent) of 50 students tested, Texas State University - San Marcos (University) reported to DLSS an incorrect date for at least one disbursement.

The University reported the disbursement amount correctly for all disbursements tested.

Common Origination and Disbursement System Reporting - Information Systems Issue

The University's Financial Aid Management (FAM) system does not report the correct disbursement date for spring semesters. The logic within this system is flawed; therefore, the system is reporting the incorrect disbursement date to the COD System.

For the process of reporting the disbursement dates to the COD System, the disbursement dates in the Loan Period Table are compared to the institutional disbursement date (the dates in which the University disburses institutional funds to the student). If the FAM system was functioning as intended, it would compare the dates for the same semester. The latter of the two dates is reported to the COD system. For example, the fall disbursement dates in the Loan Period Table would be compared to the fall institutional disbursement dates. The latter of the two dates would be reported to the COD System. This process would occur again for the Spring semester, except the Spring disbursement dates in the Loan Period Table would be compared to the spring institutional disbursement dates.

The FAM system code added by University staff includes incorrect logic. For the Fall semester, the FAM system is correctly comparing the institutional disbursement date for the Fall semester to the Fall disbursement date on the Loan Period Table. The FAM system will choose the latter of the two dates as intended. The dates reported in the COD System for the Fall semester should all be within the 10-day period before the start of the semester. However, in the Spring semester, the FAM system is comparing the institutional disbursement date for the Spring disbursement to the Fall disbursement date on the Loan Period Table. In some instances, the institutional disbursement date is not within 10 days before the start of the semester, so the disbursement date in the COD System will not be within the 10-day period before the start of the semester.

Recommendations:

The University should:

- Develop controls to ensure that it reports the correct disbursement dates to DLSS.
- Correct the flaw in the FAM system's code to ensure that the correct disbursement date is being reported to the COD System for spring semesters.

Management Response and Corrective Action Plan:

Common Origination and Disbursement System Reporting — Information Systems Issue (DL)

Management concurs. FAM programming has been modified to report the correct disbursement dates.

Implementation Date: *January 2009*

Responsible Person: *Dede Gonzales*

Texas Tech University

Reference No. 09-71
Reporting
(Prior Audit Issue 06-50)

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.063 P063P072328
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Education

All institutions submit Pell payment data to the U.S. Department of Education through the Common Origination and Disbursement (COD) System. Institutions submit Pell origination records and disbursement records to the COD System. Origination records can be sent well in advance of any disbursements, as early as the institution chooses to submit them for any student the institution reasonably believes will be eligible for a payment. An institution follows up with a disbursement record for that student no more than 30 days before a disbursement is to be paid (7 days in the case of an institution using the just-in-time method). 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) No. 1845-0039, shown in OMB Circular A133, Part 5, Section L.1.e).

Texas Tech University (University) complied with the reporting requirements for Pell payment data, with the following exceptions:

- For 6 (12 percent) of 50 students tested, the date and amount of disbursement in the COD System did not tie to information in the University's financial aid system.
- For 6 (12 percent) of 50 students tested (four of these cases overlapped with the issue noted above), the processing date in the COD System was more than 30 days after the disbursement date.

Recommendation:

The University should implement controls to ensure that it reports dates and amounts of Pell payments to the COD System in an accurate and timely manner.

Management Response and Corrective Action Plan:

Pell Grant, SMART Grant and ACG Grant reporting to COD for 2008-2009 are reporting accurately and timely.

With the implementation of a new financial aid management system for the 2009-2010 academic year, Pell Grant, SMART Grant, and ACG Grant reporting to COD will reflect actual disbursement dates. All federal grant recipient samples will be reviewed for compliance. The process of submitting origination and disbursement files weekly will be implemented.

Implementation Date: *Sample compliance testing in new financial aid management system, April 2009*
COD origination submission weekly in new financial aid management system as of August 2009.

Responsible Person: *Becky Wilson*

Reference No. 09-72

Special Tests and Provisions - Verification

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0
U.S. Department of Education

An institution may participate under an U.S. Department of Education-approved Quality Assurance Program (QAP) that exempts it from verifying those applicants selected by the central processor, provided that the applicants do not meet the institution's own verification selection criteria. An institution not participating under an U.S. Department of Education-approved QAP is required to establish written policies and procedures that incorporate the provisions of Title 34, Code of Federal Regulations, Sections 668.51 through 668.61, for verifying applicant information. Such an institution shall require each applicant whose application is selected by the central processor, based on edits specified by the U.S. Department of Education, to verify the information specified in Title 34, Code of Federal Regulations, Section 668.56. Policies and procedures for verification must include: (1) the time period within which an applicant shall provide the documentation, (2) the consequences of an applicant's failure to provide required documentation within the specified time period, (3) the method by which the institution notifies an applicant of the results of verification if, as a result of verification, the applicant's Expected Family Contribution (EFC) changes and results in a change in the applicant's award or loan, (4) the procedures the institution requires an applicant to follow to correct application information determined to be in error, (5) the procedures for making referrals under Title 43, Code of Federal Regulations, Section 668.16. The procedures must provide that it shall furnish, in a timely manner, to each applicant selected for verification a clear explanation of (1) the documentation needed to satisfy the verification requirements and (2) the applicant's responsibilities with respect to the verification of application information, including the deadlines for completing any actions required under this subpart and the consequences of failing to complete any required action (Title 34, Code of Federal Regulations, Section 668.53).

Texas Tech University's (University) verification policy did not contain the following provisions:

- A time period in which an applicant shall provide the documentation.
- A method by which the institution notifies an applicant of the results of verification if, as a result of verification the applicant's EFC changes and results in a change in the applicant's award or loan.
- Procedures for making referrals under Title 34, Code of Federal Regulations, Section 668.16.
- The applicant's responsibilities with respect to the verification of application information, including the deadlines for completing any actions required under the subpart and the consequences of failing to complete any required action.

In addition, for 1 (2 percent) of 50 verification cases tested, the University did not correctly update its records and the Institutional Student Information Report (ISIR) to reflect the information on the student's U.S. income tax return.

Recommendations:

The University should:

- Ensure that its verification policy includes the required information.
- Ensure that controls are in place to correctly update its records and the ISIR upon completion of verification.

Management Response and Corrective Action Plan:

Policies and Procedures for Verification have been updated to reflect the following:

- *Time Period students must meet to complete verification*
- *E-mail notifications are being sent to students selected for verification notifying them of the required document submission deadline and the potential penalty for not submitting documentation.*
- *Notifications are provided to the student via the Verification Worksheet that if changes are necessary, how the student will be notified and a link to view updated awards.*
- *Procedures have been reviewed with staff to clarify discrepancies between verification documents and FAFSA data.*
- *Procedures have been reviewed with staff to report suspected fraud from university staff, third-party servicer or other agent of the university.*

Implementation Date: *January 2009*

Responsible Person: *Paul Blake*

Reference No. 09-73

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable and CFDA 84.038 Award Number P038A024151
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Education

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (FFELP) funds, 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 loan 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 all or a portion of the loan or loan disbursement. The requirement for FFELP loans applies only if the funds are disbursed by Electronic Funds Transfer or master check. The notification can be in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

The disbursement notification letters that Texas Tech University (University) sent via e-mail to students or parents upon disbursement of funds included information on the right to cancel loans, either in full or in part, including corresponding procedures and timelines by which the student or parent must notify the institution that he or she wishes to cancel the loan. However, the University's notifications did not include the date and amount of the loan disbursement. While auditors were performing audit work at the University, the University was in the process of revising the text of the notification to include a link to the student's account summary to review loan disbursement information.

Recommendation:

The University should ensure that it notifies students and parents of required loan disbursement information, including the date and amount of the disbursement, on all FPL and FFELP disbursement notifications it sends to parents and students.

Management Response and Corrective Action Plan:

Updated current email notification to include the link to student account summary to review all loan disbursement information.

Implementation Date: *October 2008*

Responsible Person: *Becky Wilson*

Reference No. 09-74

Special Tests and Provisions - Return of Title IV Funds

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.007 P007A074151, CFDA 84.032 Award Number Not Applicable, CFDA 84.063 P063P072328
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Education

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV assistance earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs and no additional disbursements may be made to the student for the payment period or period of enrollment. If the amount the student earned is more than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (Title 34, Code of Federal Regulations, Section 668.22(a) (1)-(4)).

Scheduled breaks of at least five consecutive days are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period (Title 34, Code of Federal Regulations, Section 668.22(f)(2)(i)). Where classes end on a Friday and do not resume until Monday following a one-week break, both weekends (four days) and the five weekdays would be excluded from the return calculation. The first Saturday, the day after the last class, is the first day of the break. The following Sunday, the day before classes resume, is the last day of the break (2007-2008 *Student Financial Aid Handbook*, Volume 5, Chapter 2, page 5-72).

Institutional charges are used is calculating the amount for the institution and the student to each return. "Institutional charges" are tuition, fees, room and board (if the student contracts with the institution for the room and board) and other educationally-related expenses assessed by the institution (Title 34, Code of Federal Regulations, Section 668.22(g)(2)).

Returns of Title IV funds are required to be deposited or transferred into the student financial aid account or electronic fund transfer must be initiated to the U.S. Department of Education or the appropriate Federal Family Education Loan Program (FFELP) lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew (Title 34, Code of Federal Regulations, Section 668.173(b)).

The amount of earned Title IV grant or loan assistance is calculated by (1) determining the percentage of Title IV grant or loan assistance that the student has earned and (2) applying that percentage to the total amount of Title IV grant or loan assistance that was or could have been disbursed to the student for the payment period or period of enrollment as of the student's withdrawal date. A student earns 100 percent if his or her withdrawal date is after the completion of 60 percent of the payment period. The unearned amount of Title IV assistance to be returned is calculated by subtracting the amount of Title IV assistance the student earned from the amount of Title IV assistance that was disbursed to the student as of the date of the institution's determination that the student withdrew (Title 34, Code of Federal Regulations, Section 668.22(e)).

An institution must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of the payment period or period of enrollment (Title 34, Code of Federal Regulations, Section 668.22(j)(2)).

Texas Tech University (University) did not use the correct semester end date for the fall 2007 semester. The University's Title IV return calculations were based on a semester end date of December 5, 2007, when the actual semester end date was December 6, 2007.

In addition, the University did not correctly account for Spring Break in its Title IV return calculations for students withdrawing during the Spring 2008 semester. The return calculations did not account for this break, and the University should have excluded nine days from the length of the semester. Students who withdrew in the Spring 2008 semester after spring break also needed to have nine days excluded from their length of attendance.

To determine institutional charges, the University used an average yearly tuition instead of using the actual semester tuition, fees, and room and board. This affected the Title IV return allocations between the University and the student for most of the students in our sample.

Auditors identified the following errors:

- The University incorrectly calculated for 22 (28 percent) of 80 withdrawals tested either the amount of Title IV assistance earned or the amount to be returned.

- The University used an incorrect payment period for 44 (55 percent) of 80 withdrawals tested.

- The University returned the incorrect amount for 35 (70 percent) of 50 withdrawals tested.

- The student returned the incorrect amount for 28 (93 percent) of 30 withdrawals tested.

When testing whether the University returned Title IV funds within the required timeframe, auditors also determined that 1 (2 percent) of 49 withdrawals was done incorrectly. The University had not returned funds as of the end of audit testing because it was waiting to hear from one of the student's professors regarding the student's last date of attendance.

For the Fall 2007 semester (which ended December 6, 2007), the University's Financial Aid Office received notification of students receiving all F grades on December 21, 2007, but it did not determine which students were unofficial withdrawals until February 19, 2008. For 12 (44 percent) of withdrawals tested, the University did not determine the withdrawal date within 30 days of the end of the semester.

In the sample tested, the University returned more Title IV assistance than was necessary. Therefore, there are no questioned costs.

Recommendations:

The University should follow all Title IV return requirements by establishing or enhancing controls to ensure that it:

- Uses accurate semester start and end dates in return calculations.
- Accounts for breaks of at least five consecutive days in return calculations.
- Returns funds within the appropriate time frame.
- Determines unofficial withdrawals within 30 days of the end of the semester.

Management Response and Corrective Action Plan:

- *Internal procedures have been updated to insure accuracy of the dates used on the R2T4 website. Primary R2T4 staff member enters the dates to create each calendar period. Secondary R2T4 staff member then reviews and verifies the accuracy of the dates using the data from the CAL screen.*
- *Spring 2009 calendars have been created to include the Spring Break as well as the weekends before and after that week. Process updated in October 2008.*
- *R2T4 Calculations are being performed on every student that withdraws, even if the withdrawal date is past the 60% completion date, which will require no repayment from the student. Process was updated in October 2008.*
- *Current withdrawal calculation procedures for students who received all "F"'s in the preceding term have been implemented. Controls are in place to verify that all funds are returned no later than March 2, 2009.*

Implementation Date: *October 2008*

Responsible Person: *Paul Blake*

Reference No. 09-75

Special Tests and Provisions - Student Status Changes

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost:	$ 0
U.S. Department of Education	

Unless an institution expects to submit its next student status confirmation report to the U.S. Secretary of Education or the guaranty agency within the next 60 days, it must notify the guaranty agency or lender within 30 days, if it (1) discovers that a Stafford, Supplemental Loan for Students (SLS), or Parent Loans for Undergraduate Students (PLUS) has been made to or on behalf of a student who enrolled at that institution, but who has ceased to be enrolled on at least a half-time basis; (2) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (3) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (4) discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address (Title 34, Code of Federal Regulations, Section 682.610(c)).

Texas Tech University (University) uses the services of the National Student Clearinghouse (NSC) to report status changes to the National Student Loan Data System (NSLDS). Under this arrangement, the University reports all students enrolled and their status to NSC, regardless of whether those students receive federal financial assistance. NSC then identifies any changes in status and reports those changes when required to the respective lenders and guarantors. Additionally, NSC completes the roster file on the University's behalf and communicates status changes to NSLDS as applicable. Although the University uses the services of NSC, it is still ultimately the University's responsibility to submit timely, accurate, and complete responses to roster files and to maintain proper documentation (NSLDS Enrollment Reporting Guide, Chapter 3.1.1.3).

Fourteen (29 percent) of 48 student status changes tested at the University were not reported to NSLDS in a timely and accurate manner. Specifically:

- Seven of 48 student status changes tested were not reported to NSLDS within the required 60 day timeframe.
- Ten of 48 student status changes did not agree to the student status change that appeared in student records (3 of these exceptions overlapped with the finding noted above).

Thirteen (93 percent) of 14 student status changes tested at the University that were not reported to NSLDS timely and accurately also were not reported to the lender/guarantor timely and accurately. Specifically:

- Nine of 13 student status changes were not reported to the lender/guarantor within the required 30 day time frame.
- Nine of 13 student status changes did not agree to the student status change that appeared in the student records (6 of these exceptions overlapped with the finding noted above).

Recommendation:

The University should implement changes to its reporting procedures to ensure that student status changes are accurately reported to NSLDS and the lenders/guarantors within the required time period.

Management Response and Corrective Action Plan:

The University will implement changes to its reporting procedures to ensure that student status changes are reported to NSLDS within the required time period. The University will develop procedures to monitor the timeliness of reporting to NSLDS. We will also modify our procedures for reporting to NSC to include scheduling additional reporting dates during the latter part of the fall and spring semesters.

Implementation Date: *February 2009*

Responsible Person: *B.J. d'Orsay*

Department of Transportation

Reference No. 09-76
Procurement and Suspension and Debarment

CFDA 20.106 - Airport Improvement Program
Award year - Various
Award number - Various
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Transportation

Federal rules require that, when a non-federal entity enters into a covered transaction that is expected to equal or exceed $25,000 with an entity at a lower tier, the non-federal entity must verify that the entity at the lower tier is not suspended, debarred, or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the U.S. General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 49, Code of Federal Regulations, Part 29).

The Department of Transportation (Department) relied on standard contract templates to ensure compliance with suspension and debarment requirements; however, this control was not effective because the Department's standard professional services contract did not include an assertion that the contractor was not suspended or debarred from federal contracts. Although the 9 construction contracts auditors tested contained the necessary language, none of the 45 professional services contracts tested included this language. In addition, the Department did not check the EPLS Web site or obtain any certification from the professional services contractors to verify the contractors were not excluded from federal contracts. Auditors reviewed the EPLS Web site and determined that the professional services contractors were not currently suspended or debarred.

Recommendation:

The Department should, for all contracts expected to equal or exceed $25,000, either (1) verify that the contractor is not on the federal excluded parties list and maintain documentation of this or (2) document an assertion from the contractor that the contractor is not suspended, debarred, or otherwise excluded from federal contracts.

Management Response and Corrective Action Plan:

Language will be added to the professional services contracts executed for local airport sponsors including certification language that the provider is not debarred from federal contracts. Additionally at that time, a step will be added to the contract check list to verify with the debarment list on the EPLS web site for both the construction and professional services contracts that are executed for local airport sponsors as agent.

Implementation Date: *February 2009*

Responsible Person: *Karon Wiedemann*

Reference No. 09-77

Reporting

CFDA 20.106 - Airport Improvement Program
Award year - Multiple
Award number - Multiple
Type of finding - Material Weakness and Material Non-Compliance

Questioned Cost: $ 0

U.S. Department of Transportation

The Federal Aviation Administration's (FAA) *Airport Improvement Program Handbook* (AIP Handbook), and Program Guidance Letters (PGL) provide specific guidance for the administration of the Airport Improvement Program Block Grants. According to the AIP Handbook and PGLs, grantees are required to submit the Standard Form 272 (SF-272) quarterly for each block grant and submit a final SF-272 when grants are completed (AIP Handbook, Sections 1301 and 1314(a), and PGL 05-02).

All of the SF 272 quarterly financial reports that the Department of Transportation (Department) submitted for fiscal year 2008 were completed incorrectly. Cash on hand at the beginning and end of the period was not included; current and prior disbursements were entered in incorrect areas of the report; and additional information, including the total federal award and the expected local match of the award, was included instead of the correct and required information. As a result, auditors were unable to determine whether required reports included all activity of the reporting period, and reports were not fairly presented in accordance with compliance requirements. The reports were not reviewed or monitored by separate individuals in the Department prior to submission.

Recommendations:

The Department should:

- Establish controls that ensure accurate completion of the required reports.
- Train staff on the proper methodology for completing the required reports.
- Monitor the completion of required reports for accuracy prior to submission.
- Complete corrected reports for fiscal year 2008.

Management Response and Corrective Action Plan:

Staff who prepare the SF 272 have been instructed in proper completion of the report. Additionally, procedures were instituted for review of the report by the supervisor prior to transmission to the Federal Aviation Administration. FY 2008 reports will be corrected before the end of February 2009.

Implementation Date: *February 2009*

Responsible Person: *Karon Wiedemann*

Reference No. 09-78

Special Tests and Provisions - Revenue Diversion

CFDA 20.106 - Airport Improvement Program
Award year - Various
Award number - Various
Type of finding - Significant Deficiency and Non-Compliance

Title 49, United States Code, Section 47107(b), requires that revenues generated by a public airport be expended for the capital or operating costs of the airport, the local airport system, or other local facilities that are owned or operated by the owner or operator of the airport and are directly and substantially related to the actual air transportation of passengers or property.

Questioned Cost: $ 0

U.S. Department of Transportation

The Department of Transportation (Department) has not formally documented its agreement with the Federal Aviation Administration regarding its process for monitoring airports that receive federal funding through the Department to ensure that airport revenues are not diverted to non-airport activities. However, the Department's practice is to monitor airports that receive federal funding by reviewing audited annual financial reports (AFR) for the airport sponsors (local governments that fund the airport, which are usually cities or counties). The Department reviews the AFRs for indicators that airport revenue may have been diverted to non-airport activities. However, this high-level review is unlikely to reveal actual revenue diversion.

Recommendation:

The Department should formally document its agreement with the Federal Aviation Administration regarding its process for monitoring airports that receive federal funding to ensure that airport revenues are not diverted to non-airport activities.

Management Response and Corrective Action Plan:

The Texas Department of Transportation administers federal block grant funds to only general aviation airports. General aviation airports are airports without scheduled commercial service. General aviation airports rarely operate in the black and are in most all instances supplemented by general revenue funds of the city or county that operates the airport. As such, revenue diversion is a minimal risk for these airports. Even the local matching funds for grants issued under this federal program routinely are provided by other funds of the local government, many times by their economic development corporation or other local sources. The Federal Aviation Administration (FAA) recognizes that revenue diversion is an issue for the commercial service airports, not general aviation airports. The FAA in it's guidance on revenue diversion issued a program guidance letter for financial reporting only from commercial service airports and specifically excluded general aviation airports due to the minimal risk. The Southwest Region FAA has reviewed the program administered by TxDOT on multiple occasions and concurs with our current method of review of local government revenue from airports. TxDOT currently requests financial statements from each airport receiving grants and reviews data periodically, not each and every financial statement. Additionally, at FAA's direction we require self-certification documentation from the airports that includes their certification of no revenue diversion. This current method clearly meets FAA requirements for their grant funds and very adequately addresses the issues for minimal risk. Most importantly, this method is the very method FAA itself uses for monitoring for revenue diversion for grants they administer directly to general aviation airports. TxDOT will formally submit our current Revenue Diversion Monitoring process for their review and approval. Upon approval, TxDOT will forward the FAA documents to the State Auditor's Office.

Implementation Date: *February 2009*

Responsible Person: *Karon Wiedemann*

Reference No. 09-79

Procurement and Suspension and Debarment

Highway Planning and Construction Cluster
Award year - Various
Award number - Various
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Transportation

Federal rules require that, when a non-federal entity enters into a covered transaction that is expected to equal or exceed $25,000 with an entity at a lower tier, the non-federal entity must verify that the entity at the lower tier is not suspended, debarred, or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the U.S. General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 49, Code of Federal Regulations, Part 29).

The Department of Transportation (Department) did not consistently verify the suspension or debarment status of subrecipients that entered into contracts using Local Project Advance Funding Agreements (LPAFA). The Department relied on standard contract templates to ensure compliance with suspension and debarment requirements. However, this control was not effective because the Department's standard LPAFA contract did not include an assertion that the local government (subrecipient) was not suspended or debarred from federal contracts.

For 8 (12 percent) of 66 contracts tested, there was no evidence that the Department received a certification from the subrecipient or that the Department checked the EPLS to verify the subrecipient's debarment status before entering into the contract. Auditors reviewed the EPLS Web site and determined that the local governments (subrecipients) were not currently suspended or debarred. The remaining 58 contracts were either Transportation Enhancements (TE) or Metropolitan Planning Organization (MPO) projects that met federal requirements because the subrecipients was required to submit a certification of debarment status during the bid process or in the Unified Planning Work Program before federal funding started.

Recommendation:

The Department should, for all subrecipient contracts expected to equal or exceed $25,000, either (1) verify that the subrecipient is not on the federal excluded parties list and maintain documentation of this or (2) obtain a written assertion from the subrecipient stating that the subrecipient is not suspended, debarred, or otherwise excluded from federal contracts.

Management Response and Corrective Action Plan:

As of February 2, 2009, all contract templates for advance funding agreements had been modified to contain a written assertion from the subrecipient stating that the subrecipient is not suspended, debarred, or otherwise excluded from federal contracts.

Implementation Date: *Implemented*

Responsible Person: *Janice Mullenix*

Reference No. 09-80

Subrecipient Monitoring

Highway Planning and Construction Cluster
Award year - Various
Award number - Federal apportionment pursuant to the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A legacy for Users (SAFETEA-LU) Public Law 109-59
Type of finding - Significant Deficiency and Non-Compliance

During the Award Monitoring

Office of Management and Budget (OMB) Circular A-133, Subpart D, Section 400, requires pass-through entities to "monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."

Questioned Cost: $ 0

U.S Department of Transportation

The Department of Transportation (Department) provides federal pass-through funds to Metropolitan Planning Organizations (MPOs) through Metropolitan Planning Program grants. Generally, the Department delegates the responsibility for monitoring subrecipient activities and expenditures to the respective Department district offices that have project oversight. The Department's district offices sometimes delegate this responsibility to field offices within the districts.

The Department does not consistently monitor federal funds expended by its MPO subrecipients. Although the Department has delegated the responsibility for subrecipient monitoring to its district offices, the Department does not have established policies and procedures that provide sufficient guidance on how its district offices should monitor subrecipient activities and expenditures.

The Department's Fort Worth district office (or field offices within that district) does not receive or subsequently review and reconcile supporting documentation (such as invoices or timesheets) to billing statements received from the MPO responsible for administrating its share of the Metropolitan Planning Program grant funds. Billing statement amounts are forwarded to the Department's Finance Division for payment without further review.

The Department's lack of review of Metropolitan Planning Program grant funds expended by its subrecipients increases the risk that (1) program expenditures incurred by the Department's subrecipients (MPOs) may not contribute toward program objectives or (2) subrecipients may not administer the program in accordance with federal compliance requirement. The Department's Fort Worth district office processed $5,069,298 in federal grant funds passed-through to the MPO in its region.

Award Identification

Office of Management and Budget (OMB) Circular A-133, Subpart D, Section 400, requires pass-through entities to "identity Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency." Additionally, the pass-through entity is required to "advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity."

The Department did not provide the required award information to subrecipients at the time of award. The subrecipient signs a Local Project Advanced Funding Agreement (LPAFA), which details the scope and process for reimbursement on projects using federal funds. However, this agreement does not include the CFDA number and title or federal agency associated with the funds awarded. The award information also is not included in the award letter sent to the subrecipient at the beginning of the project. Additionally, prior to the Department's implementation of its standard LPAFA, it did not consistently communicate information regarding federal compliance requirements to its subrecipients. Specifically:

- The Department did not retain sufficient support that it communicated the required federal award information for 66 (100 percent) of 66 subrecipients tested.

- The Department did not retain sufficient support that it communicated the applicable compliance requirements for 3 (5 percent) of 66 subrecipients tested.

In fiscal year 2008, the Department reported $176,762,355 in federal pass-throughs to other entities. Not communicating the required award information to subrecipients increases the risk that subrecipients may not comply with federal compliance requirements. The absence of clear communication related to the federal award information also increases the potential for misreporting of federal awards, by the Department and the subrecipient, on the Schedule of Expenditures of Federal Awards. For example, the Department may report pass-through expenditures as direct agency expenditures, and subrecipients may not accurately report the federal pass-through funds they receive.

Recommendations:

The Department should:

- Develop and implement, at the district level and below, policies and procedures for monitoring MPO subrecipient expenditures to ensure that monitoring guidance is consistent and comprehensive for all districts and that monitoring meets federal and state monitoring requirements.

- Ensure that funds requested for reimbursement by the MPOs are supported with sufficient documentation (for example, timesheets, payroll documents, and invoices for purchases) and reconcile the supporting documentation to the reimbursement requests. The Department also should verify that these expenditures are allowable according to the award documentation.

- Communicate the required elements of award information and specifics related to federal compliance requirements by including that information in the award agreement or in a separate award letter.

Management Response and Corrective Action Plan:

The Department agrees with the recommendation. A revised guidance document is being prepared by the Texas Transportation Institute for the Department that will provide policies and procedures for monitoring MPO expenditures. The document, tentatively titled, "TxDOT District Guidance for Administrating Metropolitan Planning Funds" has been drafted.

Implementation Date: *April 2009*

Responsible Person: *Jim Randall*

The Department agrees with the recommendation. A revised guidance document is being prepared by the Texas Transportation Institute for the Department that will provide information on supporting documentation for billings and allowable expenditures. The document, tentatively titled, "TxDOT District Guidance for Administrating Metropolitan Planning Funds" has been drafted.

Implementation Date: *April 2009*

Responsible Person: *Jim Randall*

The Department agrees with the recommendation. For Fiscal Year 2009, the Code of Federal Domestic Assistance (CFDA) number and federal agency has been identified in the Metropolitan Planning funds work order authorization memorandum that is sent to every MPO. The CFDA number has been added to the standard template for federally funded advance funding agreements. No federally funded advance funding agreements will be executed without the CFDA number.

Implementation Date: *Implemented*

Responsible Person: *Jim Randall is responsible for the Metropolitan Planning funds work order authorization memorandum sent to the MPOs and Janice Mullenix is responsible for adding the CFDA number to the standard templates.*

Reference No. 09-81

Special Tests and Provisions - Sampling Program

Highway Planning and Construction Cluster
Award Year - Various
Award number - Various
Type of finding - Material Weakness and Material Non-Compliance

Questioned Cost: $0

U.S. Department of Transportation

Title 23, Code of Federal Regulations (CFR) 637, Section 205, requires that each state transportation department "shall develop a quality assurance program which will assure that the materials and workmanship incorporated into each Federal-aid highway construction project on the [National Highway System] NHS are in conformity with the requirements of the approved plans and specifications, including approved changes. The program must meet the criteria in Section 637.207 and be approved by the FHWA." Additionally, Title 23, CFR 637, Section 209, requires that only qualified personnel conduct sampling and testing to be used in the acceptance decision.

The Department of Transportation (Department) uses the SiteManager system as its automated construction administration system, and that system is used to document the results of material sampling and testing. However, SiteManager does not have sufficient controls to prevent individuals who are not certified from building and conducting tests to clear material testing requirements. Specifically, auditors noted the following control weaknesses within SiteManager:

- Any individual with access to update Sample Information in SiteManager can add a new sample, enter sample information, select a certified sample tester from a drop-down box (even if they are not that individual), and authorize the sample as compliant. This control weakness could affect the acceptability and quality of highway construction project components.

- Sample material tests, which measure compliance with the design specification and are required to be performed periodically throughout the project, can be entered into SiteManager with all blank test result fields and the test will still satisfy testing results.

- SiteManager's Contract Discrepancy Options can be turned off. If Pay Estimates are generated when the Discrepancy Option is turned off, insufficient samples for the materials placed on the project will not be identified.

- The Conversion Factors for materials are difficult to calculate. In addition, SiteManager allows conversion factors to be altered, which could adversely affect the number of tests required. In addition, the conversion factor field can be zeroed out, which would invalidate the required number of tests for the material, and this error may not be identified because a monitoring process is not currently in place.

Additionally, tests of active construction projects in Site Manager revealed that for 17 (65 percent) of 26 materials tested, the planned material tests did not meet the minimum tests required by the Guide Schedule of Sampling and Testing that is used to establish a project testing plan. The Guide Schedule, effective November 2007, is applicable to all contracts associated with the 2004 Standard Specifications and is a guide for minimum sampling and testing. Further, the minimum number of tests for materials placed on a project were not met for 9 (35 percent) of 26 of the materials tested.

Recommendations:

The Department should:

Develop and implement specific changes to SiteManager or implement other controls external to SiteManager that mitigate the corresponding risks. Specifically, the Department should:

- Restrict access to drop down menus containing certified testers so that an individual can select only his or her own name as the individual who conducted the test.

- Limit access to turning off the Contract Discrepancy Options to a very select group, with proper oversight provided to ensure the sufficient testing is conducted for all contracts.

- Identify blank and incomplete sample tests in SiteManager, and the incomplete information should be completed to ensure that materials meet specifications for the contract.

- Develop a process to identify incorrect conversion factors, and conversions factors that have been deleted should be monitored for reasonableness.

- Consider reviewing the override capability in SiteManager, and evaluate whether the deficiencies in materials testing are being monitored at a level to ensure the proper tests are being conducted.

Review the process for planning scheduled material tests in SiteManager and determine whether the existing process ensures that the minimum tests required by the Guide Schedule of Sample and Testing are established for the materials placed on the projects utilizing federal funds.

Management Response and Corrective Action Plan:

We appreciate that the intent of this audit was on quality of construction through testing. Per 23 CFR 637 B TxDOT's Quality Assurance Program (QAP) requires that all testing be performed in accordance with the TxDOT Guide Schedule of Sampling and Testing (GS). However, the audit appears to have focused on the use of SiteManager (SM) for tracking sampling and testing for quality assurance rather than an in-depth audit of whether or not the testing was done for the material items selected. Districts are using the GS to establish a project testing plan. Districts may use SM or other means to monitor and track testing requirements. SM is a tool for districts to use in conjunction with the GS to track and monitor testing requirements. Because the SM Materials module requires extensive management and entering data in SM may be redundant to other methods used in the field, the use of SM for this purpose is not currently a requirement.

Upon initial review, and in speaking with the two audited districts regarding the items noted, we confirmed that the audited districts performed the testing in accordance with the GS. In addition, we performed verification on a few projects that were audited that were shown to have discrepancies. We further verified that the number of planned tests calculated by SM complies with the GS. One oversight in the audit that led to discrepancies being identified was that materials shown in SM that were not being used on the project had not been deleted in SM causing inconsequential testing requirements being required on the SM "Sampling and Testing Checklist."

When SM is used by the districts for tracking testing, in order to operate in the most efficient manner, we utilize record keepers to administer data. In most cases, the individual making the change is recorded in SM logs. We will enhance SM to track changes made for the items requiring logging.

However, the department is implementing several measures to assist districts in tracking testing for projects as follows:

- *We have recently begun to deploy field devices (laptops) that will allow inspectors to enter data directly into SM. This will eliminate the redundancy of performing hard copy test and later entering data into SM.*
- *We have begun an intensive training effort to assist inspectors in the use of SM and the SM Materials module.*
- *We are working with AASHTO (owner of SM) to develop upgrades to SM and the SM Materials module.*

From a preliminary review by department staff of the projects, materials, and test selected by the auditor, we found testing was being performed either at or exceeding the required GS frequency and that the schedule shown in SM was correct. We did find cases where testing input in SM lagged (testing and input sometimes takes several days or even weeks). In order to conduct a thorough review of testing for projects, we will perform an in-house review of the state program to:

- *reviews the process districts use for generating the project testing plan,*
- *assess whether testing plan for each district meets GS requirements,*
- *review project records to determine whether or not the testing was actually performed, and*
- *assess the methods districts are using to track testing.*

The product of the review will be best practices for an auditable process the districts can use to determine if project testing has been performed in accordance with TxDOT's QAP.

Implementation Date: *Assessment of Districts - June 2009*
Initial enhancement to SM - June 2009
Training for district for SM - January 2010

Responsible Persons: *J. Jeffrey Seiders, Jr., P.E., Kenneth Barnett, P.E., and David Debo*

University of Houston

Reference No. 09-82
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.038 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

The maximum annual amount of Federal Perkins loans that an eligible student may borrow is $4,000 for undergraduates and $6,000 for graduate or professional students. The maximum annual amounts may be exceeded by 20 percent if the student is engaged in a study abroad program that is approved for credit by the home institution at which the student is enrolled and that has reasonable costs in excess of the home institution's cost of attendance (Title 34, Code of Federal Regulations, Section 674.12).

Questioned Cost:	$ 6,755
U.S. Department of Education	

For 5 (31 percent) of 16 of students tested, the University of Houston (University) awarded Federal Perkins loans in excess of the maximum annual amount allowed. Four of these students were undergraduate students who received a Federal Perkins loan amount greater than $4,000 but less than $6,000. It could not be determined whether the students had a change in their academic status based on the information in the financial aid system (PeopleSoft). The fifth student was an undergraduate student who received $6,000. Additionally, a review of the records did not indicate whether any of the five students were enrolled in a study abroad program during the award year 2007-2008. It could not be determined why the five students selected for testing received Federal Perkins loan amounts that exceeded the annual maximum allowed.

Recommendations:

The University should:

- Ensure that controls are in place to prevent a student from being awarded a Perkins loan amount that exceeds the maximum allowed. It also should maintain documentation that provides justification for exceeding the maximum annual amount, and that justification should be noted in PeopleSoft.

- Review all Perkins loan recipients who received more than the maximum amount to determine whether these students were erroneously given a Federal Perkins loan amount that exceeded the annual maximum allowed and make corrections as needed.

Management Response and Corrective Action Plan:

We implemented preventative controls by configuring the maximum limit for Perkins loans in the Financial Aid System. Procedures are in place to identify and review the loans exceeding the maximum level. In addition, we hired a Quality Control Coordinator that is responsible for monitoring the awarding and disbursements of federal Perkins funds. Perkins loan recipients who received more than the maximum amount have been identified. Corrections were made to their accounts for the overages.

Implementation Date: *January 31, 2009*

Responsible Person: *Sal Loria, Jr.*

Reference No. 09-83

Reporting

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.063 P063P072333
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost:	$ 0
U.S. Department of Education	

Institutions submit Pell origination records and disbursement records to the Common Origination and Disbursement (COD) System (Office of Management and Budget (OMB) Notice 1845-0039-v.4). Origination records can be sent in advance of any disbursements, as early as an institution chooses to submit them for any student it reasonably believes will be eligible for a payment. The institution follows up with a disbursement record for that student no more than 30 days before a disbursement is to be paid. Institutions must report the student payment data (1) within 30 calendar days after it makes payments or (2) when they become aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Institutions may do this by reporting once every 30 calendar days, biweekly, or weekly, or they may set up their own systems to ensure that changes are reported in a timely manner. (OMB Compliance Supplement A-133, March 2008, Part 5, Student Financial Assistance Cluster, III.L.1.e (page 5-3-17 and 5-3-18))

If an institution submits a student's payment data in the manner and form prescribed, and if the U.S. Department of Education accepts the data and considers that information to be accurate in light of other available information, the institution may receive either (1) a payment for an award to a Pell Grant recipient or (2) a corresponding reduction in the amount of federal funds received in advance for which it is accountable. Institutions are required to report to the U.S. Department of Education any change in enrollment status, cost of attendance, or other event or condition that causes a change in the amount of a federal Pell grant for which a student qualifies by submitting student payment data that discloses the basis and result of the change in award (Title 34, Code of Federal Regulations, Section 690.83).

For 12 (24 percent) of 49 students tested, the University of Houston (University) did not report disbursement records to the COD System within 30 calendar days of the disbursement date.

Recommendation:

The University should improve its oversight of the Pell reporting process to ensure that it reports disbursement records to the COD System in a timely manner.

Management Response and Corrective Action Plan:

We have identified the source of the errors for the non-timely reporting of disbursement records and have implemented procedures to help ensure that these types of errors are not recurring.

Implementation Date: *August 31, 2008*

Responsible Person: *Melanie Morgan*

Reference No. 09-84

Special Tests and Provisions - Verification

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number not applicable, CFDA 84.063 P063P072333, CFDA 84.007 P007A074166, CFDA 84.033 P033A074166, CFDA 84.376 P376S072333, and CFDA 84.375 P375A072333
Type of finding - Non-Compliance

Questioned Cost: $ 0

U.S. Department of Education

Institutions are required to establish and use written policies and procedures for verifying information contained in a student financial assistance application. These policies and procedures must include the procedures for making referrals described under Title 34, Code of Federal Regulations (CFR), Section 668.16 (Title 34, CFR, Section 668.53). Referrals should include instances in which the institution has identified credible information indicating that an applicant for Title IV Higher Education Act program assistance may have engaged in fraud or other criminal misconduct in connection with his or her application (Title 34, CFR, Section 668.16).

The University of Houston (University) does not have written procedures for making referrals required by federal regulations. As a result, it may not have the capability to identify and report instances of false or fraudulent information to the Office of the Inspector General of the U.S. Department of Education for investigation

Recommendation:

The University should develop and implement written procedures for making referrals as required by federal regulations.

Management Response and Corrective Action Plan:

We have developed and implemented written procedures for making referrals as required by federal regulations.

Implementation Date: *January 31, 2009*

Responsible Person: *Miroslava Martinez and Janette Carson*

Reference No. 09-85

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable and CFDA 84.038 Award Number not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Returning Funds to a Lender

Questioned Cost: $ 0
U.S. Department of Education

When an institution receives Federal Family Education Loan Program (FFELP) funds from the lender by electronic funds transfer (EFT) or master check, it usually must disburse the funds within three business days. If a student is temporarily not eligible for a disbursement but the institution expects the student to become eligible for disbursement in the immediate future, the institution has an additional 10 business days to disburse the funds. An institution must return FFELP funds that it does not disburse by the end of the initial or conditional period, as applicable, promptly but no later than 10 business days from the last day allowed for disbursement. (Title 34, Code of Federal Regulations, Section 668.167)

For 4 (8 percent) of 50 students tested, the University of Houston (University) did not disburse some funds to students' accounts within three business days of receipt from the lender. This represents 4 (2 percent) of 165 payments that were not disbursed in a timely manner. This was not due to eligibility issues. The University held the loan funds for significantly more than three business days and did not return the funds to the lender within the required time frame.

Disbursement Notifications

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or 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).

For all Perkins and FFELP disbursements tested for 50 students, the University did not have documentation that it had sent the required disbursement notification within the required time frame. The University's newly implemented Student Financial Aid System does not have the capability to capture when disbursement notifications are sent by the system.

Access to PeopleSoft (Student Financial Aid System)

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The University does not maintain appropriate access to PeopleSoft, its student financial aid software. Of the 58 users tested, all were IT users with super user access. This level of access provided these users with modify access to the disburse aid with override option, which allows them the capability of disbursing aid to a student while overriding all checks in PeopleSoft that are tied to disbursement. The University has not performed a review of its employees' PeopleSoft access since migrating to the new system. Information Technology support staff in the Student Financial Aid area are unaware of the level of access to the PeopleSoft permission lists.

Recommendations:

The University should:

- Ensure that it does not hold funds for more than the maximum allowed number of days.
- Ensure that documentation is available to support disbursement notifications provided to students.
- Restrict access to PeopleSoft based on job duties and responsibilities, limit the number of super users, and periodically review access levels to ensure that appropriate access is granted.
- Ensure information technology support staff are trained to understand the level of access to the various permission lists in PeopleSoft.

Management Response and Corrective Action Plan:

We will develop written procedures to help ensure that funds are not held for more than the maximum allowed days.

Implementation Date: *February 28, 2009*

Responsible Person: *Tina Chargois*

We have modified the Financial Aid System to send emails to students for all disbursements and to provide for an audit trail to document notifications.

Implementation Date: *January 31, 2009*

Responsible Person: *Sal Loria, Jr.*

We hired a new Assistant Director of IT who is responsible for monitoring access controls. We reviewed the listing of all individuals who had access to the Financial Aid System and removed super-user access of all users who were not employees of the Financial Aid Office. We will implement procedures to provide for a periodic review of Financial Aid System access based on the job duties and responsibilities and will modify access, accordingly. The Financial Aid Assistant Director of IT and her staff will receive training on PeopleSoft security to gain knowledge of how the system is configured.

Implementation Date: *February 28, 2009*

Responsible Persons: *Mary Comerota and Susie Winters*

Reference No. 09-86

Special Tests and Provisions - Return of Title IV Funds

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable and CFDA 84.063 P063P072333
Type of finding - Material Weakness and Material Non-Compliance

Questioned Cost: $10,259

U.S. Department of Education

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs as prescribed by Title 34, Code of Federal Regulations, Section 668. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (Title 34 Code of Federal Regulations, Sections 668.22(a)(1)-(3)). For remaining amounts of Federal Family Education Loan Program (FFELP) and Direct Loan Program funds disbursed directly to the student for the payment period or period of enrollment (including funds disbursed directly to the student by the lender for a study-abroad program or for a student enrolled in a foreign school), the institution must immediately notify the lender or the Secretary of the U.S. Department of Education, as appropriate, when it becomes aware that the student will not or has not begun attendance so that the lender or the Secretary will issue a final demand letter to the borrower in accordance with Title 34, Code of Federal Regulations, Section 682.412, or Title 34, Code of Federal Regulations, Section 685.211 (Title 34, Code of Federal Regulations, Section 668.21(a)(2)).

The University of Houston (University) does not consistently return Title IV funds in a timely manner, does not consistently return funds in the proper amount, and does not consistently reimburse the appropriate Federal program. Specifically:

For 32 (67 percent) of 48 students with returns tested, return of funds was not completed in a timely manner.

For 10 (20 percent) of 50 students tested, the withdrawal date shown on the Return of Title IV worksheet was not accurate when compared to student records; the amount of the return was not calculated accurately; the payment period was not shown to be used consistently; and the percentage of aid earned by the student was not calculated correctly. For 8 (80 percent) of those 10 students, the University had not completed the Return of Title IV Funds calculation worksheet as of the time of audit testing.

For 16 (32 percent) of 50 students tested, the correct amount of aid was not returned by the University. For six of these students, the University had calculated returns to be made, but it had not yet made the returns, resulting in questioned costs of $9,434.

For 9 (18 percent) of 50 students tested, funds returned were not allocated among federal programs in the correct order.

For two (100 percent) of two students tested for whom post-withdrawal disbursements were necessary, applicable requirements were not met. For one of these students, the amount of the post-withdrawal disbursement was too large, resulting in a questioned cost of $825.

Further questioned costs may exist in the cases for which Return of Title IV worksheets have not been completed, but because the worksheets have not been completed, the amount of these additional questioned costs could not be determined.

For students who attended and withdrew but did not have returns, for 4 (40 percent) of 10 students tested, the withdrawal date on the Return of Title IV Funds worksheet was not supported by student records. For all four students, the University had not completed the Return of Title IV Funds worksheet. Therefore, for these four students, the amount of funds returned was not calculated correctly, there was not a consistent use of payment period, and the percentage of aid earned by the student was not calculated correctly. Because the worksheets have not been completed, the amount of these additional questioned costs could not be determined.

The University had difficulty providing the populations to be tested because it had difficulty using the PeopleSoft information system to identify students who unofficially withdrew. In addition, the University had difficulty identifying students who received aid but are known not to have begun attendance. For the one student identified who received aid but never began attendance, the University fulfilled all requirements except the requirement to notify the lender or Secretary of the U.S. Department Education, as appropriate. The University did not retain any documentation that it notified the lender or Secretary of the U.S. Department of Education that the student withdrew.

Recommendations:

The University should:

- Review its records for the 2007-2008 award year to identify all students for whom returns of Title IV funds still need to be made, and it should complete the necessary returns as promptly as possible.
- Implement controls to ensure that returns of Title IV funds are completed in a timely manner and in accordance with federal regulations.
- Ensure that it can identify within its financial aid system students who unofficially withdraw and who received aid but did not begin attendance.
- Retain documentation of notifying the lender or Secretary of the U.S. Department Education when students withdraw.

Management Response and Corrective Action Plan:

We are in the process of reviewing records for the 2007-2008 award year to identify all students for whom returns of Title IV funds still need to be made. We have implemented enhanced policies and procedures to help ensure that a.) returns of Title IV funds are completed in a timely manner in accordance with federal regulations; b.) identify students in the Financial Aid System who unofficially withdraw and who received aid but did not begin attendance and c.) document notifications to the lender or Secretary of the U.S. Department of Education when students withdraw.

Implementation Date: *April 30, 2009*

Responsible Person: *Jessica Thomas*

Reference No. 09-87

Special Tests and Provisions - Student Status Changes

(Prior Audit Issue 08-74 and 07-58)

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Material Weakness and Material Non-Compliance

Questioned Cost: $ 0

U.S. Department of Education

Unless an institution expects to submit its next student status confirmation report to the U.S. Secretary of Education or the guaranty agency within the next 60 days, it must notify the guaranty agency or lender within 30 days, if it (1) discovers that a Stafford, Supplemental Loan for Students (SLS), or Parent Loans for Undergraduate Students (PLUS) has been made to or on behalf of a student who enrolled at that institution, but who has ceased to be enrolled on at least a half-time basis; (2) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (3) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (4) discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address (Title 34, Code of Federal Regulations, Section 682.610(c)).

The University of Houston (University) uses the services of the National Student Clearinghouse (NSC) to report status changes to the National Student Loan Data System (NSLDS). Under this arrangement, the University reports all students enrolled and their status to NSC, regardless of whether those students receive federal financial assistance. NSC then identifies any changes in status and reports those changes when required to the respective lenders and guarantors. Additionally, NSC completes the roster file on the University's behalf and communicates status changes to NSLDS as applicable. Although the University uses the services of NSC, it is still ultimately the University's responsibility to submit timely, accurate, and complete responses to roster files and to maintain proper documentation (NSLDS Enrollment Reporting Guide, Chapter 3.1.1.3).

For 29 (71 percent) of 41 student status changes tested, the University either did not report to NSLDS or did not report to NSLDS within the required 60-day time frame. Specifically:

For 20 (69 percent) of the 29 students their change in status was not reported to NSLDS for the time period tested. Specifically:

- Eleven of the 20 students were shown as having graduated; however, NSLDS did not have a graduated status reflected in the students' record.
- Six of the 20 students were shown as changing to less than full-time status, which was not reflected in NSLDS.
- One of the 20 students changed to less than half-time status, and the change was not reported to NSLDS.
- One of the 20 students withdrew, and the change was not reported to NSLDS.
- One of the 20 students dropped out, and the change was not reported to NSLDS.

For nine (31 percent) of the 29 students, their status change was reported; however, it was not reported in a timely manner.

All 29 student status changes that were not reported to NSLDS or were not reported to NSLDS in a timely manner also were not reported to the lendor/guarantor within the required 30-day time frame.

The University had difficulty using the PeopleSoft information system to identify students with status changes during the year, and it also had difficulty providing the populations that auditors requested for testing. The University expressed that the system may have pulled all students who dropped a course, but the drop did not result in a change in status.

The University does not have documented policies and procedures for updating student status for Federal Family Education Loan Program (FFELP) and Direct Loan Program recipients.

Recommendations:

The University should:

- Implement changes to its reporting procedures to ensure that student status changes are reported to NSLDS and the lender/guarantors within the required time period.

- Ensure it is capable of identifying students who have a change in status in order to make accurate reports to NSLDS.

Management Response and Corrective Action Plan:

We are in the process of determining the nature of the errors and we plan to modify our business practices, reporting procedures and enrollment services information systems as necessary to help ensure that student status changes are identified and reported to NSLDS and the lender / guarantors within the required time period.

Implementation Date: *April 1, 2009*

Responsible Persons: *Debbie Hermann and Sal Loria, Jr.*

University of North Texas Health Science Center at Fort Worth

Reference No. 09-88

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2007, to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable; CFDA 84.038 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Disbursement Notification Letters

Questioned Cost: $ 0

U.S. Department of Education

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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).

The University of North Texas Health Science at Fort Worth (Health Science Center) e-mailed right-to-cancel notifications to students and then archived the e-mails. However, the archiving process in the e-mail application failed to archive all of the e-mails. As a result, the Health Science Center could not provide evidence that it had sent the notifications within the required time frames. For 39 of 39 (100 percent) students tested, there was no evidence that the student received one or both of the notifications for the fall and spring semesters. For 18 of those 39 (46 percent) students, the Health Science Center provided evidence for the fall notification, but not for the spring notification. This affected a total of 77 disbursements. The notifications contained the required information.

Recommendation:

The Health Science Center should ensure that it retains documentation indicating that it sent all right-to-cancel notifications to FPL and FFELP loan recipients.

Management Response and Corrective Action Plan:

Management agrees with the findings of the auditor. The process by which students are notified of the Federally mandated Right to Cancel has been changed effective summer 2008. Manual notification via email and archival through the university's Graupwise email system has been replaced with programmatic notifications and archival through the institution's document imaging system. Every Friday, any student who received a Federal Perkins Loan or Federal Family Education Loan Program disbursement is automatically sent via email the required rights of cancellations and how to request such a cancellation. These emails are then routed to the student's permanent file which is housed in the UNTHSC imaging system.

Implementation Date: *August 2008*

Responsible Person: *R. Michael Haynes*

University of Texas at Austin

Reference No. 09-89
Special Tests and Provisions - Verification

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.063 P063P072336, CFDA 84.376 P376S072336, CFDA 84.038 Award Number Not Applicable, and CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Education

The primary factors considered in determining whether a student is eligible for federal financial assistance are cost of attendance (COA) and expected family contribution (EFC). The EFC is the amount a student and his or her family are expected to pay for educational expenses, and it is determined based on financial information provided by the student and parent(s) on the Free Application for Federal Student Aid (FAFSA). The information on the FAFSA is subject to verification (Title 34, Code of Federal Regulations, Sections 668.51, 668.52, and 668.56).

An institution must verify all FAFSAs that have been selected for verification. Items that are required to be verified include household size; number of household members who are in college; adjusted gross income (AGI); U.S. income taxes paid; and certain types of untaxed income and benefits such as Social Security benefits, child support, individual retirement account and Keogh account deductions, foreign income exclusion, earned income credit, and interest on tax-free bonds (Title 34, Code of Federal Regulations, Section 668.56).

The University of Texas at Austin (University) participates in the Quality Assurance Program (QAP) designed by the U.S. Department of Education. Under the QAP, participating institutions develop and implement a quality improvement approach to federal student assistance program administration and delivery. The QAP provides participating institutions with an alternative management approach to develop verification that fits their population. As a part of the quality improvement for the verification process, the University's policy requires verifying wages and income exclusions in addition to all of the items required by Title 34, Code of Federal Regulations, Section 668.56.

For the 2007-2008 award year, the University did not properly verify all required items on the FAFSAs. Auditors identified the following errors:

- For one (4 percent) of 26 students tested, the student's adjusted gross income (AGI) was incorrect. The counselor conducting verification entered the student's wages of $2,960 as the student's AGI instead of entering the actual student's AGI of $3,723. This was a manual entry error. The student's EFC did not change as a result of this, and the amount of financial aid awarded would not change; therefore, there was no questioned cost.

- For one (2 percent) of 50 students tested, the amount of tax-exempt interest was incorrect. The counselor conducting verification did not include $9 of tax-exempt interest from the parent's tax return. This was a manual error. Using this information would have changed the student's EFC by $3. This student received only loans, and the amount of financial aid awarded would not change with the correct EFC; therefore, there was no questioned cost.

Recommendation:

The University should implement a process to ensure that counselors use accurate information during the verification process.

Management Response and Corrective Action Plan:

Management will direct the OSFS Information Technology team to produce a "verification" review sheet which will print the applicant-reported verification items along with fields for the counselor performing verification to record the amounts from the applicant source documents (e.g., IRS income tax forms). These review sheets and the verification results will be sampled by the counselors' supervisors for accuracy and any issues identified will be discussed between the supervisor and the counselor. In addition, verification cases (and possible sources of errors) will be discussed at counselor meetings.

Counselors will be provided with verification "block time" - a regularly scheduled time period where the counselor will verify files without interruptions. Focused attention on the verification task should help with both accuracy and timeliness.

Verification training for all counselors will occur prior to the start up of this process – as it has in years past. The length of training time will be expanded by 50% compared to the verification training conducted in Spring 2008. Counselors are provided with sample cases, income tax forms, verification manuals and other reference materials during this training.

While there is a finding regarding completeness, no instances of inappropriate expenditures of federal student aid dollars were noted in the sample cases.

Implementation Date: *March 2009*

Responsible Person: *Diane Todd Sprague*

Reference No. 09-90

Special Tests and Provisions - Return of Title IV Funds

(Prior Audit Issue - 08-77)

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable; CFDA 84.038 Award Number Not Applicable; and CFDA 84.063, P063P072336
Type of finding - Significant Deficiency and Non-Compliance

Calculating the Incorrect Return of Title IV Amount

Questioned Cost: $ 0
U.S. Department of Education

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV aid earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs and no additional disbursements may be made to the student for the payment period or period of enrollment. If the amount the student earned is more than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (Title 34, Code of Federal Regulations, Section 668.22(a) (1)-(4)).

The amount of earned Title IV grant or loan assistance is calculated by determining the percentage of Title IV grant or loan assistance that has been earned by the student and applying that percentage to the total amount of Title IV grant or loan assistance that was or could have been disbursed to the student for the payment period or period of enrollment as of the student's withdrawal date. A student earns 100 percent if his or her withdrawal date is after the completion of 60 percent of (1) the calendar days in the payment period or period of enrollment for a program measured in credit hours or (2) the clock hours scheduled to be completed for the payment period or period of enrollment for a program measured in clock hours (Title 34, Code of Federal Regulations, Section 668.22(e)(2).)) Otherwise, the percentage earned by the student is equal to the percentage (60 percent or less) of the payment period or period of enrollment that was completed as of the student's withdrawal date. The percentage of Title IV grant or loan assistance that has not been earned by the student is the complement of one of these calculations.

The unearned amount of Title IV assistance to be returned is calculated by subtracting the amount of Title IV assistance earned by the student from the amount of Title IV assistance that was disbursed to the student as of the date of the institution's determination that the student withdrew (Title 34, Code of Federal Regulations, Section 668.22(e)).

For 16 (33 percent) of 49 returns tested, the University of Texas at Austin (University) incorrectly calculated the amount of Title IV aid earned and amount to be returned. These errors occurred because the period of enrollment percentage was calculated to three decimal places instead of being calculated to four decimal places and rounded to three decimal places. The errors were identified during the University's review process, which took place after the funds were required to be returned. There are no questioned costs because,, the University (and students) returned, on a net basis, $89.90 more to Title IV programs than was required to be returned. Specifically:

- Seven of the 16 returns resulted in the University returning, on a net basis, $132.31 more than was required to be returned.

- Nine of the 16 returns resulted in the University returning $41.98 less than was required to be returned.

For seven (14 percent) of 49 returns tested, the student returned the incorrect amount of Title IV assistance. Specifically, 4 of these 7 returns resulted in the students returning, on a net basis, $110.85 more than was required to be returned. In addition, 3 of these 7 returns resulted in the students returning $111.28 less than was required to be returned.

Additionally, auditors tested a sample of ten students who withdrew or dropped out and purportedly did not have a return. For 1 (10 percent) of 10 students' return calculations tested, the amount of the return was calculated incorrectly. As a result, the University returned $0.77 less than it should have returned, and the student returned $1.69 less than should have been returned.

Returning Title IV Funds After the 45-day Required Timeframe

Returns of Title IV funds are required to be deposited or transferred into the student financial aid account or electronic fund transfer must be initiated to the U.S. Department of Education or the appropriate Federal Family Education Loan Program (FFELP) lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew (Title 34, Code of Federal Regulations, Section 668.173(b)).

For 5 (11 percent) of 47 returns tested, the University did not return Title IV funds within 45 days of the students' determined withdrawal date.

Recommendations:

The University should:

- Implement a process to ensure that it accurately performs the return of Title IV funds calculation.
- Strengthen controls to ensure that it returns Title IV funds within 45 days of determining a student's withdrawal date.

Management Response and Corrective Action Plan:

The Office of Student Financial Services at the University of Texas at Austin immediately corrected the error regarding the number of decimal places used in the return of Title IV aid.

To strengthen the return of Title IV (R2T4) process, OSFS senior administrators will revisit the evaluation of the federal software, as well as expand our search for support to include other third-party R2T4 software products designed specifically for that purpose. Development of OSFS written software will be explored also as an alternative.

Currently R2T4 responsibilities are assigned to the counseling staff as a part of their many administrative duties. Management understands that R2T4 functions are performed by other administrative staff at other schools and universities. OSFS will evaluate the benefit of centralization of the R2T4 responsibility in one area and likely assign a staff member without student caseload functions (with the necessary training and back up) to help insure compliance with both the required timelines and accuracy.

Implementation Date: *March 2009*

Responsible Person: *Diane Todd Sprague*

Reference No. 09-91

Special Tests and Provisions - Student Loan Repayments

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.038 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Under the federal Perkins Loan Program institutions must contact borrowers during their initial and post deferment grace periods. The institution must contact the borrower three times during their initial nine-month grace period (Title 34 Code of Federal Regulations Section 674.42 (c)(1)(i)). The institution must contact the borrower for the second time 150 days after the beginning of any grace period (Title 34 Code of Federal Regulations Section 674.42 (c)(2)(ii)).

Questioned Cost: $ 0

U.S. Department of Education

The University of Texas at Austin (University) did not make second contact with the borrower within 150 days after the start of their initial nine-month grace period for 24 (53 percent) of 45 defaulted Perkins loan borrowers tested.

Recommendation:

The University should ensure that it makes second contact with Perkins loan borrowers 150 days after the start of their initial nine-month grace period.

Management Response and Corrective Action Plan:

As noted by the auditors, federal Perkins Loan regulations require three contacts during the initial grace period for Perkins borrowers. The program which generates our grace letters, SLNW201A, will be modified so that a letter is sent 150 days after the beginning of the initial grace period in addition to the letters currently sent 90 days after the beginning of the initial grace period and 240 days after the beginning of the initial grace period.

Implementation Date: *March 2009*

Responsible Person: *Karen DeRouen*

Reference No. 09-92

Allowable Costs/Cost Principles

(Prior Audit Issues 08-78)

Research and Development Cluster

Award year - August 1, 2007, to July 31, 2008; December 1, 2007, to November 30, 2008; July 1, 2008, to June 30, 2009; August 1, 2007, to July 31, 2008; January 1, 2008, to December 31, 2008

Award number - CFDA 47.049 CHE-0412609; CFDA 93.242, 5 R01 MH041770-19A1; CFDA 93.859, 5 R01 GM054409-11A1; CFDA 93.855, 1 R01 AI 064886-01; CFDA 93.396, 2 R01 CA031534-24

Type of finding - Significant Deficiency and Non-Compliance

Internal Service Charge

Questioned Cost: $ 0

National Science Foundation
U.S. Department of Health and Human Services

Direct costs are costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or facilities and administrative (F&A) costs. Where an institution treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances shall be treated as direct costs of all activities of the institution (Office of Management and Budget Circular A-21, Section D, Subsection 1). Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as F&A costs (Office of Management and Budget Circular A-21, Section F, Subsection 6.b (3)).

The University of Texas at Austin's (University) policy specifies that following charges should not normally be included as direct charges to federal contracts and grant, including federal pass-throughs (that is, the charges are considered to be generally unallowable costs):

- Local telephone costs (includes purchase, installation, and monthly line charges) Only when dedicated lines are required by the project scope of work and approved by the sponsor in the project budget, are local telephone costs allowable as direct charges to a federal project. This also applies to the cost of pagers, cellular telephones, data transfer lines, and fax lines. Reasonable and necessary long distance charges are allowable as a direct cost only when identifiable with a project (University of Texas at Austin Policy http://www.utexas.edu/research/osp/allowable_cost_policy.pdf, Attachment A).

The University's policy also specifies that:

- The cost of office supplies, local (basic) telephone costs, memberships, and subscriptions are treated as indirect costs, except under conditions that the University considers "unlike circumstances" under Cost Accounting Standards (CAS) 502 and as outlined in the University's direct cost policy (University of Texas at Austin Disclosure Statement, http://www.utexas.edu/business/accounting/pubs/DS-2.pdf, section 2.1.0, page 17 of 43).

For 1 (10 percent) of 10 internal service items tested, the University charged telephone equipment and basic line charges as a direct cost. Per federal requirements and University policy, these should have been included in the indirect charges. The direct amount charged was $1,265.40. The University has corrected this by removing the charge from the federal account.

National Institutes of Health Salary Cap

Appropriated funds for the National Institutes of Health (NIH), the Agency for Healthcare Research and Quality, and the Substance Abuse and Mental Health Services Administration shall not be used to pay the salary of an individual, through a grant or other extramural mechanism, at a rate in excess of Executive Level I (Public Law 110-005, Revised Continuing Appropriations Resolution, 2007). The Executive Level I annual salary rate was $186,600 for the period from January 1, 2007, through December 31, 2007. Effective January 1, 2008, the Executive Level I salary level increased to $191,300 (NOT-OD-08-035, Salary Limitation on Grants, Cooperative Agreements, and Contracts, http://grants.nih.gov/grants/guide/notice-files/NOT-OD-08-035.html).

The University did not adequately monitor the salary and wages charged to the U.S. Department of Health and Human Services NIH grants. For 2 of 5 researchers (representing 3 of 12 grants) tested, the University did not include cost sharing accounts on the effort certifications. Without the cost sharing accounts, the University could charge salaries to NIH grants in excess of the NIH salary cap. The University has updated the effort certification to include the cost sharing accounts, and the amount charged to NIH grants was not in excess of the salary cap.

For 1 (20 percent) of 5 researchers (representing 1 of 12 grants), the University showed an allocation of $15,940 for August 2008. However, there was no effort certification for this researcher for that time period. This was the result of a timing difference. The pay allocation was for the last month of the fiscal year and did not get initiated until fiscal year 2009. The University has corrected this and the researcher certified his effort. The amount charged was not in excess of the NIH salary cap.

Recommendations:

The University should:

- Ensure that internal service charges are allowable according to the cost principles of OMB Circular A-21 and University policies.

- Ensure that employees at risk of exceeding the salary cap have been trained in University procedures and that cost share information is appropriately included in effort certifications.

Management Response and Corrective Action Plan:

In response to the prior year audit finding regarding salary cap, the University developed a monthly process of appointment review on accounts funded by NIH and have documented a procedure which outlines our actions. The process was begun in February 2008 and includes report monitoring, researcher and department correspondence/notification, and tracking. We also developed a calculator designed to assist the researcher and department in determining the correct amount of salary that can be applied to a grant in accordance with the cap and the amount of cost sharing being provided as a result of the cap. The calculator is intended to assist the researcher and department with appointment management and effort certification.

During FY07-08, 19 researchers were identified as possibly being affected by NIH Cap regulations. Under our review process, those individuals were provided information concerning the NIH Cap. Since this was a new process for FY07-08, the two researchers were unaware that the cost share piece associated with the cap excess had to be manually accounted for within the University's Effort Certification System.

The University believes the efforts previously taken to address the NIH Cap are appropriate and the recommendation has been implemented. We will continue to coordinate with the affected campus to provide notice and training on the process.

The University agrees with the finding outlined regarding internal service charges and has designed the control measures, described below, to ensure consistent costing treatment of direct and indirect costs.

Periodic integrity checks will be performed for all sponsored agreements. The integrity checks will query for select expenditures on object codes that are customarily indirect charges. The report will be used in an effort to identify charges in the select object code range that are not allowed within the approved budget and scope of work.

Based on the integrity checks, a table of known and allowed exceptions will be developed. The exception table can be run against the original integrity check to weed out known exceptions thereby reduction review time.

Implementation Date: *March 2010*

Responsible Person *Janie Kohl*

Reference No. 09-93

Davis-Bacon Act

Research and Development Cluster
Award year - September 1, 2006, to August 31, 2008
Award number - CFDA 11.420, NA06NOS4200199
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Commerce

When required by the Davis-Bacon Act, the U.S. Department of Labor's (DOL) government wide implementation of the Davis-Bacon Act, or by federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (Title 40, United States Code (USC), Sections 3141-3144, 3146, and 3147 (formerly Title 40, USC, Sections 276a to 276a-7)).

Non-federal entities shall include in construction contracts that are subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (Title 29, Code of Federal Regulations, Part 5, Labor Standards Provisions Applicable to Contacts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (Title 29, Code of Federal Regulations, Sections 5.5 and 5.6). This reporting is often done using Optional Form WH-347, which includes the required statement of compliance (Office of Management and Budget No. 1215-0149).

The University of Texas at Austin (University) includes a prevailing wage clause in the special terms and conditions of all of its contracts. However, the University does not require the submission of certified payrolls on a weekly basis. The University requests payrolls only if there are complaints.

Recommendation:

The University should ensure that it receives certified payrolls on a weekly basis for all construction contracts that exceed $2,000 and that are financed with federal funds.

Management Response and Corrective Action Plan:

The University of Texas at Austin agrees that the issue of applicability of the federal Davis-Bacon Act requirements to construction contracts requires further review. In coordination with the UT System Office of General Counsel and the Office of Facilities Planning and Construction, we will continue to research the applicability of the Davis-Bacon Act to our construction contracts. Once it is determined whether, and in what way, the Davis-Bacon Act applies, we will develop a business process for incorporating Davis-Bacon Act requirements into appropriate construction contracts.

Implementation Date: *December 2009*

Responsible Person: *Robert G. Miller*

Reference No. 09-94

Equipment and Real Property Management

(Prior Audit Issue - 08-79)

Research and Development Cluster
Award year - Multiple
Award number - All Grants with Equipment and Real Property Requirements
Type of finding - Significant Deficiency and Non-Compliance

A recipient's property management standards for equipment acquired with federal funds and federally-owned equipment must require that equipment records be maintained accurately and include the location and condition of the equipment. Additionally, equipment owned by the federal government must be identified to indicate federal ownership (Office of Management and Budget Circular A-110, Subpart C, 34.f).

Questioned Cost: $ 0

Federal Agencies that Provide R&D Grants

The University of Texas at Austin (University) has a policy that requires equipment with a unit cost of $5,000 or more be assigned to a departmental inventory. In addition, the Office of the Texas Comptroller of Public Accounts (Comptroller's Office) defines controlled items as items with a unit cost of $500 to $4,999.99. The Comptroller's Office also requires that controlled item be assigned to a departmental inventory. The University's policy states that its Inventory Services Department will affix a numbered property control plate to the property (or assign an inventory number) and enter appropriate data on the University's computerized inventory system (Handbook of Business Procedures, Section 16.2.A).
Inventory records for 11 (22 percent) of 50 equipment items tested contained inaccurate information about the equipment. Specifically:

- For eight of these items, the University tagged the equipment with a different inventory number than was shown in its inventory records. The University assigned seven of these equipment items temporary inventory numbers during its year-end inventory process. It subsequently assigned new inventory numbers to the equipment, but it had not yet updated its inventory records to reflect these new numbers. One item had been assigned an inventory number, but the item was not tagged. The item was later tagged with a different number, but the inventory record had not been updated.

- For two of these items an inventory number had not been affixed to the equipment. One item was assigned a temporary inventory number during the year-end inventory process, but it was not tagged. One item had been assigned an inventory number, but the item was not tagged.

- For seven of these items, the inventory record for the equipment did not contain accurate information about the location of the equipment. (Six of these exceptions overlapped with the exceptions noted above).

The University has updated the inventory records for the 11 items discussed above.

Recommendation:

The University should update all inventory records to reflect the most accurate information.

Management Response and Corrective Action Plan:

The University concurs with the finding. The current year-end inventory process is to assign temporary inventory numbers to assets to enable the items to be included for year-end reporting. The University's computerized inventory system is locked down at year end to allow for reporting and reopened in October for daily processing. While the system is locked down, self-tagging departments and Inventory Services continue to tag items. Once the inventory system is reopened, Inventory Services staff updates the records and assign permanent inventory numbers as designated by the self-tagging departments or Inventory Services taggers. Although it is unlikely to be completed this year, one of the current IT priorities for Inventory System enhancements is to keep the system open thereby allowing continual updating of records concurrently with year-end processing for financial reporting purposes.

Location information is required in the University's computerized inventory system. Department comments can also be entered in the system for additional information. Through semi-annual Inventory Group Focus meetings and on-line re-certification training for Inventory Contacts, we will continue to educate department personnel on the critical nature of the timeliness of the tagging process. As part of training, Inventory Services will also stress where, how and when to update location information for capital assets.

Other enhancements include the creation an Access database for Inventory Service's taggers to enter their daily tagging information allowing tagging data to be located in a central location. The Inventory system will be updated monthly with downloads from this Access database. In addition, when assigning temporary numbers at year-end, Inventory Services will review the purchase order to verify the location of the asset. In conjunction with the above improvements, Inventory Services staff will begin conducting spot audits of capitalized assets in March 2009.

Implementation Date: *August 2009*

Responsible Person: *Cynthia A. Gregg*

Reference No. 09-95

Matching, Level of Effort, Earmarking

(Prior Audit Issues 08-80, 07-69, and 06-63)

Research and Development Cluster
Award year - Multiple
Award number - All Grants with Matching Requirements
Type of finding - Significant Deficiency

Questioned Cost: $ 0

Federal Agencies that Provide R&D Grants

Non-federal entities may be required to share in the cost of research. The specific program regulations, general agency award guidance, or individual federal award will specify applicable matching requirements, including the minimum amount or percentage of contributions or matching funds provided by the institution (Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 5, Section G). The matching contributions must also comply with the requirements of OMB Circular A-110, Section .23, including the allowable cost principles of OMB Circular A-21. These requirements include that matching contributions must be from allowable sources, must value in-kind contributions according the principles of OMB Circular A-21 and the terms of the award, and must be composed of allowable costs.

The University of Texas at Austin (University) does not have an adequate system for monitoring whether it meets required matching contributions. The University's system for tracking its matching contributions is decentralized, and each department is responsible for maintaining its own documentation of contributions.

In addition, the information maintained for matching did not include whether the match was mandatory per the grant agreement or volunteered by the University. The information also does not identify which grants were federal research and development grants. Of the 30 grants selected for testing, only one was a federal research and development grant and had a required match in fiscal year 2008.

Despite this control deficiency, the University was able to provide sufficient evidence showing that it complied with applicable matching requirements and award terms for the one grant tested.

Recommendations:

The University should:

- Develop an adequate system of monitoring compliance with matching requirements.
- Identify federal research and development grants and whether a match is required or voluntary in the information it maintains.

Management Response and Corrective Action Plan:

The University concurs with the recommendation regarding the need for an adequate system of monitoring compliance with matching requirements. University leadership will charge a taskforce to study the options available to meet this monitoring initiative. Based on efforts in 2008 to initiate companion accounts, the University has identified vested stake holders in multiple central administrative units. The leadership of those units will serve as the taskforce sponsors. The University requests that the State Auditor shares any best practices that the State Auditor has observed during the Statewide A-133 process at other locations so those approaches can be reviewed.

The University also concurs with the recommendation for a process to distinguish between a match that is required or is voluntary for specific federal grants. To coincide with the manual collection of matching information on the Cost Share Recap form (which includes a notation of Mandatory and Voluntary) the University will modify the pre-award system to include a data element to distinguish between the two types. This data will be included in the population download normally used in the A-133 audit process.

Implementation Date: *Taskforce creation and charge - December 2009*
Modification of the pre-award system - June 2009

Responsible Person: *Taskforce creation and charge - Juan Sanchez*
Modification of pre-award system - Jason Richter

University of Texas at Dallas

Reference No. 09-96
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 P063P073234, P375A073234, P376S073234, P033A074174, and P007A074174
Type of finding - Significant Deficiency and Non-Compliance

Access to the Student Information System

Questioned Cost: $ 0

U.S. Department of Education

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The University of Texas at Dallas (University) did not maintain appropriate access to its Student Information System (SIS). Employees in the financial aid office had excessive access, with the capability of registering, dropping, and adding students; deleting and modifying student identification numbers; modifying the disbursement schedule and fund budget tables; and modifying the students' accounts screen. In addition, employees in the bursar's office had excessive access, with the capability of issuing refunds and modifying students' personal records (such as physical mailing addresses). Three individuals who were no longer employed in the bursar's office still had active access to SIS.

Calculation of the Cost of Attendance

The determination of the federal student assistance award amount is based on financial need. Financial need is defined as the student's cost of attendance minus the expected family contribution (EFC). For Title IV programs, the amount of financial resources available is generally the EFC that is computed by the federal central processor and included on the student's Institutional Student Information Report (ISIR) that is provided to the institution. Awards must be coordinated among the various programs and with other federal and non-federal assistance to ensure that total assistance is not awarded in excess of the student's financial need (Federal Perkins Loan, Federal Work Study, and Federal Supplemental Educational Opportunity Grant, Title 34, Code of Federal Regulations, Sections 673.5 and 673.6; Federal Family Education Loans, Title 34, Code of Federal Regulations, Section 682.603(d) (2)).

The phrase "cost of attendance" refers to the "tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." The institution may also include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087ll).

For 2 (4 percent) of 50 students tested, the University calculated the cost of attendance budgets incorrectly. Specifically:

- One student's tuition was entered into the Financial Aid System as $712 less than it should have been. This caused the student's cost of attendance to be less than it actually was. The student would have been eligible for an additional $540 in financial assistance if the tuition had been entered correctly. However, the student attended summer school and received the additional financial assistance then.

- Another student's cost of attendance was calculated as if the student were living with the student's parents when the student was living off campus and not with the student's parents. This caused the cost of attendance to be lower than it actually was. However, the student was offered the maximum amount of financial assistance that could have been received.

Recommendations:

The University should:

- Restrict access to SIS screens based on employees' job duties and responsibilities, and periodically review employee access levels to ensure that appropriate access is granted and that separation of duties exists.

- Remove SIS access for the three individuals who are no longer employed in the bursar's office.

- Implement a control procedure to ensure that cost of attendance is calculated correctly in the Financial Aid System and that this system reflects the approved University budget.

Management Response and Corrective Action Plan:

1. *One of the employees with excessive access was a former employee of the Registrar's Office. His access has now been modified to remove his ability to perform Registrar type functions. The other employee with excessive access is no longer an employee of the university.*

   To ensure redundancy due to the conversion to PeopleSoft, we have Admin Team members who are out working on the project. Having additional admin team members with full access to the student system is important in order for our students to be served in a timely manner. Once the conversion to PeopleSoft is complete access to the student system will be modified.

2. *Since this audit, extensive training on making sure the correct cost of attendance is offered has been completed. Once the conversion to PeopleSoft is complete, the students' cost of attendance will be built based on what the student indicates on the Institutional Student Information Record (ISIR) (i.e., living with parents or living on campus).*

Implementation Date: *Summer Semester 2009*

Responsible Person: *Dr. Karen Jarrell*

Reference No. 09-97

Procurement and Suspension and Debarment

Research and Development Cluster
Award year - Multiple (2005, 2006, 2007, 2008)
Award number - CFDA 12.300 VOT-6847-01, CFDA 93.173 5R01PC00835-02, CFDA 12.800 FA9550-05-1-0393, CFDA 12.420 W8IXWH-07-1-0492, CFDA 12.800 FA9550-06-1-0403, CFDA 12.420 W8IXWH-07-1-0492, CFDA 47.070 4400131597, CFDA 12.420 W8IXWH-07-1-0492, CFDA 12.800 FA9550-05-1-0393, CFDA 84.305 R305B070581, and CFDA 12.300 N000
Type of finding - Significant Deficiency and Non-Compliance

Noncompliance with Requirement to Verify that Vendors Are Not Suspended or Debarred

Questioned Cost: $ 0

Office of Naval Research
U.S. Health and Human Services
National Science Foundation
U. S. Department of Education

Federal rules require that, when a non-federal entity enters into a covered transaction that is expected to equal or exceed $25,000 with an entity at a lower tier, the non-federal entity must verify that the entity at the lower tier is not suspended, debarred, or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the U.S. General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Office of Management and Budget Circular A-102, Grants and Cooperative Agreements with State and Local Governments, Section 1.d and A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart B.13; Executive Orders 12549 and 12689, Debarment and Suspension; Title 45, Code of Federal Regulations, Part 76, Government-wide Debarment and Suspension).

The University of Texas at Dallas (University) has a procurement policy (E2-190.1) that for all purchases expected to exceed $25,000, it will:

- Include in the bid package the Federal Suspension and Debarment Certification.
- Prior to award, verify the vendor status via the List of Parties Excluded from Federal Procurement and Non-Procurement Web site (http://www.epls.gov), and retain a verified copy.

For all 14 purchases the University made that exceeded or were equal to $25,000, the Procurement Management Office at the University did not have documentation indicating that it verified whether vendors for purchases equal to or above $25,000 were not suspended or debarred. The University did not maintain Federal Suspension and Debarment Certification copies in its procurement files as required by its policies and procedures. Auditors verified the 14 purchases made by the University were from vendors that were not suspended or debarred.

No Review and Approval of Purchase Orders

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have material effect on each of its Federal programs. (Office of Management and Budget Circular A-133, Subpart C, Section 300(b)).

A University of Texas System Board of Regents Rule (Series 10501 Section 5) allows the President of the University to delegate signature authority to execute and deliver purchase orders for routine purchases of equipment, supplies, goods, and services. The authority was placed with the University's Assistant Vice President for Procurement Management and the Purchasing Manager. The University's Methods *of Purchasing Policy E1-130.00 section 3* states:

> Purchase Requisition - used to start the normal procurement process; Procurement Management Department will check for proper approvals, encumber funds, and then secure required goods and/or services for the requisitioning department via issuance of a Purchase Order.

The Procurement Management Office at the University did not review and approve 1 (2 percent) of 50 purchases tested. Purchase Order 802398 (PO) was amended due to a "request to change the vendor." The original PO was dated May 5, 2008, and had the required approval signature of the Purchase Manager. However, the PO with the change vendor request dated May 29, 2008, did not have the proper approval signature of the Purchase Manager or the Assistant Vice President for Procurement Management; instead, it had the signature of a Procurement Management Office buyer.

Recommendations:

The University should:

- Retain evidence in its procurement files, such as screen prints, showing that it performed the required review of the EPLS Web site for all purchase orders expected to equal or exceed $25,000.

- Change the wording of policy E2-190.1 to state, "For purchases expected to equal or exceed $25,000" instead of "For purchases expected to exceed $25,000" to ensure full compliance with the suspension and debarment requirement.

- Ensure that the Assistant Vice President for Procurement Management or the Purchase Manager of the Procurement Management Office review and approve purchase order forms to ensure compliance with relevant requirements.

Management Response and Corrective Action Plan:

Noncompliance with Requirement to Verify that Vendors Are Not Suspended or Debarred

We concur and took immediate action to print out the vendor's status in the Excluded Parties List System (EPLS) for all future federally funded procurements equaling or exceeding $25,000. Although we checked the status prior to the audit, we failed to print the report and attach it to the purchase order file. This has been corrected. Wording of policy E2-190.1 will be changed as instructed to read "For purchases expected to equal or exceed $25,000". Additionally, the Assistant VP for Procurement Management reviews a monthly report of purchases equaling or exceeding $25,000 to verify that the proper documentation is in the file.

No review and approval of Purchase Orders

We agree that each and every purchase order, including "change" purchase orders, will be reviewed and approved by the Purchasing Manager or Assistant VP for Procurement Management.

Implementation Date: *Immediately, January 2009*

Responsible Person: *Pete Bond*

University of Texas at El Paso

Reference No. 09-98
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable
Type of Finding - Significant Deficiency and Non-Compliance

Satisfactory Academic Progress Policy

A financial aid Satisfactory Academic Progress (SAP) policy should include a quantitative component that consists of a maximum timeframe within which a student must complete his or her education (Title 34, Code of Federal Regulations, Section 668.16(e)). An eligible institution offering graduate programs must develop, disseminate, and consistently apply a policy defining the maximum timeframe graduate students have to complete their programs (U.S. Department of Education, *Student Financial Aid Handbook*, Volume 2, page 122).

Questioned Cost: $ 1,326

U.S. Department of Education

The University of Texas at El Paso's (University) SAP policy did not include a maximum timeframe of attempted hours within which graduate students must complete their programs. The policy stated, "Master, Certification and Doctoral candidates do not have a limit on attempted hours."

Federal Supplemental Educational Opportunity Grant Minimum Awards

A Federal Supplemental Educational Opportunity Grant (FSEOG) may not be awarded for less than $100 for a full academic year (Title 34, Code of Federal Regulations, Section 676.20).

The University awarded FSEOG amounts that were less than the $100 to seven students who attended for a full academic year. University staff stated that FSEOG was reduced in order to allow Academic Competitiveness Grants (ACGs), which resulted in the FSEOG awards of less than $100. The University applied an internal cap on grant awards to students who also received ACG.

Cost of Attendance and Stafford Loans

A student is eligible to receive a Stafford loan, and an independent undergraduate student, a graduate or dependent undergraduate student, is eligible to receive an unsubsidized Stafford loan, if the student who is enrolled or accepted for enrollment on at least a half-time basis at a participating institution meets the requirements for an eligible student under Title 34, Code of Federal Regulations, Chapter 668. In the case of any student who seeks an unsubsidized Stafford loan for the cost of attendance at an institution that participates in the Stafford Loan Program, the student must receive a determination of need for a subsidized Stafford loan (Title 34, Code of Federal Regulations, Section 682.201).

The University calculated the cost of attendance incorrectly for 1 (3 percent) of 40 students tested. The student registered full-time but attended three-quarters time. The University did not adjust financial assistance accordingly. As a result, the University awarded the student assistance in an amount that exceeded need by $1,326. The additional amount was an unsubsidized Stafford loan.

Recommendations:

The University should:

- Revise its SAP policy to define a maximum timeframe for each category of graduate student.
- Revise its grant award procedures to include controls to ensure that it awards FSEOG in compliance with federal regulations.
- Implement controls to ensure that it updates procedures such as SAP evaluation and grant awards promptly and accurately in the future.
- Implement controls to accurately recalculate cost of attendance and adjust Stafford loan awards based on changes in students' hours of enrollment.

Management Response and Corrective Action Plan:

Satisfactory Academic Progress Policy

Our SAP Policy has been revised to consistently apply a policy defining the maximum timeframe graduate students have to complete their programs.

Implementation Date: *January 30, 2009*

Person Responsible: *Maria Carrizales*

Federal Supplemental Educational Opportunity Grant Minimum Awards

The Office of Student Financial Aid has implemented procedures and controls within BANNER (the student information system) to ensure that we award FSEOG in compliance with federal regulations.

Implementation Date: *January 31, 2009*

Person Responsible: *Ron Williams*

Cost of Attendance and Stafford Loans

The university will implement controls to monitor and identify students whose Cost of Attendance needs to be recalculated due to a change in enrollment hours and adjust Stafford Loans if needed.

Implementation Date: *January 31, 2009*

Person Responsible: *Ron Williams*

Reference No. 09-99

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Disbursement Notifications

Questioned Cost: $ 0
U.S. Department of Education

If an institution credits a student's account at the institution with Federal Perkins (FPL) or Federal Family Education Loan Program (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 the 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).

Of 50 student accounts tested at the University, 35 (70 percent) required the University to notify the student or the student's parent about the disbursement. For 1 (3 percent) of the 35 accounts tested that required a disbursement notification (which constituted 1 of 104 disbursement notifications), the University could not provide evidence that it sent the required notification to the student or the student's parents during the required timeframe.

Recommendation:

The University should implement controls to notify students or parents when students' accounts are credited with federal loans, and send the notifications within required timeframes.

Management Response and Corrective Action Plan:

Disbursement Notifications

The university will implement additional controls and look at alternative means through the institutional FAMS (BANNER) to notify students or parents when student's accounts are credited with federal loans, and send the notifications in the required timeframes.

Implementation Date: *Spring 2009*

Responsible Person: *Ron Williams*

Reference No. 09-100

Allowable Costs/Cost Principles

Research and Development Cluster
Award year - Multiple
Award number - CFDA 12.630 HM1582-06-1-2047,CFDA 43.0002 UTEP006-060208, CFDA 81.089 DEFG26-05NT42491, CFDA 84.120 P120A070032B, CFDA 93.113 5 S11 ES013339-03, CFDA 12.901 H98230-06-C-0500, CFDA 93.859 5 R25 GM069621-04, CFDA 47.076 EHR-0227124, CFDA 93.243 5 H79 T117155-03, CFDA 12.630 2273-219, CFDA 47.076 HRD-0217691, CFDA 47.076 DUE-0631168, and CFDA 12.000 W9113M-08-C-0010
Type of finding - Significant Deficiency and Non-Compliance

Time and Effort Certification

The method of payroll distribution used by entities that receive federal awards must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and facilities and administrative cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Additionally, for professorial and professional staff, activity reports must be prepared each academic term, but no less frequently than every six months (Office of Management and Budget Circular A-21, Cost Principles for Educational Institutions, Section J, Subsection 10.

Questioned Cost: $32,706

U.S. Department of Defense
National Aeronautics and Space Adminsitration
U.S. Department of Energy
U.S. Department of Education
U.S. Health and Human Services
National Science Foundation

For 13 (92.8 percent) of 14 time and effort items tested at the University of Texas at El Paso (University), the employees' *Time and Effort Certification Reports* for the applicable period were not completed in a timely manner (completion was considered timely if it occurred within 30 days of receipt of the forms). For 4 (31 percent) of the 13, the employees' *Time and Effort Certification Reports* were certified more than 6 months from the expected certification date.

The University's time and effort certification policy in effect for fiscal year 2008 did not contain time limits for the completion of effort reporting. The policy stated only that the Office of Research and Sponsored Projects will deliver the *Time and Effort Certification Reports* to the principal investigator on a monthly basis. However, guidance from the University of Texas System on effort reporting policies requires that institutions implement effort polices that (1) require all *Effort Certification Reports* to be completed within 30 days of receipt of the forms and (2) include the consequences of not completing *Effort Certification Reports* in a timely manner (UTS-163 - Guidance on Effort Reporting Policy) http://www.utsystem.edu/policy/policies/uts163.html).

Indirect Cost Rate

Facilities and administration (F&A) costs shall be distributed to applicable sponsored agreements and other benefiting activities within each major function on the basis of modified total direct costs, consisting of all salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontracts up to the first $25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract). Equipment, capital expenditures, charges for patient care and tuition remission, rental costs, scholarships, and fellowships, as well as the portion of each subgrant and subcontract in excess of $25,000, shall be excluded from modified total direct costs. Other items may only be excluded where necessary to avoid a serious inequity in the distribution of F&A costs. For this purpose, an F&A cost rate should be determined for each of the separate F&A cost pools developed pursuant to federal requirements. The rate in each case should be stated as the percentage that the amount of the particular F&A cost pool is of the modified total direct costs identified with such pool (Office of Management and Budget Circular A-21, Cost Principles for Educational Institutions, Section G, Subsection 2).

For 1 (3 percent) of 40 indirect cost rate items tested at the University, the indirect cost charged was not in accordance with the cognizant federal agency rate agreement and was not applied to the appropriate modified direct cost base. During the setup phase of the grant, the University erroneously assigned an indirect cost rate in its automated general ledger system to an equipment account that was not part of the modified direct cost base as specified in the rate agreement. Due to this error, the University overcharged $32,706.30 for fiscal year 2008.

Recommendations:

The University should:

- Ensure that principal investigators complete *Time and Effort Certification Reports* in a timely manner.
- Update its policies and procedures to conform to the requirements of University of Texas System 163 - Guidance on Effort Reporting Policy.
- Ensure personnel are properly trained on account setup procedures for Research and Development grants and awards.

Management Response and Corrective Action Plan:

Time and Effort Certification

We concur with the findings noted above, all referenced Personnel Effort Reports (PERS) were signed late and no copies of the reminder letters to the PI's were located. University policies and procedures are under revision to conform to applicable requirements from the University of Texas System, UTS 163, which will eliminate the requirement of certification of nearly all these sampled PERS, since personnel on these PERS (mostly students) do not need to be certified under UTS 163. We are currently implementing an automated time and effort reporting system that is designed to facilitate certifications from principal investigators in a timely, accurate manner.

Implementation Date: *April 15, 2009 (first certification period)*

Responsible Person: *Manuela Dokie*

Indirect Cost Rate

We agree with the identification of the error, the amount of overcharge calculated for 2008 and that training in account set up is essential. However, in this case the only error identified in the sample of 40 transactions was caused by a data entry error, not a deficiency in training. Therefore, we will institute a control that will make use of downloads to identify sub accounts exempt from indirect costs. Once identified, these accounts will be reviewed after set up to ensure improper rates have not been assigned.

Implementation Date: *March 1, 2009*

Responsible Person: *Anthony E. Turrietta*

University of Texas Health Science Center at Houston

Reference No. 09-101
Allowable Costs/Cost Principles

Research and Development Cluster
Award Year - Multiple
Award Number - All Research and Development Grants
Type of finding - Non-Compliance

Questioned Cost: $ 0

Federal Agengies that Provide R&D Grants

Educational institutions that received aggregate sponsored agreements totaling $25 million or more and subject to Office of Management and Budget Circular A-21 during their most recently completed fiscal year must disclose their cost accounting practices by filing a Disclosure Statement (DS-2). With the approval of the cognizant agency, an educational institution may meet the DS 2 submission by submitting the DS-2 for each business unit that received $25 million or more in sponsored agreements (Office of Management and Budget Circular A-21, Section C.14.a).The cognizant agency distributes to all affected agencies any DS-2 determination of adequacy and/or noncompliance (Office of Management and Budget Circular A-21, Section C.14.h (3)).

The University of Texas Health Science Center at Houston's (Health Science Center) DS-2 has not been approved by its cognizant agency, the U.S. Department of Health and Human Services. The Health Science Center made $129,544,100 in expenditures for sponsored programs in fiscal year 2008.

Health Science Center staff prepared and submitted a DS-2 to the U.S. Department of Health and Human Services (DHHS) in 2001. DHHS had follow-up questions that were not addressed by the Health Science Center. Consequently, the Health Science Center's DS-2 was not approved by DHHS. The Health Science Center staff believed the DS-2 had been approved by DHHS because the Health Science Center continued to be awarded federal grants.

Recommendation:

The Health Science Center should submit its current DS-2 for approval from its cognizant agency.

Management Response and Corrective Action Plan:

UT Health Science Center at Houston staff had addressed DHHS's initial questions related to our DS-2 submission of which we were aware. We were unaware that there were additional follow up questions and have been unable to find any DHHS correspondence to that fact. We have subsequently submitted a current DS-2 for DHHS approval on January 14, 2009 and will follow up with DHHS on its status until we receive formal approval notification from our cognizant agency.

Implementation Date: *January 2009*

Responsible Person: *Laura Smith*

Reference No. 09-102

Equipment and Real Property Management

Research and Development Cluster
Award year - July 1, 2007 to June 30, 2008; September 1, 2006 to September 29, 2008
Award number - CFDA 93.853 5P01NS030310 and 5P50NS044227; CFDA 93.837 5R37HL051021 and 5U01HL075572
Type of finding - Significant Deficiency and Non-Compliance

A recipient's property management standards for equipment acquired with federal funds and federally-owned equipment must require that equipment records be maintained accurately and include the location and condition of the equipment. Additionally, equipment owned by the federal government must be identified to indicate federal ownership (Office of Management and Budget Circular A-110, Subpart C, 34.f).

Questioned Cost: $ 0

U.S. Department of Health and Human Services

The University of Texas Health Science Center at Houston (Health Science Center) has a policy requiring that all capital and controlled assets have a bar code identification plate affixed to the property and that inventory records are updated in the Assets Management System accordingly (Capital Assets Management Handbook Section C). In addition, the Office of the Texas Comptroller of Public Accounts (Comptroller's Office) defines controlled items as those items with a unit cost of $500 to $4,999.99. The Comptroller's Office also requires that controlled item be assigned to a departmental inventory.

Inventory records for 4 (8 percent) of 50 equipment items tested at the Health Science Center contained inaccurate information about the equipment. Specifically:

- For two items, the Health Science Center's records had serial numbers that differed from the serial numbers on the tagged items.
- For two items, the location stated in the inventory record for the equipment was not the same location where the equipment was located.

Recommendation:

The Health Science Center should ensure that it updates all inventory records to reflect the most accurate information.

Management Response and Corrective Action Plan:

The Health Science Center concurs. Capital Asset Management (CAM) has reiterated the importance of accurate capital asset records to departmental inventory contacts. CAM will monitor data collected during perpetual inventory, update records as necessary, and identify and provide re-training where necessary.

Implementation Date: *February 2009*

Responsible Person: *Heidemarie Hellriegel*

Reference No. 09-103

Procurement and Suspension and Debarment

Research and Development Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 93.279 5R01DA017505-04
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Health and Human Services

Federal rules require that, when a non-federal entity enters into a covered transaction that is expected to equal or exceed $25,000 with an entity at a lower tier, the non-federal entity must verify that the entity at the lower tier is not suspended, debarred, or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the U.S. General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. (Office of Management and Budget Circulars A-102, Grants and Cooperative Agreements with State and Local Governments, Section 1.d and A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart B.13; Executive Orders 12549 and 12689, Debarment and Suspension; Title 45 Code of Federal Regulations, Part 76, Government wide Debarment and Suspension).

The University of Texas Health Science Center at Houston's (Health Science Center) procurement policy requires vendor suspension and debarment certifications for transactions with amounts that are greater than $25,000.

One (8 percent) of 12 vendor files tested at the Health Science Center did not contain a suspension and debarment certification. Auditors' review of the ELPS Web site indicated that the vendor was not suspended or debarred.

Recommendation:

The Health Science Center should verify that all vendors to which it awards contracts with amounts greater than or equal to $25,000 are not suspended or debarred from federal contracts.

Management Response and Corrective Action Plan:

The Health Science Center concurs. The Procurement Department has reviewed its procedures and training materials with regard to suspension and debarment. Department management has met with all buyers to address any misunderstanding of the materials and re-trained where necessary.

Implementation Date: *February 2009*

Responsible Person: *Danny Rawson*

University of Texas Health Science Center at San Antonio

Reference No. 09-104

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Disbursement Notification Letters

Questioned Cost: $ 0
U.S. Department of Education

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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 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 electronic (Title 34, Code of Federal Regulations, Section 668.165).

The University of Texas Health Science Center at San Antonio (Health Science Center) could not provide documentation indicating it sent disbursement notification letters to 39 (100 percent) of 39 students tested.

Access to the Financial Aid System

Institutions are required to maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300(b)).

User access security to the Health Science Center's Financial Aid System was inappropriately defined. The Student Financial Aid Director, Associate Director of Student Financial Aid, Senior Student Financial Aid Officer, and a Senior Software Specialist II are assigned the super administrative role. Super administrator roles have the ability to make changes to historical data through the application. Super administrative accounts also have expanded capability to make changes to application data, such as backdating effective dates. In the event that a history file is not maintained, there is the potential for unauthorized data changes to be made within the student application. The system, however, does track history changes for the Institutional Student Information Report and the Financial Aid Term tables, which both contain student federal assistance data.

Improper user access and not maintaining a history of data changes increases the risk of unauthorized federal assistance and unauthorized changes to historical data.

Recommendations:

The Health Science Center should:

- Retain documentation indicating that it sent all disbursement notification letters to all FPL and FFELP loan recipients.

- Review user access security to ensure that it assigns authorized and appropriate levels of access to each employee based on job function.

- Maintain and review a historical record of changes to student federal assistance data.

Management Response and Corrective Action Plan:

Disbursement Notification Letters:

The Office of Student Financial Aid has been sending the notices to students who received funds electronically and kept an Excel log of these as well as the email extract files. The office self reported this as a possible deficiency to the SAO upon the Audit Entrance. The Office of Student Financial Aid eliminated this deficiency during the upgrade to our current Student Administrative System subsequent to the auditor's on-site fieldwork.

The newly adopted process runs daily, sending an email to all students that have any disbursement activity, loan or otherwise, to their campus email address. The Student Administration System updates the student's record upon the completion of the communication. The delivery can be independently confirmed since the communication is generated by the system itself and posted to the students' permanent communication history by the automated process. The email sent to students contains all relevant data as required by 34 CFR 668.165 in addition it includes the students aggregate borrowing as reported by the National Student Loan Data System.

Implementation Date: *October 4, 2008*

Responsible Person: *Robert T. Lawson Jr., M.B.A.*

Access to the Financial Aid System:

Access to the super administrative role has been limited to the Director and Associate Director of Student Financial Aid, exclusively. We are currently in the process of eliminating the "Correct History" access from all student application data panels for all roles. If temporary access to "Correct History" is needed to adhere to federal or state regulation a specific request with documentation will be sent to Accounts Management within Information Management Customer Support Services with specific documentation as to what is needed, why it is needed, and when the access should be removed.

Implementation Date: *Restriction of super administrative role to Director and Associate Director: October 4, 2008*
Role/Permission Change Request: November 1, 2008
Elimination of "Correct History" on application data panels: February 28, 2009

Responsible Person: *Robert T. Lawson Jr., M.B.A.*

University of Texas Medical Branch at Galveston

Reference No. 09-105

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable and CFDA 84.063 P063P070485
Type of finding - Significant Deficiency and Non-Compliance

Disbursement Notification Letters

Questioned Cost: $ 0
U.S. Department of Education

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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 electronic (Title 34, Code of Federal Regulations, Section 668.165).

The University of Texas Medical Branch at Galveston (Medical Branch) could not provide documentation indicating that it sent disbursement notification letters to 40 of 40 students (74 of 74 disbursements) (100 percent) tested for the Fall 2007 and/or Spring 2008 semesters. The disbursement notification letters did not include the date and amount of disbursement from each SFA program. The disbursement notification letters also did not include the procedures the student or parent must follow to notify the institution of cancellation of a loan or disbursement.

Common Origination and Disbursement System Reporting

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 2008, Part 5, Student Financial Assistance Cluster, III.L.1.e (page 5-3-18)). 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 5-3-27)).

For 40 of 40 students (73 of 73 disbursements) (100 percent) tested at the Medical Branch for the Fall 2007 and/or Spring 2008 semesters, the date of Pell and Direct Loan disbursement did not match the disbursement date in the COD System. For 1 of these 40 students (3 percent) (1 of 73 disbursements), the disbursement amount was not reported correctly.

Recommendations:

The Medical Branch should:

- Retain documentation of when it sends disbursement notification letters to serve as an audit trail.
- Ensure that it includes all required information in the disbursement notification letters.

- Develop a control process to ensure that it reports the appropriate dates and amounts to the COD System.

Management Response and Corrective Action Plan:

Management concurs with the finding that retention of the notification to students which advised them of their rights to cancel all or part of the loans disbursed within 14 days of the date of the notice was not appropriately maintained.

In response to this finding, corrective action has been taken to develop a notification procedure to the students via email and maintain copies of the correspondence. Additionally, a process will be developed to ensure all amounts and dates are appropriately reported in the COD System.

Implementation Date: *February 2009*

Responsible Person: *Vicki L. Brewer*

University of Texas of the Permian Basin

Reference No. 09-106
Eligibility
(Prior Audit Issue- 07-74)

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.063 PO63PO63265
Type of finding - Significant Deficiency and Non-Compliance

Financial Need and Total Awards Should Not Exceed Need

Questioned Costs: $5,000

U.S. Department of Education

The determination of the federal student assistance award amount is based on financial need. Financial need is defined as the student's cost of attendance (COA) minus the expected family contribution (EFC). For Title IV programs, the amount of financial resources available is generally the EFC that is computed by the federal central processor and included on the student's Institutional Student Information Report (ISIR) provided to the institution. Awards must be coordinated among the various programs and with other federal and non-federal assistance to ensure that total assistance is not awarded in excess of the student's financial need (Federal Perkins Loan, Federal Work Study, and Federal Supplemental Education Opportunity Grant, Title 34, Code of Federal Regulations (CFR), Sections 673.5 and 673.6; Federal Family Education Loans, Title 34, CFR, Section 682.603).

COA refers to the "tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." Institutions also may include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board (Title 20, United States Code, Chapter 28, subchapter IV, Section 108711).

For the federal Pell Grant program, the payment and disbursement schedules provided each year by the U.S. Department of Education are used for determining award amounts. These schedules provide the maximum annual amount a student would receive for a full academic year for a given enrollment status, EFC, and COA. There are separate schedules for three-quarter time, half-time, and less-than-half-time students, as well as students with low-assessed tuition. All of the schedules, however, are based on the COA of a full-time student for a full academic year.

For 1 (2 percent) of 50 students tested, the University of Texas of the Permian Basin (University) awarded total assistance that exceeded the student's calculated financial need by $1,089. In October 2008, the University returned the over award plus interest to the lender.

In addition, for 3 (6 percent) of 50 students tested, the University calculated the COA budgets incorrectly, and the budgets did not match the student financial aid budget schedule. As a result, COA was overstated for two students and understated for one student. Specifically:

The University did not adjust two students' spring 2008 COA calculations to reflect that they were enrolled half-time instead of full-time. As a result, these students were over awarded Pell grants by $480 and $540, respectively. The University returned an amount equal to the overpayment to the U.S. Department of Education in July 2008.

The University did not adjust another student's COA calculation to reflect the student's actual living status. As a result, this student was under awarded a Pell grant by $345.

Award Amount Should Not Exceed the Annual Limit

The total amount an undergraduate student may borrow for any academic year of study under the Stafford Loan Program, in combination with any amount borrowed under the Federal Direct Stafford/Ford Loan Program, may not exceed annual award limits. An institution is responsible for ensuring that the amount of a loan will not exceed the student's financial need or annual loan limit. For a student who (1) is enrolled in an academic program of study that is at least one academic year and (2) has successfully completed at least two years of the program, the total amount the student may borrow for any academic year of study under the Stafford Loan Program, in combination with the Federal Direct Stafford/Ford Loan Program, may not exceed $5,500 (Title 34, CFR, Section 682.204(a) (3)(i)).

For 1 (8 percent) of 12 undergraduate student tested, the student received a loan that exceeded the annual limit. The student received $3,059 in subsidized Stafford loans and $7,441 in unsubsidized Stafford Loans for a total of $10,500. The Stafford loans awarded to this student exceeded the annual limit by $5,000.

Students Should Make Satisfactory Academic Progress

Students are required to maintain academic progress in order to continue to receive federal student aid. As noted in Chapter 10, Volume 2 of the *Federal Student Aid Handbook* for the 2007-2008 award year, "a school must have a satisfactory academic progress (SAP) policy that, for a Federal Student Aid (FSA) recipient, is the same or more strict than the school's standards for a student enrolled in the same educational program who is not receiving assistance under an FSA program." An eligible institution offering graduate programs must "develop, disseminate, and consistently apply" a SAP policy that includes: (1) a qualitative component that consists of grades, work projects completed, or comparable factors that are measurable against a norm; and, (2) a quantitative component that consists of a maximum timeframe in which a student must complete his or her educational program (Title 34, CFR, Section 668.16 (e)(2)(i)(ii)).

Although the University has an established SAP policy that includes both qualitative and quantitative elements for measuring *undergraduate* SAP, the University's SAP policy does not include specific quantitative and qualitative elements for measuring the progress of *graduate* students. Therefore, the University's current SAP policy does not meet federal requirements.

Information Technology Controls

Institutions are required to maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300(b)).

The maximum award tables in the University's financial aid system for the Academic Competitiveness Grant (ACG) are incorrectly defined and do not reflect federal regulations. In addition, mitigating controls to prevent over awards and appropriateness are not in place.

Recommendations:

The University should:

- Improve its process for reviewing cost of attendance calculations and awards based on financial need to ensure that the information in the system is correct and that assistance is awarded appropriately.

- Ensure it defines maximum award limits accurately in the financial aid system and enforce mitigating controls to ensure that awards are appropriate.

- Establish a specific component in its SAP policy addressing minimum requirements and maximum timeframes for graduate students.

Management Response and Corrective Action Plan:

The University should:

1. *Improve its process for reviewing cost of attendance calculations and awards based on financial need to ensure that the information in the system is correct and that assistance is awarded appropriately.*

   The Office of Student Financial Aid implemented functional responsibilities of OSFA staff to improve packaging and awarding processes. The three Financial Aid Officers were assigned a specific group of students (approximately 700 students each). Each Officer is responsible for packaging and awarding students within the assigned group. It is the responsibility of each Officer to review all aspects of processing awards. This strategy serves as a primary review of each student's eligibility before actual disbursement of financial aid. The Assistant Director has been assigned overseeing the disbursement phase of the process. Prior to disbursement the Assistant Director reviews the awards of the Officers and informs the Officers of any necessary corrections. After the Assistant Director validates the accuracy of the awards then the disbursement phase is initiated.

Implementation Date: *August 2008*

Responsible Person: *Robert Vasquez*

2. *Ensure it defines maximum award limits accurately in the financial aid system and enforce mitigating controls to ensure that awards are appropriate.*

   The Director reviews the FUND file to determine if there need to be corrections. The FUND file is updated once a year prior to fall disbursements. The file is updated as necessary throughout the rest of the year.

Implementation Date: *July 2009*

Responsible Person: *Robert Vasquez*

3. *Establish a specific component in its SAP policy addressing minimum requirements and maximum timeframes for graduate students.*

   A paragraph outlining graduate student time frames was not listed in the 2006-2008 Graduate Catalog but was in the 2004-2006 Graduate Catalog. The paragraph has been included in the 2008-2010 Graduate Catalog.

Implementation Date: *May 2009*

Responsible Person: *Robert Vasquez*

Reference No. 09-107

Special Tests and Provisions - Disbursements To or On Behalf of Students

(Prior Year Issue 07-75)

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Material Weakness and Material Non-Compliance

National Student Loan Data System Review

Questioned Cost: $ 0
U.S. Department of Education

Before an institution may disburse Title IV, Higher Education Act (HEA) program funds to a student who previously attended another eligible institution, the institution must use information it obtains from the National Student Loan Data System (NSLDS) or its successor system, to determine (1) whether the student is in default on any Title IV, HEA program loan; (2) whether the student owes an overpayment on any Title IV, HEA program grant or Federal Perkins Loan; (3) for the award year for which a Federal Pell Grant is requested, the student's scheduled Federal Pell Grant and the amount of Federal Pell Grant funds disbursed to the student; (4) the outstanding principal balance of loans made to the student under each of the Title IV, HEA loan programs; and (5) for the academic year for which Title IV, HEA aid is requested, the amount of, and period of enrollment for, loans made to the student under each of the Title IV, HEA loan programs (Title 34, Code of Federal Regulations, Section 668.19).

The University of Texas of the Permian Basin (University) did not maintain evidence that it verified the required information described above with information received from NSLDS prior to disbursing Title IV loan funds. It is the University's practice to assign responsibility for verifying the information from NSLDS for all transfer students to staff in the Student Financial Aid Office; however, auditors found no indications that this verification was occurring.

Notification Letters

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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 electronic (Title 34, Code of Federal Regulations, Section 668.165).

The University did not send the required disbursement notifications to FFELP loan recipients during the 2007-2008 award year within the 30-day requirement for the Fall Semester and did not retain documentation that notification letters were sent for the Spring Semester. The University does not participate in the FPL program.

Pell Payment Reporting

Institutions submit payment data to the U.S. Department of Education through the Common Origination and Disbursement (COD) System. Origination records can be sent in advance of any disbursement, as early as the institution chooses to submit them for any student the institution reasonably believes will be eligible for a payment. The institution follows up with a disbursement record for that student no more than 30 days before a disbursement is to be paid. The disbursement record reports the actual disbursement date and the amount of the disbursement. Institutions must report student payment data 1) within 30 calendar days after they make a payment or 2) when they 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 Circular A-133 Compliance Supplement, Part 5, Section L.1.e) and the Secretary of the U.S. Department of Education accepts a student's payment data that is submitted in accordance with procedures established through publication in the Federal Register, and that contains information the Secretary considers to be accurate in light of other available information including that previously provided by the student and the institution (Title 34, Code of Federal Regulations, Section 690.83.(a)(2).

In a sample of 33 students tested at the University, 33 students (100 percent) received Pell Grant awards. However, the University did not report the date of at least one disbursement of Pell Grant awards to the COD System for any of those 33 students.

Funds Not Always Disbursed within Three Business Days

An institution must return FFELP funds to a lender if the institution does not disburse those funds to a student or parent for a payment period within three business days following the date the institution receives the funds if the lender provides those funds to the institution by electronic funds transfer (EFT) or master check on or after July 1, 1999 (Title 34, Code of Federal Regulations, Section 668.167(b)(1)(ii)).

For 2 (5 percent) of 41 students tested (2 of 115 transactions), the University held funds more than three business days before disbursing them to the students' accounts.

Returning Funds to a Lender

When an institution receives FFELP funds from the lender by electronic funds transfer (EFT) or master check, it usually must disburse the funds within three business days. If a student is temporarily not eligible for a disbursement but the institution expects the student to become eligible for disbursement in the immediate future, the institution has an additional 10 business days to disburse the funds. An institution must return FFELP funds that it does not disburse by the end of the initial or conditional period, as applicable, promptly but no later than 10 business days from the last day allowed for disbursement (Title 34, Code of Federal Regulations, Section 668.167).

For 1 (8 percent) of 13 students tested, the University held student loan funds for significantly more than three business days and did not return funds to the lender within the required 10 day time frame.

Credit Balances

If financial aid disbursements to a student's account at the institution create a credit balance, the institution must pay the credit balance directly to the student or parent as soon as possible, but no later than 14 days after the date the balance occurred on the student's account, if the balance occurred after the first day of class of a payment period, or the first day of classes of the payment period if the credit balance occurred on or before the first day of class of that payment period (Title 34, Code of Federal Regulations, Section 668.164(e)).

For 1 (2 percent) of 44 students tested at the University, the student's fall disbursement created a balance in the student's account. However, the University did not pay the credit balance to the student within 14 days of the start of classes.

User Access Security to the Financial Aid System

Institutions are required to maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300(b)).

Seven users in the University's financial aid department have the ability to make changes to critical financial aid files such as global budget tables, Pell tables, formulas, file layouts, student loan data files, and Institutional Student Information Record (ISIR) files. These files should be restricted to personnel who require this access for their job duties and responsibilities.

Recommendations:

The University should:

- Verify all required information from NSLDS for each transfer student and maintain evidence of this verification.
- Send disbursement notifications to FFELP loan recipients within the required time periods and retain documentation.
- Report disbursement dates for all Pell Grant awards to the COD System as required.
- Not hold loan funds for more than three days before disbursing those funds to students.
- Not hold funds for more than the maximum allowed number of days before returning them to the lender.
- Return credit balances within the required time frame.
- Properly secure critical financial aid files and control and authorize user access for those who require this level of access.

Management Response and Corrective Action Plan:

The University should:

1. *Verify all required information from NSLDS for each transfer student and maintain evidence of this verification.*

   Each FA Officer accesses NSLDS on-line. Prior to each loan disbursement the responsible staff accesses NSLDS on-line and prints the pertinent information for verifying requirement. The printed document is then saved in the student's file.

Implementation Date: *August 2008*

Responsible Person: *Robert Vasquez*

2. *Send disbursement notifications to FFELP loan recipients within the required time periods and retain documentation.*

The OSFA implemented notification letters through a merge file which is maintained on the departments assigned drive.

Implementation Date: *August 2008*

Responsible Person: *Robert Vasquez*

3. *Report disbursement dates for all Pell Grant awards to the COD System as required.*

   The Director manages the Pell reporting through EDexpress and the date entered was in error during the time of the audit. The Director has made the necessary changes to ensure that the correct disbursement date is sent to COD.

Implementation Date: *August 2008*

Responsible Person: *Robert Vasquez*

4. *Not hold loan funds for more than three days before disbursing those funds to students.*

   The OSFA has received a POISE module that should ensure that loan funds be returned as required. Testing is beginning spring 2009.

Implementation Date: *June 2009*

Responsible Person: *Robert Vasquez*

5. *Not hold fund for more than the maximum allowed number of days before returning them to the lender.*

   The OSFA has received a POISE module that should ensure that loan funds be returned as required. Testing is beginning spring 2009.

Implementation Date: *June 2009*

Responsible Person: *Robert Vasquez*

6. *Return credit balances within the required time frame.*

   The Office of Accounting is scheduled to begin testing an electronic check generation system during spring 2009. The new system should eliminate the manual processing. It should enable checks to be cut without the delays that exist in the present system.

Implementation Date: *June 2009*

Responsible Person: *Robert Vasquez*

7. *Properly secure critical financial aid files and control and authorize user access for those who require this level of access.*

   The OSFA has requested IRD to provide Write access to the Director and Assistant Director for the critical financial aid files as outlined here: (Global Budget tables, Pell tables, and Formulas). All others will have Read access. These would have been addressed after the audit of 2006 if the auditor would have let us know. At that time the auditor addressed only the Award file. Neither the OSFA Director nor the IRD System Analyst is sure why the auditor has included (file layouts, student loan data files and ISIR files).

Implementation Date: *February 2009*

Responsible Person: *Robert Vasquez*

University of Texas at San Antonio

Reference No. 09-108
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.007 P007A074169
Type of finding - Significant Deficiency and Non-Compliance

Awards of Federal Supplemental Educational Opportunity Grants

Questioned Cost: $ 500

U.S. Department of Education

As noted in Chapter 7, Volume 1, of the *Federal Student Aid Handbook* for the 2007-2008 award year, to receive a Federal Supplemental Educational Opportunity Grant (FSEOG), a student must not only meet general eligibility requirements "but must also be an undergraduate student and have financial need." An undergraduate student is defined under the FSEOG Program as "a student who is enrolled in an undergraduate course of study at an institution of higher education," and who (1) has not earned a bachelor's degree or first professional degree and (2) who is enrolled in a four- to five- academic-year program designed to lead to a first degree. A student who has earned a bachelor's or first professional degree is not eligible to receive a FSEOG to pursue an additional undergraduate degree based on the above definition of an undergraduate student (Chapter 7, Volume 1, *Federal Student Aid Handbook*, 2007-2008, award year).

For 1 (17 percent) of 6 students tested, the University of Texas at San Antonio's (University) student financial aid packaging system awarded FSEOG to a student who had earned a bachelor's degree and was enrolled to pursue an additional undergraduate degree. The University incorrectly awarded $500 in FSEOG funds to this student.

Access to the Financial Aid Software

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The University does not maintain appropriate access to Banner, its financial aid software. Sixteen users in the Financial Aid area had excessive modify access to the satisfactory academic progress (SAP) rules tables, which gives them capabilities to modify and change SAP policy rules in Banner.

Recommendations:

The University should:

- Ensure that it awards FSEOG to eligible students.
- Restrict access to Banner based on job duties and responsibilities, and periodically review access levels to ensure that appropriate access is granted.

Management Response and Corrective Action Plan:

FSEOG

The student in question was originally awarded the PELL Grant with a $0 Expected Family Contribution (EFC), which in turn made the student initially eligible for the FSEOG. Because the student graduated, the PELL grant did not pay out (Banner rules established). However, the FSEOG paid out to the student. The Office of Student Financial Aid and Enrollment Services has created a disbursement rule that will not allow the FSEOG to pay out to students that are no longer eligible. The $500 questioned cost has also been returned to the Department of Education.

Implementation Date: *January 2009*

Responsible Person: *Lisa Blazer*

Access to the Financial Aid Software

Profiles were originally created based on the job duties and responsibilities of each member of the financial aid and enrollment services staff; however, roles have shifted since the implementation of Banner. The Office of Student Financial Aid and Enrollment Services is currently reviewing access to various screens and jobs and are making changes to the profiles that currently exist so that it ties specifically to the job responsibilities of each individual. The Office of Auditing and Consulting Services has also recently completed an internal audit of Banner Security Access. Recommendations have already been made to change the process to provide adequate expertise, oversight, and ownership of student information. The Office of Auditing and Consulting Services is currently working with the Registrar's Office which has created a committee that will address Banner Access security issues.

Implementation Date: *April 2009*

Responsible Person: *Lisa Blazer*

Reference No. 09-109

Special Tests and Provisions - Return of Title IV Funds

(Prior Audit Issue 08-87)

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.007 P007A074169, CFDA 84.033 P033A074169, CFDA 84.375 P375A073294, CFDA 84.376 P376S073294, and CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Inaccurate Withdrawal Date in Student Record

Questioned Cost: $ 8,952
U.S. Department of Education

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV assistance earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs and no additional disbursements may be made to the student for the payment period or period of enrollment. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (Title 34, Code of Federal Regulations, Section 668.22(a)(1)-(4)).

If an institution is not required to take attendance, the withdrawal date is (1) the date that the student began the withdrawal process prescribed by the institution; (2) the date that the student otherwise provided official notification to the institution, in writing or orally, of his or her intent to withdraw; (3) if the student ceases attendance without providing official notification to the institution of his or her withdrawal, the midpoint of the payment period or, if applicable, the period of enrollment; (4) if the institution determines that a student did not begin the withdrawal process or otherwise notify the institution of the intent to withdraw due to illness, accident, grievous personal loss or other circumstances beyond the student's control, the date the institution determines is related to that circumstance; (5) if a student does not return from an approved leave of absence, the date that the institution determines the student began the leave of absence; or (6) if the student takes an unapproved leave of absence, the date that the student began the leave of absence. Notwithstanding the above, an institution that is not required to take attendance may use as the withdrawal date, the last date of attendance at an academically related activity as documented by the institution (Title 34, Code of Federal Regulations, Sections 668.22(c) and (d)).

For 2 (2.5 percent) of 80 Title IV returns tested, the University of Texas at San Antonio (University) did not record the student's withdrawal date accurately in the student record. As a result, the University incorrectly determined that the students had earned more than 60 percent of Title IV funds awarded, resulting in $1,411.85 in Title IV funds not being returned to the U.S. Department of Education.

Incorrect Percentage of Payment Period Completed

The percentage of the payment period completed or period of enrollment completed is determined in the case of a program that is measured in (1) credit hours, by dividing the total number of calendar days in the payment period or period of enrollment into the number of calendar days completed in that period as of the student's withdrawal date or (2) clock hours, by dividing the total number of clock hours in the payment period or period of enrollment into the number of clock hours scheduled to be completed as of the student's withdrawal date. The total number of calendar days in a payment or enrollment period includes all days within the period, except that institutionally scheduled breaks of at least five consecutive days and days in which the student was on an approved leave of absence are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period (Title 34, Code of Federal Regulations, Section 668.22(f)).

The University did not accurately account for an institutionally scheduled break of greater than five days during the Spring 2008 semester in the system it used to calculate returns of Title IV funds. Of the 80 returns tested, 27 (34 percent) did not have the percentage of period of enrollment completed calculated accurately. The errors were determined to be due to the University's spring break miscalculation.

Amount of Title IV Assistance Earned Calculated Incorrectly

The amount of earned Title IV grant or loan assistance is calculated by determining the percentage of Title IV grant or loan assistance that has been earned by the student and applying that percentage to the total amount of Title IV grant or loan assistance that was or could have been disbursed to the student for the payment period or period of enrollment as of the student's withdrawal date. A student earns 100 percent if his or her withdrawal date is after the completion of 60 percent of (1) the calendar days in the payment period or period of enrollment for a program measured in credit hours or (2) the clock hours scheduled to be completed for the payment period or period of enrollment for a program measured in clock hours (Title 34, Code of Federal Regulations, Section 668.22(e)(2)). Otherwise, the percentage earned by the student is equal to the percentage (60 percent or less) of the payment period or period of enrollment that was completed as of the student's withdrawal date. The percentage of Title IV grant or loan assistance that has not been earned by the student is the complement of one of these calculations. Standard term-based institutions must always use the payment period as the basis for the determination. The unearned amount of Title IV assistance to be returned is calculated by subtracting the amount of Title IV assistance earned by the student from the amount of Title IV assistance that was disbursed to the student as of the date of the institution's determination that the student withdrew (Title 34, Code of Federal Regulations, Section 668.22(e)).

For 28 (35 percent) of 80 returns tested, the University did not calculate the correct amount of Title IV assistance earned and amount to be returned.

- 27 (89 percent) were a direct result of the scheduled spring break not being accounted for during the calculation. Of these 27 errors, 2 contained additional errors with incorrect withdrawal dates entered into the Return of Title IV calculation software.

- 1 (4 percent) was incorrect because incorrect institutional charges were used to calculate the return of Title IV assistance.

As a result of incorrect calculations, $8,952.36 (includes $1,411.85 attributed to 2 errors of incorrect withdrawal dates entered as previously mentioned above) in Title IV assistance was not returned to the U.S. Department of Education.

Not Returning Title IV Assistance within Required Timeframes

Returns of Title IV funds are required to be deposited or transferred into the student financial assistance account or electronic fund transfers initiated to the U.S. Department of Education or the appropriate Federal Family Education Loan Program (FFELP) lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew (Title 34, Code of Federal Regulations, Section 668.173(b)).

The University does not have controls to ensure that it returns Title IV funds within 45 days of determining that students withdraw. The University returned 5 (10 percent) of 50 returns tested after 45 day. For those five, the University returned funds between 56 and 207 days after the students' withdrawal dates.

Recommendations:

The University should:

- Establish controls to ensure that it returns Title IV funds within 45 days of students' withdrawal dates.
- Establish controls to ensure that data entry of student information during return of Title IV calculation is performed accurately.
- Ensure that it excludes institutionally scheduled breaks of at least five consecutive days from the total number of calendar days in the period of enrollment and the number of calendar days completed in that period.

Management Response and Corrective Action Plan:

The Return of Title IV findings were a direct result of data entry errors by the staff member responsible for calculating Return of Title IV funds. The incorrect withdrawal date was entered into the Department of Education Return of Title IV software (from Banner). The data entry was not reviewed or checked. Because the withdrawal date was incorrect, funds were not returned within the 45 day turnaround time. The Office of Student Financial Aid and Enrollment Services has reviewed all 2007-08 Return of Title IV students and made corrections to withdrawal dates and re-calculated their return. Funds have been returned to the appropriate sources. We have implemented a new process and are including the Return of Title IV calculations in our Risk Management Plan. We have created a monitoring plan that includes operating, supervisory and oversight controls. The Director of Financial Aid will provide supervisory controls and the Financial Aid and Enrollment Services (FAESC) Compliance team will provide oversight controls by reviewing Return of Title IV set up and calculations at 100% for 2008-09 and beyond to reduce any data entry errors. Return of Title IV have been and will continue to be processed on a weekly basis. The FAESC Compliance Team will review 2008-09 calculations that have already been processed to date and will begin the oversight controls on a monthly basis as of February 2009. The FAESC Compliance team will review the actual returns by specific fund managers to ensure funds have been returned in the appropriate timeframe. The FAESC Compliance team will review the Return of Title IV set up to ensure appropriate breaks and dates are entered. These have already been reviewed for the Spring 2009 semester to ensure accuracy. This review will be part of the New Year Set Up process. These additional controls will allow the office to ensure correct information is entered into the Department of Education software and to ensure funds are returned within the appropriate timeframes.

Implementation Date: *February 2009*

Responsible Person: *Lisa Blazer*

Reference No. 09-110

Special Tests and Provisions - Student Status Changes

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0
U.S. Department of Education

Unless an institution expects to submit its next student status confirmation report to the Secretary of the U.S. Department of Education or the guaranty agency within the next 60 days, it must notify the guaranty agency or lender within 30 days, if it (1) discovers that a Stafford Loan, Supplemental Loan for Students (SLS), or Parent Loans for Undergraduate Students (PLUS) has been made to or on behalf of a student who enrolled at that institution, but who has ceased to be enrolled on at least a half-time basis; (2) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that institution, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (3) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (4) discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address (Title 34, Code of Federal Regulations, Section 682.610(c)).

The University of Texas at San Antonio (University) uses the services of the National Student Clearinghouse (NSC) to report student status changes to the National Student Loan Data System (NSLDS). Under this arrangement, the University reports all students enrolled and their status to NSC, regardless of whether those students receive federal financial assistance. NSC then identifies any changes in status and reports those changes when required to the respective lenders, guarantors, and servicers of student loans. Additionally, NSC completes the roster file on the University's behalf and communicates status changes to NSLDS as applicable. The accuracy of Title IV student loan records depends heavily on the accuracy of the enrollment information reported by schools. Although the University uses the services of NSC, it is still the University's responsibility to submit timely, accurate, and complete responses to roster files and to maintain proper documentation (*NSLDS Enrollment Reporting Guide*, Chapter 3.1.1.3).

For 8 (16 percent) of 50 student files tested, the University incorrectly reported the status of student enrollment changes. Specifically:

- Four students tested ceased to be enrolled at the University, but NSLDS records incorrectly reflected that these students were enrolled less than half-time. Furthermore, these changes in student status were not reported to lenders, servicers, or guarantors.

- One student tested ceased to be enrolled at the University, but the status change was not reported to NSLDS, lenders, servicers, or guarantors.

- One student tested changed to less than half-time status on May 13, 2007, but the change was not reported to lenders, servicers, or guarantors until October 3, 2007, which exceeded the required 60-day time frame.

- One student tested was enrolled at the University and was a recipient of a Stafford Loan, but the student's record was not found in either the NSC or the NSLDS system.

- One student tested changed to less than half-time status, but NSLDS records incorrectly reflected that the student was enrolled full-time. Furthermore, this student's change in status was not reported to lenders, servicers, or guarantors.

Recommendation:

The University should enhance its procedures to ensure the accurate reporting of student enrollment data so that NSLDS, lenders, servicers, and guarantors have complete and accurate information.

Management Response and Corrective Action Plan:

The process of submitting the Student Status changes is being evaluated by Student Financial Aid and the Registrar's Office. The Registrar's Office discovered that the report they were submitting was not picking up the correct information, which caused students to have the incorrect status reported. This report has been corrected so that information will be submitted correctly. The Office of Student Financial Aid and Enrollment Services will be reviewing the output from this report and checking a sample of students to ensure the report is picking up the appropriate status for students' enrollment. The Office of Student Financial Aid and Enrollment Services will be reviewing the output information from the reports generated by the Registrar's office to ensure accurate information is sent to the clearinghouse and to the NSLDS. We are also reviewing the schedule of our report generation along with when NSLDS pulls information from the clearinghouse. A change in this schedule will provide the most accurate and recent information to NSLDS, therefore ensuring status changes are reported accurately.

Implementation Date: *March 2009*

Responsible Person: *Lisa Blazer*

University of Texas Southwestern Medical Center at Dallas

Reference No. 09-111

Special Tests and Provisions - Key Personnel

Research and Development Cluster
Award year - September 17, 2007 to May 31, 2008
Award number - CFDA 93.389 1UL1RR024982-01
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

National Institutes of Health

For federal awards issued by the National Institutes of Health (NIH), the grantee is required to notify the grant management office in writing if the principal investigator or key personnel specifically named in the Notice of Grant Award (NOGA) will withdraw from the project entirely, be absent from the project during any continuous period of 3 months or more, or reduce time devoted to the project by 25 percent or more from the level that was approved at the time of award (for example, a proposed change from 40 percent effort to 30 percent effort or less). NIH must approve any alternate arrangement proposed by the grantee, including any replacement of the principal investigator or key personnel named in the NOGA. The requirements to obtain NIH prior approval for a change in status pertains only to the principal investigator and those key personnel NIH names in the NOGA, regardless of whether the grantee designates others as key personnel for its own purposes (NIH Grants Policy Statement (December 2003) Part II: Terms and Conditions of NIH Grant Awards Subpart A: General). Federal grantors other than NIH have similar requirements.

The University of Texas Southwestern Medical Center at Dallas (Medical Center) did not notify the NIH of a change in key personnel to obtain approval for that change for grant 1 UL1 RR024982-01. An individual was listed as key personnel in the NOGA, and the Medical Center did not notify NIH of her removal from the project. An oversight and lack of controls in the process of notifying awarding agencies of key personnel effort commitments caused this error.

Recommendation:

The Medical Center should strengthen controls in its process of monitoring key personnel's effort on grants in order to accurately notify awarding agencies of key personnel changes.

Management Response and Corrective Action Plan:

We agree with the recommendation. We will strengthen controls over monitoring of key personnel's efforts on grants to insure accurate notification to awarding agencies in the event of key personnel changes.

Implementation Date: *February 5, 2009*

Responsible Person: *Perrie M. Adams, Ph.D.*

Water Development Board

Reference No. 09-112
Cash Management

CFDA 66.000 - Capitalization Grants for Colonias Wastewater Treatment Assistance Program
Award year - March 5, 1996 to September 30, 2008
Award number - C-48000105 CWTAP III
Type of Finding - Significant Deficiency

Questioned Cost: $0

U.S Environmental Protection Agency

According to the Treasury-State agreement for the State of Texas, the Water Development Board (Board) is not included in Subpart A of Title 31, Code of Federal Regulations (CFR), Chapter 205, which implements the Cash Management Improvement Act. Therefore, the Board should comply with Subpart B, which applies to programs that are not subject to Subpart A. Subpart B, Section 205.33, states that "cash advances to a state shall be limited to the minimum amounts needed and shall be timed to be in accordance with only the actual, immediate cash requirements of the state in carrying out a program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the state for direct program costs and the proportionate share of any allowable indirect costs." Additionally, Title 40, CFR, Section 31.20 states that "Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transaction reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make draw downs as close as possible to the time of making disbursements. Grantees must monitor cash draw downs by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

The Board's Colonias Wastewater Treatment Assistance Program (CWTAP) provides grants for construction of wastewater collection and treatment systems and water supply and distribution systems. When federal funds are drawn down and provided to a subrecipient for costs that are incurred during a project, Board requires CWTAP subrecipients to submit outlay reports to the Board, and those reports must be accompanied by documentation supporting all project expenditures, other uses of bond proceeds, and related investment earnings derived from Board funds.

The Board did not have procedures to ensure that its subrecipients minimized the time elapsing between the transfer of federal funds from the recipient and the pay out of funds for program purposes. During fiscal year 2008, the Board passed through $20,568,979 in CWTAP funds to its subrecipients.

Recommendation:

The Board should develop and implement procedures to ensure that the time elapsing between the transfer of federal funds to the subrecipient and the pay out of funds for program purposes is minimized.

Management Response and Corrective Action Plan:

TWDB staff will contact all existing CWTAP subrecipients and request a copy of the subrecipient's cash management and/or prompt payment procedures. For any new customer grant agreements additional language will be in inserted into the agreement requiring such cash management and/or prompt payment documentation, and reserving the TWDB's right to request, review and test such information as needed.

Implementation Date: *March 31, 2009*

Responsible Person: *Greg Kuchy*

Reference No. 09-113

Equipment and Real Property Management

CFDA 66.458 - Capitalization Grants for Clean Water State Revolving Fund
Award year - Multiple
Award number - Multiple

CFDA 66.468 - Capitalization Grants for Drinking Water State Revolving Fund
Award year - Multiple
Award number - Multiple

CFDA 66.000 - Capitalization Grants for Colonias Wastewater Treatment Assistance Program
Award year - Multiple
Award number - Multiple
Type of finding - Significant Deficiency

Questioned Cost: $ 0

U.S Environmental Protection Agency

According to Title 40, Code of Federal Regulation, Section 35.6335 recipients must comply with property management standards for property purchased with funds awarded by the U.S. Environmental Protection Agency (EPA), including the requirement to identify federally funded property.

The Water Development Board (Board) uses the State Property Accounting System (SPA) to track equipment and property. SPA is administered by the Texas Comptroller of Public Accounts (CPA), and Board staff follow the SPA policy and procedures as administered by CPA. Property recorded in SPA has an assigned field to distinguish property purchased with federal funds. The agency can run ad hoc report queries from SPA to list the population of equipment purchased with federal funds. To ensure that items are properly reported in SPA, the Board completes a periodic reconciliation with SPA, the Board's internal accounting system (MIP), and the Uniform Statewide Accounting System (USAS).

Auditors identified a Board vehicle that was paid for with federal funds but that was not on the SPA ad hoc report of federally funded equipment. Therefore, auditors were unable to determine whether the federally funded equipment population received from the Board was materially accurate and complete. Although the Board conducts reconciliations, the reconciliation process does not include strong controls to ensure that equipment purchased with federal funds is properly recorded as such.

Recommendation:

The Board should redesign its reconciliation process to ensure that equipment purchased with federal funds is properly recorded as having been purchased with federal funds.

Management Response and Corrective Action Plan:

The Board has implemented a new process to ensure all federally funded capital assets are properly tracked and accounted for. This new process is as follows: Upon receiving new capital item(s) the asset(s) is entered into the State Property Accounting system (SPA). The Property Manager reviews the Expenditure Requisition (ER) for Federal funding Methods of Finance (MOF). If Federal funding is indicated on the ER, a copy is forwarded to Accounting for detail payment information. Once the ER pays, Accounting provides the Property Manager with the actual funding sources used to pay for the capital item(s). If the asset(s) was purchased with federal funds, the Property Manager updates SPA with the FEDERAL indicator and the appropriate state/federal funding breakout. This new process ensures the correct portion of federal funds used in the purchase of capital item(s) is recorded in SPA properly. Monthly reconciliations between SPA, USAS, and MLP will be conducted to ensure that all property is recorded with accurate funding sources.

Implementation Date: *January 2009*

Responsible Persons: *Kelly Burton and Rebecca Trevino*

Reference No. 09-114

Matching

CFDA 66.000 - Capitalization Grants for Colonias Wastewater Treatment Assistance Program
Award year - March 5, 1996 to September 30, 2008; January 1, 1999 to December 31, 2008
Award number - C-48000105 CWTAP III and C-48000106 CWTAP IV
Type of Finding - Non-Compliance

Questioned Cost: $9,417,244
U.S Environmental Protection Agency

The Water Development Board (Board) matches grant funds for the Capitalization Grants for Colonias Wastewater Treatment Assistance Program (CWTAP) in arrears on an annual basis by the end of the federal fiscal year. The U.S. Environmental Protection Agency (EPA) allows the Board to use Economically Distressed Assistance Program (EDAP) funds and the interest paid on general obligation (GO) bonds used for the principal of the match as a credit toward a portion of the state matching funds required.

According to award documentation, the interest earned on the issuance of GO bonds during the "project period" may be applied as a credit to a portion of the required match. In addition, interest on bonds issued by the State, related to the deposit of the State's matching principal share and paid by the State during the grant "project period," is considered an authorized project expenditure because the debt is incurred by the State to meet its matching requirement.

The Board currently credits all of the interest paid on the life of the GO bonds that were issued to meet the principal match as a portion of the State match. The GO bonds issued to provide the principal matching funds have interest calculated until the year 2032. The interest paid on these GO bonds is $3,834,029.38 for CWTAP III and $705,921.47 for CWTAP IV. The federal portion related to the unallowable match is $5,887,637.25 for CWTAP III and $3,529,607.35 for CWTAP IV.

Auditors followed up with the EPA to determine whether the interest calculated through 2032 was allowable as a credit toward the State match for the CWTAP grants. The EPA determined that the Board "cannot apply interest paid in future years as match beyond the grant Project Period."

Recommendation:

The Board should apply only interest paid on GO bonds during the "project period" for bonds that were applied to the program during the grant "project period" as a portion of the State's matching funds for CWTAP.

Management Response and Corrective Action Plan:

Although inclusion of total interest for the project period of the bonds has been included in the match calculation since 1996, management understands the current determination that project period only applies to the life of the grant, not the life of the bonds. Therefore, management will identify alternative match to the open CWTAP grants.

Implementation Date: *April 30, 2009*

Responsible Persons: *Amanda Lavin and Piper Montemayor*

Reference No. 09-115

Procurement and Suspension and Debarment

CFDA 66.458 - Capitalization Grants for Clean Water State Revolving Fund
Award year - Multiple
Award number - Multiple

CFDA 66.468 - Capitalization Grants for Drinking Water State Revolving Fund
Award year - Multiple
Award number - Multiple

CFDA 66.000 - Capitalization Grants for Colonias Wastewater Treatment Assistance Program
Award year - Multiple
Award number - Multiple
Type of finding - Significant Deficiency and Non-Compliance

Determination of Suspension or Debarment

Questioned Cost: $ 0

U.S. Environmental Protection Agency

Federal rules require that, when a non-federal entity enters into a covered transaction that is expected to equal or exceed $25,000 with an entity at a lower tier, the non-federal entity must verify that the entity at the lower tier is not suspended, debarred, or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the U.S. General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2 Code of Federal Regulations, Part 1532).

To determine whether a potential subrecipient is suspended or debarred, the Water Development Board (Board) requires subrecipients to complete a suspension and debarment form (form SRF-404), which is provided by the Board prior to funding a grant or loan. However, the Board did not always retain evidence that it obtained those forms or otherwise verified the suspension and debarment status of subrecipients. Specifically:

- For 3 (6 percent) of 50 subrecipients tested for the Capitalization Grants for Drinking Water State Revolving Fund Program, the Board did not retain evidence that it had collected the required suspension and debarment form.
- For 2 (4 Percent) of 48 subrecipients tested for the Capitalization Grants for Clean Water State Revolving Fund Program, the Board did not retain evidence that it had collected the required suspension and debarment form.
- For 2 (5 percent) of 38 subrecipients tested for the Capitalization Grants for Colonias Wastewater Treatment Assistance Program, the Board did not retain evidence that it had collected the required suspension and debarment form.

Auditors reviewed the federal government's Excluded Parties List System (EPLS) Web site for all of the subrecipients for which the Board did not have a suspension and debarment form and determined that the subrecipients were not currently suspended or debarred.

Competitive Bids

Texas Government Code, Section 2155.132 (e), requires competitive bidding, whether formal or informal, for a purchase by a state agency if the purchase exceeds $5,000 and is made under a written contract.

For purchases made through its purchasing department, Board uses *The State of Texas Procurement Manual*, maintained by the Texas Comptroller of Public Accounts, to determine the appropriate procurement method. Section 2.9.1 of the manual states "obtain a price quote from as many TXMAS (Texas Multiple Award Schedule) vendors as are necessary to provide best value to the State. Document all price quotes in your purchasing file."

The majority of Board procurements made through the purchasing department do not require a competitive bid process. However, for 1 (33 percent) of 3 purchases and contracts tested for the Capitalization Grants for Drinking Water State Revolving Fund Program, the Board used a TXMAS vendor, but the only price quote documented was for that vendor. The Board did not have documentation indicating that it obtained price quotes from other vendors.

Recommendations:

The Board should:

- Retain evidence that subrecipients are not suspended or debarred.
- Competitively bid purchases and contracts that exceed $5,000.

Management Response and Corrective Action Plan:

The TWDB collects certifications regarding debarment and suspension from its subrecipients prior to Board commitments being made. To ensure documentation that subrecipients are not suspended or debarred is retained, the current quality control review of files will be revised. An additional step will be added in that the SRF-404 forms (debarment & suspension forms) will be included in the items provided for review. Only once the applicable information is confirmed to be included will the files will be delivered to the file room.

Implementation Date: *March 31, 2009*

Responsible Person: *Greg Kuchy*

The Board will ensure all purchases that exceed $5,000 are properly bid. In this particular instance, the Purchaser combined several different Expenditure Requisitions (ERs) and placed one order. The aggregate amount of these ERs ended up being more than $5,000 and other bids were inadvertently not taken. This was merely an oversight by the Purchaser.

Implementation Date: *January 1, 2009*

Responsible Person: *Tina Newstrom*

Reference No. 09-116

Subrecipient Monitoring

CFDA 66.458 - Capitalization Grants for Clean Water State Revolving Fund
Award year - Multiple
Award number - Multiple

CFDA 66.468 - Capitalization Grants for Drinking Water State Revolving Fund
Award year - Multiple
Award number - Multiple

CFDA 66.000 - Capitalization Grants for Colonias Wastewater Treatment Assistance Program
Award year - Multiple
Award number - Multiple
Type of Finding - Significant Deficiency and Non-Compliance

Subrecipient Requirement Letters

Office of Management and Budget (OMB) Circular A-133, Subpart D, Section 400 requires pass-through entities to "identity Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency."

Questioned Cost: $ 0

U.S. Envirionmental Protection Agency

The Water Development Board's (Board) external audit division is responsible for sending subrecipient requirement letters to the subrecipients once the award has closed. Once the subrecipient requirement letter is sent to the subrecipients, a signed copy of the letter is kept in the external audit files. An unsigned copy of the format letter that was sent to each subrecipient is also maintained in a database. Although the Board could produce an unsigned letter from the database file for all subrecipients, auditors did not consider the database file (an unsigned letter) sufficient evidence that the required award information was communicated to the subrecipient. The Board did not retain sufficient support that it communicated the required federal award information for:

- 11 (22 percent) of 50 subrecipients tested for the Capitalization Grants for Drinking Water State Revolving Fund Program.
- 14 (30 percent) of 47 subrecipients tested for the Capitalization Grants for Clean Water State Revolving Fund Program.
- 33 (87 percent) of 38 subrecipients tested for the Capitalization Grants for Colonias Wastewater Treatment Assistance Program.

Subrecipient requirement letters should be sent to subrecipients in order to ensure correct reporting on the subrecipients Schedule of Expenditures of Federal Awards (SEFA), as well as to ensure that subrecipients comply with single audit requirements.

Recommendation:

The Board should ensure that it maintains sufficient support to demonstrate that it communicates the required federal award information, to include the CFDA title and number, award name, name of the federal agency, and applicable compliance requirements, to all subrecipients.

Management Response and Corrective Action Plan:

Management will institute procedures to require that copies of signed letters to borrowers and grantees, noted as subrecipients above, are maintained in the files.

Implementation Date: *January 2008*

Responsible Person: *Ernesto Briones*

West Texas A&M University

Reference No. 09-117

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Education

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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 the 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 proceeds 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 electronic (Title 34, Code of Federal Regulations, Section 668.165).

West Texas A&M University (University) has a manual process for maintaining documentation of when it sends disbursement notification letters. However, it did not consistently use this manual process, and it had no compensating controls for identifying when it sent disbursement notification letters. The University could not provide documentation indicating that it sent disbursement notification letters to 3 of 33 (9 percent) students tested. In addition, for 21 of 33 (64 percent) students tested, the University could not provide documentation showing that it sent the spring 2008 FFELP disbursement notification letters within 30 days of crediting the students' accounts. Documentation showed that the University sent these students notification letters for the fall 2007 semester.

Recommendation:

The University should ensure that it has developed and consistently uses a control process to retain documentation indicating that it sent disbursement notification letters to all FFELP and FPL loan recipients within the required time period.

Management Response and Corrective Action Plan:

The three missing pieces of documentation regarding the initial disbursement notification letters as well as the missing spring notices were an anomaly. The documentation was not captured in the proper electronic storage location.

To avoid having these isolated omissions we have instituted the following:

- *A single worker has been assigned to this process to provide continuity.*
- *An electronic sweep of the system designed to capture all electronic disbursements is done on a regular basis.*
- *E-mail letter notifications are generated from each sweep and copies of the letters sent are then saved to a separate drive on the WTAMU Storage Network which is maintained, supported and backed-up by the university's IT department.*
- *A paper backup is maintained of the dates and notices that are sent and stored. This log is maintained in the Loan Department of the Financial Aid Office.*

Implementation Date: *August 2008*

Responsible Person: *James D. Reed*

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Summary Schedule of Prior Audit Findings

Federal Portion of
Statewide Single Audit Report

For the Year Ended August 31, 2008

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Summary Schedule of Prior Year Audit Findings - Table of Contents

Prior Year Audit Findings - KPMG

Aging and Disability Services, Department of 337
Assistive and Rehabilitative Services, Department of 339
Family and Protective Services, Department of 341
Health and Human Services Commission 347
Human Services, Department of 368
Higher Education Coordinating Board, Texas 370
Juvenile Probation Commission, Texas 371
State Health Services, Department of 373
Texas Education Agency 381
Texas State Library and Archives Commission 385

Prior Year Audit Findings - Other Auditors

Lamar Institute of Technology 386
Lamar State College - Orange 390
Lamar State College - Port Arthur 392
Prairie View A&M University 394
Public Safety, Department of 396
Sul Ross State University 406
Texas A&M Health Science Center 407
Texas A&M University 410
Texas A&M University - Commerce 413
Texas A&M University - Kingsville 414
Texas A&M University - Texarkana 416
Texas Higher Education Coordinating Board 417
Texas Southern University 423
Texas State Technical College - Harlingen 428
Texas State Technical College - Marshall 431
Texas State Technical College - Waco 433
Texas State Technical College - West Texas 435
Texas Tech University 437
Texas Tech University Health Sciences Center 440
Texas Woman’s University 442
Transportation, Department of 445
University of Houston 447
University of Houston - Downtown 450
University of Houston - Victoria 452
University of Texas at Austin 456
University of Texas at Brownsville 461
University of Texas M.D. Anderson Cancer Center 462
University of Texas Medical Branch at Galveston 466
University of Texas at Permian Basin 471
University of Texas at San Antonio 474
University of Texas at Tyler 478
Water Development Board 479

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Summary Schedule of Prior Year Audit Findings - KPMG

Federal regulations (*Office of Management and Budget Circular OMB Circular A-133*) state, "the auditee is responsible for follow-up and corrective action on all audit findings." As part of this responsibility, the auditee reports the corrective action it has taken for the following:

- Each finding in the 2007 Schedule of Findings and Questioned Costs
- Each finding in the 2007 Summary Schedule of Prior Audit Findings that was not identified as implemented or reissued as a current year finding

The Summary Schedule of Prior Audit Findings (year ended August 31, 2008) has been prepared to address these responsibilities.

Department of Aging and Disability Services

Reference No. 08-01
Allowable Costs/Cost Principles
(Prior Audit Issue - 07-02 and 06-01)

CFDA 93.667 - Social Services Block Grant
Award year - October 1, 2005 to September 30, 2007 and October 1, 2006 to September 30, 2008
Award number - G0601TXSOSR and G0701TXSOSR

Aging Cluster
Award year - October 1, 2005 to September 30, 2006 and October 1, 2006 to September 30, 2007
Award number - 06AATXT3SP, 06AATXNSIP, 07AATXT3SP, and 07AATXNSIP

Medicaid Cluster
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 31, 2006, and October 1, 2004 to September 31, 2005
Award number - 0705TX5028, 0705TX5048, 0605TX5028, 0605TX5048, 0505TX5028, and 0505TX5048
Type of finding - Non-Compliance

Initial Year Written: 2005
Status: Implemented

U.S. Department of Health and Human Services

Effective September 1, 2004, the health and human service agencies for the State of Texas were reorganized, creating a triggering event for the amendment of the public assistance cost allocation plan (CAP). Once a CAP is approved, state public assistance agencies are required to promptly submit amendments to the plan if any of the following events occur (45 CFR Section 95.509):

(a) The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes to the federal law or regulations, or significant changes in the program levels, affecting the validity of the approved cost allocation procedures.

(b) A material defect is discovered in the cost allocation plan.

(c) The State plan for public assistance programs is amended so as to affect the allocation of costs.

(d) Other changes occur which make the allocation basis or procedures in the approved cost allocation plan invalid.

The Department of Aging and Disability Services (DADS) submitted their revised CAP to the U.S. Department of Health and Human Services on August 31, 2004. The Federal Division of Cost Allocation elected not to review and approve the DADS CAP due to DADS not meeting the definition of a state agency as defined in 45 CFR 95.503. Consequently, the Federal Division of Cost Allocation designated the Health and Human Services Commission (HHSC) as the responsible agency for financial oversight of the programs administered by DADS.

HHSC has reviewed and provided conditional approval for the DADS CAP. Additionally, the HHSC CAP is pending federal approval, and any issues that impact their CAP may result in changes to the conditionally approved DADS CAP.

Per review of the 2007 expenditure patterns, payroll and benefit expenditures were determined to be direct and material to Medicaid Cluster, Aging Cluster, and Social Services Block Grant programs. In accordance with the conditionally approved DADS CAP, payroll and benefit expenditures are to be allocated based on three methodologies: random moment time study (RMTS), full-time equivalent (FTE) headcount analysis, or payroll effort certification.

- DADS performs RMTS and FTE headcount analysis on a quarterly basis (federal fiscal year quarters) for the Medicaid Cluster, Aging Cluster, and Social Services Block Grant programs. The updated allocation information is utilized to update the cost allocation system on a quarterly basis. Timesheets are to be maintained and certified for the payroll effort certification personnel.

- From the results of the RMTS and FTE headcount analysis, a quarterly Cost Allocation Report is prepared by program activity code (PAC). The summarized information is used to update/upload the information into the main Cost Allocation System which allocates employees' time to the respective programs. The updates are done on a quarterly basis. Timesheets are completed on a monthly basis.

Based on test work performed over these areas, DADS is allocating the payroll and benefit expenditures in accordance with the conditionally approved DADS CAP.

Corrective Action:

Corrective action was taken.

Department of Assistive and Rehabilitative Services

Reference No. 08-02
Allowable Costs/Cost Principles
(Prior Audit Issue - 07-03)

CFDA 84.126 - Rehabilitation Services - Vocational Rehabilitation Grants to States
Award year - October 1, 2005 to September 30, 2007, October 1, 2005 to September 30, 2007, October 1, 2006 to September 30, 2008 and October 1, 2006 to September 30, 2008
Award number - H126A060064, H126A060065, H126A070064 and H126A070065
Type of finding - Significant Deficiency

Initial Year Written: 2006
Status: Implemented

U.S. Department of Education

Access to the OMB Time Tracking application production server was not restricted appropriately. A developer had access to the production server. The OMB Time Tracking application was developed and run initially from the developer's computer but was moved to a production server to make use of production backup capabilities. However, the developer retained access to run and continue developing the application. In addition, there was no formal change control process in place for the OMB Time Tracking application.

Changes to the OMB Time Tracking application should be approved by management, tested and approved by business area users, and approved for move to production. In addition, controls should be in place to restrict developers' access to the production environment.

No compliance exceptions were noted during the review of selected 2007 payroll transactions for the major program noted above.

Corrective Action:

Corrective action was taken.

Reference No. 08-03
Cash Management

CFDA 84.126 - Rehabilitation Services - Vocational Rehabilitation Grants to States
Award year - October 1, 2005 to September 30, 2007, October 1, 2005 to September 30, 2007, October 1, 2006 to September 30, 2008 and October 1, 2006 to September 30, 2008
Award number - H126A060064, H126A060065, H126A070064 and H126A070065
Type of finding - Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

According to the Treasury-State agreement for the State of Texas, the Vocational Rehabilitation Grants to States program at the Department of Rehabilitation Services (DARS) is included in Subpart A of the 34 CFR Part 205, which implements the Cash Management Improvement Act (CMIA). Under the State of Texas CMIA agreement with the Department of Treasury, the Vocational Rehabilitation Grants to States program at DARS utilizes the pre-issuance funding technique which requires the calculation of a clearance pattern.

Per the State of Texas CMIA agreement, the clearance pattern is calculated in two portions - Period one and Period two. DARS calculates Period one as the average number of days between the day the funds are deposited in the State Treasury by the federal government and the day the warrant is issued. The State of Texas Comptroller's office calculates Period two as the average number of days between the day the warrant is issued and the day the warrant clears the Treasury. To calculate Period one, DARS is to select three consecutive months from the fiscal year that are representative of the clearance patterns for the year.

DARS analysis of April, May and June 2007 yielded an average of -.93 days for Period one. However, upon the review of the remaining nine months, an average of .6542 days was noted for the entire fiscal year. As such, the clearance pattern reported is not representative of the fiscal year. DARS management noted during the year that their draw pattern for payroll was creating a positive clearance pattern and accordingly adjusted their draw pattern to reflect a negative clearance pattern. However the clearance pattern reported for fiscal year 2007 should only reflect 2007 activity.

The Period two calculation for fiscal year 2007 is 3.23 days, resulting in a total of 3.8842 days. The total draw amount for CFDA 84.126 during fiscal year 2007 was approximately $188m. Therefore at an interest rate of 4.95%, the interest liability would be approximately $99,000. The State of Texas reported $58,750.

Corrective Action:

Corrective action was taken.

Department of Family and Protective Services

Reference No. 08-04
Allowable Costs/Cost Principles
(Prior Audit Issue - 07-05, 06-05)

CFDA 93.556 - Promoting Safe and Stable Families
Award year - October 1, 2005 to September 30, 2007 and October 1, 2004 to September 30, 2006
Award number - G0601TX00FP and G0501TX00FP

CFDA 93.558 - Temporary Assistance for Needy Families
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006 and October 1, 2004 to September 30, 2005
Award number - G0702TXTANF, G0602TXTANF and G0501TXTANF

CFDA 93.645 - Child Welfare Services - State Grants
Award year - October 1, 2006 to September 30, 2008
Award number - G0701TX1400

CFDA 93.658 - Foster Care - Title IV-E
Award year - October 1, 2005 to September 30, 2006 and October 1, 2006 to September 30, 2007
Award number - G0601TX1401 and G0701TX1401

CFDA 93.659 - Adoption Assistance
Award year - October 1, 2005 to September 30, 2006 and October 1, 2006 to September 30, 2007
Award number - G0601TX1407 and G0701TX1407

CFDA 93.667 - Social Services Block Grant
Award year - October 1, 2005 to September 30, 2007 and October 1, 2006 to September 30, 2008
Award number - G0601TXSOSR and G0701TXSOSR
Type of finding - Non-Compliance

Initial Year Written: 2005
Status: Partially Implemented

U.S. Department of Health and Human Services

Effective September 1, 2004, the health and human service agencies for the State of Texas were reorganized, creating a triggering event for the amendment of the public assistance cost allocation plan (CAP). Once a CAP is approved, State public assistance agencies are required to promptly submit amendments to the plan if any of the following events occur (45 CFR Section 95.509):

(a) The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes to the Federal law or regulations, or significant changes in the program levels, affecting the validity of the approved cost allocation procedures.

(b) A material defect is discovered in the cost allocation plan.

(c) The State plan for public assistance programs is amended so as to affect the allocation of costs.

(d) Other changes occur which make the allocation basis or procedures in the approved cost allocation plan invalid.

The Department of Family and Protective Services (DFPS) submitted their revised CAP to the U.S. Department of Health and Human Services to be effective September 1, 2004. The federal Division of Cost Allocation (DCA) has not approved the CAP as of August 31, 2007. KPMG was unable to determine that the expenditures charged to the federal programs were based on an approved CAP. However based on test work performed over the areas noted below, DFPS allocated direct expenses, including payroll and benefit expenditures, in accordance with the CAP submitted to DCA for approval during fiscal year 2006.

Per review of the 2007 expenditure patterns, direct expenses (including payroll and benefit expenditures) were determined to be direct and material to various major programs noted above. In accordance with the CAP submitted by DFPS for approval, expenditures are to be allocated based on various methodologies as determined by the associated projects: random moment time study (RMTS), full time employee (FTE) headcount analysis, service unit cost analysis, case count analysis, or payroll effort certification.

- DFPS performs RMTS, service unit cost analysis, and case count analysis on a quarterly basis. The updated allocation information is utilized to update the cost allocation system on a quarterly basis. FTE headcount analysis is performed monthly and certified for payroll effort each month.
- From the results of the various allocation methods noted above, summarized information is used to update/upload the information into the Cost Allocation System which allocates employees' time and other direct expenditures to the respective programs.

Corrective Action:

This finding was reissued as current year reference number: 09-09

Reference No. 08-05

Allowable Costs/Cost Principles
Eligibility

CFDA 93.659 - Adoption Assistance
Award year - October 1, 2005 to September 30, 2006 and October 1, 2006 to September 30, 2007
Award number - G0601TX1407 and G0701TX1407
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Health and Human Services

Adoption Assistance Subsidies may be expended for adoption assistance agreement subsidy payments, in accordance with the State's foster care maintenance payment rate schedule; administrative payments for expenses associated with placing children in adoption; and training of professional staff and parents involved in adoptions. Subsidy payments are made to adoptive parents based on the need(s) of the child (i.e., developmental, cognitive, emotional behavioral) and the circumstances of the adopting parents (42 USC 673(a) (2)). Subsidy payment amounts cannot be based on any income eligibility requirements of the prospective adoptive parents (45 CFR Section 1356.41(c)). Adoption assistance subsidy payments cannot exceed the foster care maintenance payment the child would have received in a foster family home; however, the amount of the subsidy payments may be up to 100 percent of the foster care maintenance payment rate (42 USC 673(a)(3)).

Adoption assistance subsidy payments may be paid on behalf of a child only if all of the following requirements are met:

(1) The child is eligible, or would have been eligible, for the former Aid to Families with Dependent Children (AFDC) program (i.e., met the State-established standard of need as of July 16, 1996, prior to enactment of the Personal Responsibility and Work Opportunity Reconciliation Act) except for his/her removal from the home of a relative pursuant to either a voluntary placement agreement or as a result of a judicial determination to the effect that continuation in the home of removal would have been contrary to the welfare of the child; the child is eligible for Supplemental Security Income; or is a child whose costs in a foster family home or child care institution are covered by the foster care maintenance payments being made with respect to his/her minor parent (42 USC 673(a)(2)(A)).

(2) The child was determined by the State to be a child with special needs (42 USC 673(c)).

(3) The State has made reasonable efforts to place the child for adoption without a subsidy (42 USC 673(c)).

(4) The agreement for the subsidy was signed and was in effect before the final decree of adoption and contains information concerning the nature of services; the amount and duration of the subsidy; the child's eligibility for Title XX services and Title XIX Medicaid; and covers the child should he/she move out of State with the adoptive family (42 USC 675(3)).

A sample of 40 children, for whom Adoption Assistance subsidy payments were made during fiscal year 2007, was selected for review. For each child, we obtained the recipient file and verified that a determination was made for the child's eligibility. Our review disclosed the following:

- For one of the recipients selected, the family received an adoption assistance subsidy payment for a child that was determined not to be eligible. The federal share amount of the subsidy was $31,698.

- For one of the recipients selected, the family did not sign the agreement for the subsidy before the final decree of adoption. The federal share of the subsidy payments was $14,507.

In addition, in accordance with 45 CFR Section 1356.30 (a) and (b), unless an election provided for in paragraph (d) of this section is made; the State must provide documentation that criminal record checks have been conducted with respect to prospective foster and adoptive parents. The State may not approve or license any prospective foster or adoptive parent, nor may the State claim federal financial participation (FFP) for any foster care maintenance or adoption assistance payment made on behalf of a child placed in a foster home operated under the auspices of a child placing agency or on behalf of a child placed in an adoptive home through a private adoption agency, if the State finds that, based on a criminal records check conducted in accordance with paragraph (a) of this section, a court of competent jurisdiction has determined that the prospective foster or adoptive parent has been convicted of a felony involving:

6. Child abuse or neglect
7. Spousal abuse
8. A crime against a child or children (including child pornography), or
9. A crime involving violence, including rape, sexual assault, or homicide, but not including other physical assault or battery.

The Department of Family and Protective Services (DFPS) has implemented procedures to ensure that background checks are completed in accordance with federal regulations. In accordance with the Texas Administrative Code (TAC) 745 Subchapter F "Requesting Background Checks," management has implemented ongoing monitoring activities to address compliance with the background check requirements found in TAC 745 Subchapter F. DFPS has implemented periodic monitoring activities of criminal background checks to ensure that all individuals have met the requirement. The procedures implemented by DFPS include but are not limited to the following:

- DFPS has implemented procedures for timing of background check submission.
- If the results of the background check are not received within two working days of submission to DFPS, the requestor may obtain a criminal history check on the person through the Department of Public Safety (DPS) at http://records.txdps.state.tx.us/.
- DFPS does not allow the person to provide direct care or have direct access to a child in care until the results of the person's background check are received.
- DFPS requires an FBI criminal history check on persons who live outside of Texas or about whom there is reason to believe other criminal history exists. In these situations the individual must submit FBI fingerprints cards.
- DFPS requires the receipt of results from the background checks before issuing a permit to operate a licensed child-care home, a registered child-care home, a listed family home, an independent foster home or a foster group home.
- DFPS performs periodic operations due to reported cases of abuse or neglect, a deficiency in licensing statute, rule, or minimum standard.
- DFPS requires an update of the criminal background checks at least once every two years.

A sample of 40 children, for whom Adoption Assistance subsidy payments were made during fiscal year 2007, was selected for review. For each child, we verified that the adoptive parent(s) had satisfactorily met a criminal records check. For one sample item, the criminal background check was not on file for the parents of the adopted child.

Corrective Action:

This finding was reissued as current year reference number: 09-10

Reference No. 08-06

Allowable Costs/Cost Principles

Eligibility

(Prior Audit Issue - 07-06)

CFDA 93.556 - Promoting Safe and Stable Families
Award year - October 1, 2005 to September 30, 2007 and October 1, 2004 to September 30, 2006
Award number - G0601TX00FP and G0501TX00FP

CFDA 93.558 - Temporary Assistance for Needy Families
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006 and October 1, 2004 to September 30, 2005
Award number - G0702TXTANF, G0602TXTANF and G0501TXTANF

CFDA 93.645 - Child Welfare Services - State Grants
Award year - October 1, 2006 to September 30, 2008
Award number - G0701TX1400

CFDA 93.658 - Foster Care - Title IV-E
Award year - October 1, 2005 to September 30, 2006 and October 1, 2006 to September 30, 2007
Award number - G0601TX1401 and G0701TX1401

CFDA 93.659 - Adoption Assistance
Award year - October 1, 2005 to September 30, 2006 and October 1, 2006 to September 30, 2007
Award number - G0601TX1407 and G0701TX1407

CFDA 93.667 - Social Services Block Grant
Award year - October 1, 2005 to September 30, 2007 and October 1, 2006 to September 30, 2008
Award number - G0601TXSOSR and G0701TXSOSR
Type of finding - Significant Deficiency

The Department of Family and Protective Services (DFPS) utilizes IMPACT as its computer system for determining eligibility with regard to the above listed programs. Access controls are inappropriately designed for the IMPACT production server. A single user account is used to migrate changes into production. Of five employees with access to this account, one employee is an IMPACT developer. This employee has access to the account used to move changes into production.

Initial Year Written: 2006
Status: Implemented

U.S. Department of Health and Human Services

Users with excessive rights to modify the application across the enterprise create a risk of unauthorized changes to the production environment and/or a risk of unintentional errors or omissions in processing. In addition, accountability cannot be determined when users share a generic ID.

During compliance work performed, no exceptions were noted which resulted from the above deficiency for the major programs noted.

Corrective Action:

Corrective action was taken.

Reference No. 08-07
Eligibility
(Prior Audit Issue - 07-08, 06-09, 05-03, 04-37, and 04-38)

CFDA 93.658 - Foster Care - Title IV-E
Award year - October 1, 2005 to September 30, 2006 and October 1, 2006 to September 30, 2007
Award number - G0601TX1401 and G0701TX1401
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2003
Status: Partially Implemented

U.S. Department of Health and Human Services

In accordance with 45 CFR Section 1356.30 (a) and (b), unless an election provided for in paragraph (d) of this section is made; the State must provide documentation that criminal record checks have been conducted with respect to prospective foster and adoptive parents. The State may not approve or license any prospective foster or adoptive parent, nor may the State claim FFP for any foster care maintenance or adoption assistance payment made on behalf of a child placed in a foster home operated under the auspices of a child placing agency or on behalf of a child placed in an adoptive home through a private adoption agency, if the State finds that, based on a criminal records check conducted in accordance with paragraph (a) of this section, a court of competent jurisdiction has determined that the prospective foster or adoptive parent has been convicted of a felony involving:

1. Child abuse or neglect
2. Spousal abuse
3. A crime against a child or children (including child pornography), or
4. A crime involving violence, including rape, sexual assault, or homicide, but not including other physical assault or battery.

In addition, the foster family home provider must satisfactorily have met a child abuse and neglect registry check with respect to prospective foster and adoptive parents and any other adult living in the home who has resided in the provider home in the preceding 5 years. The requirement applies to foster care maintenance payments for calendar quarters beginning on or after that date. (42 USC 671(a)(20)(C); Pub. L. No. 109-248, Section 152(c)(2) and (3)). The Department of Family and Protective Services (DFPS) has implemented procedures to ensure that background checks and child abuse and neglect registry check are completed in accordance with federal regulations. In accordance with the Texas Administrative Code (TAC) 745 Subchapter F "Requesting Background Checks," management has implemented ongoing monitoring activities to address compliance with the background check requirements found in TAC 745 Subchapter F. DFPS has implemented periodic monitoring activities of criminal background checks to ensure that all individuals have met the requirement. The procedures implemented by DFPS include but are not limited to the following:

- DFPS has implemented procedures for timing of background check submission.
- If the results of the background check are not received within two working days of submission to DFPS, the requestor may obtain a criminal history check on the person through the Department of Public Safety (DPS) at http://records.txdps.state.tx.us/.
- DFPS does not allow the person to provide direct care or have direct access to a child in care until the results of the person's background check are received.
- DFPS requires an FBI criminal history check on persons who live outside of Texas or about whom there is reason to believe other criminal history exists. In these situations the individual must submit FBI fingerprint cards.
- DFPS requires the receipt of results from the background checks before issuing a permit to operate a licensed child-care home, a registered child-care home, a listed family home, an independent foster home or a foster group home.
- DFPS performs periodic operations due to reported cases of abuse or neglect, a deficiency in licensing statute, rule, or minimum standard.
- DFPS requires an update of the criminal background checks at least once every two years.

A sample of 40 children for whom Foster Care payments were made during fiscal year 2007 was selected for review. For each child, we selected one foster care provider and verified that the provider satisfactorily met the criminal records check. For each foster care provider, we obtained a listing of employees for a selected month and verified that a criminal background check was performed for one employee. Our review disclosed the following:

- For one sample, the criminal background check was overdue for one employee. State law requires a background check and a neglect registry check to be completed at least once every two years. The selected employee did not have the background check or a child abuse and neglect registry check completed within a two year period. During field work, DFPS performed the required background and neglect registry check noting no issues for this employee.
- For another employee, a risk evaluation was not completed when it was discovered the employee had a criminal history. The State is required to perform a risk assessment for any Foster Care provider/employee that has a criminal history prior to his or her participation in the program.
- For a third sample item, the child abuse and neglect registry check was not located for one employee. A child abuse and neglect registry check was not completed prior to employment.

Corrective Action:

This finding was reissued as current year reference number: 09-11.

Health and Human Services Commission

Reference No. 08-08
Allowable Costs/Cost Principles
(Prior Audit Issue - 07-09, 06-12)

CFDA 93.558 - Temporary Assistance for Needy Families
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006 and October 1, 2004 to September 30, 2005
Award number - G0702TXTANF, G0602TXTANF and G0501TXTANF

CFDA 93.566 - Refugee and Entrant Assistance Program - State Administered Programs
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006, and October 1, 2004 to September 30, 2005
Award number - G07AATX6100, G06AATX6100, and G05AATX6100

CFDA 93.667 - Social Services Block Grant
Award year - October 1, 2005 to September 30, 2007 and October 1, 2006 to September 30, 2008
Award number - G0601TXSOSR and G0701TXSOSR

CFDA 93.767 - State Children's Insurance Program
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006, October 1, 2004 to September 30, 2005, and October 1, 2003 to September 30, 2004
Award number - 0705TX5021, 0605TX5021, 0505TX5021, and 0405TX5021

Emergency Food Assistance Cluster
Award year - October 1, 2006 to September 30, 2007 and October 1, 2005 to September 30, 2006
Award number - 6TX810815 and 5TX810815

Food Stamp Cluster
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 31, 2006 and October 1, 2004 to September 31, 2005
Award number - 6TX400105, 6TX400105 and 5TX400105

Medicaid Cluster
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 31, 2006, and October 1, 2004 to September 31, 2005
Award number - 0705TX5028, 0705TX5048, 0605TX5028, 0605TX5048, 0505TX5028, and 0505TX5048
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2005
Status: Implemented

U.S. Department of Health and Human Services
U.S. Department of Agriculture

Effective September 1, 2004, the health and human service agencies for the State of Texas were reorganized, creating a triggering event for the amendment of the public assistance cost allocation plan (CAP). Once a CAP is approved, State public assistance agencies are required to promptly submit amendments to the plan if any of the following events occur (45 CFR Section 95.509):

(a) The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes to the Federal law or regulations, or significant changes in the program levels, affecting the validity of the approved cost allocation procedures.

(b) A material defect is discovered in the cost allocation plan.

(c) The State plan for public assistance programs is amended so as to affect the allocation of costs.

(d) Other changes occur which make the allocation basis or procedures in the approved cost allocation plan invalid.

The Health and Human Services Commission (HHSC) submitted their revised CAP to the U.S. Department of Health and Human Services to be effective September 1, 2004. The federal Division of Cost Allocation (DCA) has not approved the CAP as of August 31, 2007. KPMG was unable to determine that the expenditures charged to the federal programs were based on an approved CAP. In accordance with the CAP submitted by HHSC for approval, expenditures are to be allocated based various methodologies as determined by the associated projects: random moment time study (RMTS), headcount, and client count analysis.

During the test work performed, RMTS information was collected by HHSC during the fiscal year. During fiscal year 2005, management of HHSC made the decision to not update the cost allocation system for the quarterly 2005 RMTS information since the CAP plan was not approved by DCA. As a result, fiscal year 2005 federal expenditures for HHSC were allocated based on fiscal year 2004 RMTS information. HHSC also did not update any of the other allocation systems with current headcount or client count information during 2005. During fiscal year 2006, HHSC trued up the 2005 allocation based on the RMTS and other allocation information that had been obtained.

Beginning September 2005 for the fiscal year 2006 and 2007, management of HHSC did utilize the RMTS information and updated the cost allocation system for the quarterly information. In addition, the other allocation systems with current headcounts or client count information were also updated. On a quarterly basis, the allocations for fiscal year 2007 reflected the respective quarterly random moment time study, case counts, client counts, etc.

In addition, per 45CFR95.507(b)(4) and (9), the cost allocation plan (CAP) shall contain the procedures used to identify, measure, and allocate all costs to each benefiting program and activity (including activities subject to different rates of federal financial participation (FFP)). The CAP shall also contain other information as is necessary to establish the validity of the procedures used to identify, measure, and allocate costs to all programs being operated by the State agency.

HHSC has approximately 60 cost allocation methodologies. Of all cost allocated to federal programs five methodologies account for over 50 percent of the expenditures; as such, these five methodologies were selected for detail review. The fiscal accountant receives data from program personnel and calculates factor rates. Of the five selected for review, it was noted that for four of the methodologies there is no independent review of the calculation to ensure the factor rates are accurate.

One of the allocation methodologies selected for review is random moment time study. HHSC client service employees track their time spent working on each federal program and complete a booklet. The booklet is certified by the employee as accurate and complete. From a sample of 50 booklets selected for review, ten were not certified by the employee.

Corrective Action:

Corrective action was taken.

Reference No. 08-09

Allowable Costs/Cost Principles

(Prior Audit Issue 07-11)

CFDA 93.667 - Social Services Block Grant
Award year - October 1, 2005 to September 30, 2007 and October 1, 2006 to September 30, 2008
Award number - G0601TXSOSR and G0701TXSOSR

CFDA 93.767 - State Children's Insurance Program
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006, October 1, 2004 to September 30, 2005, and October 1, 2003 to September 30, 2004
Award number - 0705TX5021, 0605TX5021, 0505TX5021, and 0405TX5021

Medicaid Cluster
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 31, 2006, and October 1, 2004 to September 31, 2005
Award number - 0705TX5028, 0705TX5048, 0605TX5028, 0605TX5048, 0505TX5028, and 0505TX5048
Type of finding - Significant Deficiency

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of Health and Human Services

Funds can only be used for Medicaid benefit payments (as specified in the State plan, Federal regulations, or an approved waiver), expenditures for administration and training, expenditures for the State Survey and Certification Program, and expenditures for State Medicaid Fraud Control Units (42 CFR Sections 435.10, 440.210, 440.220, and 440.180). Also, states must have a system to identify medical services that are the legal obligation of third parties, such as private health or accident insurers. Such third-party resources should be exhausted prior to paying claims with program funds. Where a third-party liability is established after the claim is paid, reimbursement from the third party should be sought (42 CFR Sections 433.135 through 433.154).

First Rebate is the application Health and Human Services Commission (HHSC) currently utilizes with First Health Services Corporation (FHSC) to validate, approve, and pay for the vendor drug transactions. Access to the First Rebate production server AZPH-SRV-DB14, the First Rebate database, and the First Rebate application is not restricted appropriately. An excessive number of employees have administrative access rights to the server. A terminated employee's user ID with database administrator access has not been disabled on the First Rebate database. Developers have been granted administrative access in the application and database. Specifically:

- Approximately 136 user IDs have administrative access to the First Rebate production server AZPH-SRV-DB14. Of those 136 user IDs, 32 are generic IDs.
- One of ten employees selected with administrative access to the First Rebate database is a developer.
- One of ten employees selected with administrative access to the First Rebate database has been terminated. Per discussion with management, this user's access was removed in September 2007.
- Five of nine user IDs with administrative access to the First Rebate application are developers. Per discussion with management, the IDs allow read-only access.
- No formal review of users is maintained by management to determine the appropriateness of access and ensure proper segregation of duties on the First Rebate server, database or application.

With full update access, user IDs can be used to provide system access to add, update, or delete data. Sophisticated users with broad enterprise skills and experience might have the knowledge to violate the requirement for appropriate segregation of duties. Users with inappropriate rights to modify application code or data create a risk of unauthorized changes to the production environment and/or a risk of unintentional errors or omissions in processing.

Also, HHSC outsources the recovery of vendor drug third-party reimbursements to Health Management Systems (HMS). HMS matches Medicaid and State Children's Insurance Program (SCHIP) and other program data files to insurance eligibility files obtained from third parties, including Medicare, commercial insurers, HMOs, Third Party Administrators, TRICARE, and others. This process identifies potential third-party liability, validates insurance benefits and recovers Medicaid and SCHIP payments from liable third parties.

A service auditor's report covering the period March 1, 2006 through February 28, 2007 (covering the first 6 months of the fiscal year 2007) was issued for HMS's IT general controls environment. A qualified opinion was issued due to the controls surrounding granting, modifying, terminating and reviewing of logical access to systems were not applied consistently. General controls over the IT environment should be operating effectively to help ensure the proper functioning of the HMS applications.

No compliance exceptions were noted related to this test work for the major programs above.

Corrective Action:

This finding was reissued as current year reference: 09-14.

Reference No. 08-10

Allowable Costs/Costs Principles

(Prior Audit Issue - 07-10)

Medicaid Cluster

Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 31, 2006, and October 1, 2004 to September 31, 2005

Award number - 0705TX5028, 0705TX5048, 0605TX5028, 0605TX5048, 0505TX5028, and 0505TX5048

Type of finding - Non-Compliance

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of Health and Human Services

During fiscal year 2006, the Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS), regional office from Dallas Texas issued a disallowance letter dated November 29, 2006. On December 22, 2006, Health and Human Services Commission (HHSC) appealed the disallowance. The following information is quoted from the CMS letter:

"This letter is notice of a disallowance in the amount of $14,849,602 Federal Financial participation (FFP) for medical transportation costs claimed during federal fiscal years 2004 and 2005. The transportation costs were improperly claimed at the Federal Medical Assistance Percentage (FMAP) for medical services instead of the 50 percent administration matching rate. (See deferral letter dated January 17, 20-06)

The Texas Department of Health and Human Services Commission (HHSC) provides Medicaid reimbursement to the Texas Department of Transportation (TX-DOT) for administration of the State's Medicaid non-emergency transportation program. TX-DOT subcontracts with transportation providers, who actually provide the transportation services.

The Secretary has specified by regulation that transportation (when necessary to secure medical care) may be treated as medical assistance only when furnished 'by a provider to whom a direct vendor payment can appropriately be made by the agency. If other arrangements are made to assure transportation…FFP is available as an administrative cost.' 42 CFR Section 440.170(a)(2)(1991) (unchanged in relevant years). Administrative costs are normally reimbursed at a 50% rate under Section 1903(a)(7) of the Act.

Also, the recipients' freedom of choice of providers is limited under the TX-DOT transportation program. Regulation cited in 42 CFR Section 431.51 provides that Medicaid recipients may obtain Medicaid services from any entity that is qualified and willing to furnish them. Therefore, Texas may not restrict transportation providers to those subcontracts with TX-DOT without an approved freedom of choice waiver. Texas did not have a freedom of choice waiver for the provision of transportation services."

On September 17, 2007, in Decision No, 2114, the Departmental Appeals Board reversed the disallowance, in part, and upheld it, in part for services provided by brokers after June 1, 2006.

Corrective Action:

This finding was reissued as current year reference number: 09-15.

Reference No. 08-11
Eligibility
(Prior Audit Issue - 07-12)

CFDA 93.767 - State Children's Insurance Program (SCHIP)
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006, October 1, 2004 to September 30, 2005, and October 1, 2003 to September 30, 2004
Award number - 0705TX5021, 0605TX5021, 0505TX5021, and 0405TX5021
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of Health and Human Services

States have flexibility in determining eligibility levels for individuals for whom the state will receive enhanced matching funds within the guidelines established under the Social Security Act. Generally, a state may not cover children with higher family income without covering children with a lower family income, nor deny eligibility based on a child having a preexisting medical condition. States are required to include in their state plans a description of the standards used to determine eligibility of targeted low-income children. State plans should be consulted for specific information concerning individual eligibility requirements (42 USC 1397bb(b)).

Specifically, Texas SCHIP Administrator Business Rules 370.42, *Eligibility Applicant Children*, SCHIP children are eligible if they are: birth through age 18, live in a household with a Federal Poverty Level (FPL) of at or below 200 percent and are not otherwise eligible for Medicaid, citizens or legal immigrants, and uninsured for at least 90 days.

For two of 40 cases, the incorrect FPL percentages were utilized. Three additional cases did not have the application for benefits. These three cases were all referrals from Medicaid personnel. The cases that utilized the incorrect FPL percentages do not have questioned costs, since the correct calculation would place the individual in the same benefit level. The amount of benefits paid for the three cases that did not have applications during fiscal year 2007 was $1,547. Total benefits paid for the year were approximately $347,000,000 for CFDA 93.767. Approximately 2% of SCHIP enrollments are referrals from Medicaid, or $694,000.

Corrective Action:

This finding was reissued as current year reference: 09-16.

Reference No. 08-12
Eligibility
(Prior Audit Issue - 07-13)

CFDA 93.558 - Temporary Assistance for Needy Families
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006 and October 1, 2004 to September 30, 2005
Award number - G0702TXTANF, G0602TXTANF and G0501TXTANF

Food Stamp Cluster
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 31, 2006 and October 1, 2004 to September 31, 2005
Award number - 6TX400105, 6TX400105 and 5TX400105

Medicaid Cluster
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 31, 2006, and October 1, 2004 to September 31, 2005
Award number - 0705TX5028, 0705TX5048, 0605TX5028, 0605TX5048, 0505TX5028, and 0505TX5048
Type of finding - Material Weakness Control and Non-Compliance

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of Health and Human Services
U.S. Department of Agriculture

Health and Human Services Commission (HHSC) currently maintains two systems for determining eligibility for Medicaid, Temporary Assistance for Needy Families (TANF) and Food Stamp - the legacy system, System of Application, Verification, Eligibility, Referral, and Reporting (SAVERR), and the pilot system, Texas Integrated Eligibility Reporting System (TIERS).

Per review of the regulations and State Plan documents for Medicaid, TANF and Food Stamp benefits, individuals must generally meet the following criteria to be eligible for any of the three forms of aid, and the information is required to be verified per a third party source of information. Any exceptions are noted below:

- Completed and signed an application for benefits with eligibility determined at least every 12 months for Medicaid (42 CFR 435.916(a)), TANF (per State Plan), and Food Stamps (7 CFR 273.10(f)) In some situations, Medicaid cases are not required to be redetermined such as for earned income transitional coverage.
- Be a Texas resident. Verification of residency is not required for Medicaid recipients. Verification is required for TANF, per State Policy, and Food Stamps per 7 CFR 273.2(f)(1)(vi).
- Be a U.S. citizen or non-citizen in certain recognized categories. Verification is not required for non-cash TANF recipients. Verification is required for Medicaid by State Policy and federal regulations effective July 1, 2006; cash TANF by State Policy; and Food Stamps if receiving cash TANF benefits based on TANF State Policy.
- Meet certain resource and income limits, which vary by eligibility group, including proof of unemployment. Verification is required for all programs by State Policy and additionally for Food Stamps verification of "gross non-exempt income" is required by 7 CFR 273.2(f)(i).
- Social security number. Verification of social security numbers is required for Medicaid by 42 CFR 435.910(g); TANF by State Policy; and Food Stamps by State Policy and 7 CFR 273.2(f)(1)(v).

TIERS

Audit procedures included review of certain general and application level controls designed for TIERS along with review of selected case files, as noted below. The following were noted with regard to the general control procedures performed:

- Access controls are inappropriately designed at the Oracle database level.
- The URL for the TIERS login screen is available on the internet and while User ID and password are required, it does not require authentication through a VPN to the HHSC or TAA network. In addition, improvements were noted for the administration and configuration of the firewall during the fiscal year.
- There is no periodic review of TIERS users at the application, database, and operating system level, or the privileges associated with those users.

In addition, the eligibility process does not enforce the respective eligibility decisions necessary to ensure clients are eligible and receive proper benefit amounts.

- Consistent with current HHSC policy, TIERS is not designed to enforce third party verification for residency, social security number, or U.S. citizenship. HHSC's process should be improved by implementing automated controls to enforce third party verifications. For example, a field for each is required to be populated, however, one of the choices is "client statement" which does not constitute third party verification. Select of self declaration through "client statement" allows the respective case file to proceed to the next step toward benefit issuance with no third party verification. In limited circumstances (e.g. homeless person), self declaration for residency is acceptable. However in general circumstances, these three elements are required to be verified with a third party. Currently state eligibility workers assess the validity and accuracy of the client's statement. Eligibility policy should be modified to enable TIERS to prohibit case workers from continuing towards benefit issuance until verification is obtained. A manual system override by a supervisor would be necessary in the limited circumstances self declaration is acceptable.
- TIERS interfaces with the Social Security Administration (SSA) to verify social security numbers. TIERS is designed so that a correct match of a client's social security number will populate a field noting the respective social security number has been verified. For social security numbers where a match is not successful, an alert is sent to the file for the case worker to investigate. However, TIERS is not designed nor are their manual controls to restrict benefits from being issued if the social security number has not been verified before the first recertification. HHSC's policy is to deny benefits after one year unless efforts are underway to obtain a social security number.

- The Federal Income, Eligibility, and Verification System (IEVS) is used to verify applicant's income information from the Social Security Administration, Internal Revenue Service, and the State of Texas Workforce Commission. Through IEVS, applicants' social security numbers are matched to respective agencies' records to verify earned and unearned sources of income. The automated IEVS interface is currently not in production in TIERS. Use of IEVS is required for Medicaid by 42 CFR 435.940 and TANF by the State Plan. IEVS is optional for Food Stamps (7 CFR 272.8).

- Certain fields are noted as required on various screens within TIERS. Within a set of "logical unit of work" screens, a case worker is not able to advance to the next input screen without entering information into all the required fields. The system design requires case workers to pend from the "questions" page that precedes the logical unit of work when all of the required detail information is not available. However once the case worker unpends the question page, they are committed to the logical unit of work. At this point, system design requires selected fields to be completed in order to advance to the remaining screens to enter information the case worker has obtained. If the caseworker does not have the information for these required fields, "placeholder" information can be entered in order to advance to the screens for which case information has been. TIERS is not designed to pend these "place holder" inputs nor does it require the case worker to return and validate the inputs.

- The design of TIERS does not provide an easily accessible case history for each case action, including changes made to the client's file. Therefore, when it is necessary to recreate eligibility determinations made at a certain point in time and to assess whether the benefits amounts were appropriate, users must view history on various screens and certain information for each recipient must be pulled from archive records located in the Data Collections Table in the database. Associated database time and date stamps are also required to recreate the case history.

Further, the HHSC Office of Inspector General (OIG) is responsible for recoupment of overpayments and pursuit of fraud in HHSC. In April 2005, OIG suspended recoupment efforts and its investigation and pursuit of fraud cases for clients living in zip codes serviced through TIERS, pending the completion of the appropriate TIERS improvements. During fiscal year 2007, not all of the information required to perform recoupment and fraud investigations was readily available, and certain information in TIERS lacked the level of data integrity required to support court cases. Subsequent to year-end in September 2007, OIG notified US Department of Agriculture, Food and Nutrition Services, Southwest Region that "we have determined that TIERS supports the pursuit of agency error, client error, and intentional program violation claims, and that TIERS data can and will be used as evidence in fair hearing and administrative disqualification hearings. … We are testing the data in the TIERS Historical Case Report application and are confident that this information will be adequate to pursue fraudulent/criminal cases in the near future."

For 50 files reviewed receiving Food Stamp, two files with benefits of $2,723 were found to be incomplete or the benefits calculated in error as noted below:

- For one file the Cost of Living Adjustment (COLA) was not processed timely due to the case file being in a pending status. TIERS is designed to not process updates to files if the file is in pending status. As a result, the benefit amount calculated by TIERS was based on outdated information. The incorrect benefit amount paid to this household during the fiscal year was $5.

- For one file there was insufficient support for income used in determining eligibility. The benefit amount paid to this household, during the fiscal year was $2,718.

For 50 files reviewed receiving TANF, three files with benefits paid of $467 had benefits calculated in error as noted below:

- Updated income information for two cases was not processed timely, resulting in over- and underpayment of benefit amounts using outdated information. For one case the net effect of changes that occurred during the year was zero. For the other case, HHSC paid the individual four months of ineligible award in the amount of $324.

- For one file there was insufficient support for income used in determining eligibility. The benefit amount paid to this household, during the fiscal year was $143.

For 50 files reviewed receiving Medicaid, six files with total benefits paid of $2,592 were found to be incomplete:

- One file erroneously included one family member in determining the budgetary allowance for the case. Benefits paid to the family during the fiscal year were not affected by the inclusion of this family member.
- One file should not have been deemed eligible for benefits. The individual should have been denied Medicaid benefits when SSI benefits were denied in November 2005. However, there were no benefits paid to this individual since November 2005.
- One file did not have support for redetermination of benefits. The benefit amount paid to this individual was $932.
- One file was missing a signed application. No benefits were paid to this household during the fiscal year.
- Two files did not contain documentation to support budget information. Therefore, eligibility could not be verified. Benefits paid for fiscal year were $1,660.

SAVERR

For 50 files reviewed receiving Medicaid, six files with total benefits paid of $5,084 were found to be incomplete:

- Three files were not made available for review. Therefore, eligibility could not be verified. Benefits paid to these individuals were $3,931.
- One file did not contain support for income used in eligibility determination. Therefore, the benefit amount could not be determined. Benefits paid to this individual during the fiscal year were $658.
- One file did not have support for redetermination of benefits. Benefits paid to this individual were $52.
- One file did not contain proof of social security number nor was there proof that the social security number was verified. The same file also did not contain proof that resources were below the required threshold, support for income or documentation that the income limit was not exceeded. Benefits paid to this individual were $443.

For 50 files reviewed receiving Food Stamp, two files with total benefits paid of $4,237 were found to be incomplete or the benefits calculated in error as noted below:

- One file was not made available for review. Therefore, eligibility could not be verified. Benefits paid to this individual were $2,015.
- One file did not have income support. Therefore, benefit amount could not be determined. Benefits paid to this individual during the fiscal year were $2,222.

For 50 files reviewed receiving TANF, four files with total benefits paid of $3,338 had benefits calculated in error as noted below:

- One file was missing a signed application and proof of residence. Therefore eligibility could not be determined. Benefits paid to this individual were $1,950.
- One file was missing proof of income. Therefore, eligibility could not be determined. Benefits paid to this individual were $1,388.
- Two files were not made available for review as the files were damaged by mold. Therefore eligibility could not be verified. No benefits were paid to these individuals.

In addition, access controls are inappropriately designed for the SAVERR database. User identification numbers with production update access have not been limited to the database based on the principle of least access. Fifty-five user IDs have full demand access to update both the production and development SAVERR databases on the Unisys mainframe. These IDs belong to developers, IT support staff and contractors.

With full update access, the user ID can be used to provide system access to add, update, or delete data such as pricing data or eligibility data in SAVERR. The complexity of the databases and associated systems is such that personnel without in-depth knowledge of specific applications and schema could not perform changes without detection through either end-user identification of errors or problems occurring in operation. However, sophisticated users or contractors, especially those with broad HHSC enterprise skills and experience, might have the knowledge to violate the requirement for appropriate segregation of duties. Users or contractors with excessive rights to modify pricing, eligibility, and other tables across the enterprise create a risk of unauthorized changes to the production environment and/or a risk of unintentional errors or omissions in processing.

The Federal Income, Eligibility, and Verification System (IEVS) is used to verify applicant's income information from the Social Security Administration, Internal Revenue Service, and the State of Texas Workforce Commission. Through IEVS, applicants' social security numbers are matched to respective agencies' records to verify earned and unearned sources of income. Use of IEVS is required for Medicaid by 42 CFR 435.940 and TANF by the State Plan. IEVS is optional for Food Stamps (7 CFR 272.8). The automated IEVS interface related to Internal Revenue Service was not functional beginning June 2007 to do changes to the interface. Therefore earned and unearned income from Internal Revenue Service is currently not being verified.

Summary

The following analysis provides perspective for the above three programs:

		Food Stamps	TANF	Medicaid
Approximate amount of benefits paid for clients processed through TIERS for Fiscal year 2007	$	185,324,000	7,184,000	771,411,000
Approximate amount of benefits paid for clients processed through SAVERR for Fiscal year 2007	$	2,706,151,000	233,247,000	11,705,972,000
Approximate amount of benefits paid for clients processed through non HHSC eligibility system for Emergency Assistance (EA)	$	—	226,549,000	—
Approximate total expenditures per 2007 Federal Schedule	$	2,891,475,000	466,980,000	12,477,383,000
Approximate total number of clients served through SAVERR in August 2007		2,088,000	123,000	2,549,000
Approximate total number of clients served through TIERS in August 2007		247,000	10,500	332,000
Approximate total number of clients served in August 2007, excluding EA		2,335,000	133,500	2,881,000

Corrective Action:

This finding was reissued as current year reference number: 09-17.

Reference No. 08-13
Matching

CFDA 93.767 - State Children Health Insurance Program
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006, October 1, 2004 to September 30, 2005, and October 1, 2003 to September 30, 2004
Award number - 0705TX5021, 0605TX5021, 0505TX5021, and 0405TX5021
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Health and Human Services

Per 42UCS1397ee(a)(1), in general subject to the succeeding provisions of this section, the Secretary shall pay to each State with a plan approved under this subchapter, from its allotment under Section 1397dd of this title, an amount for each quarter equal to the enhanced FMAP (or, in the case of expenditures described in subparagraph (B), the Federal medical assistance percentage (as defined in the first sentence of Section 1396d(b) of this title) of expenditures in the quarter—

(A) for child health assistance under the plan for targeted low-income children in the form of providing medical assistance for which payment is made on the basis of an enhanced FMAP under the fourth sentence of Section 1396d(b) of this title;

(B) for the provision of medical assistance on behalf of a child during a presumptive eligibility period under Section 1396r-1a of this title;

(C) for child health assistance under the plan for targeted low-income children in the form of providing health benefits coverage that meets the requirements of Section 1397cc of this title; and

(D) only to the extent permitted consistent with subsection (c) of this section—

(i) for payment for other child health assistance for targeted low-income children;

(ii) for expenditures for health services initiatives under the plan for improving the health of children (including targeted low-income children and other low-income children);

(iii) for expenditures for outreach activities as provided in Section 1397bb(c)(1) of this title under the plan; and

(iv) for other reasonable costs incurred by the State to administer the plan.

A sample of 40 expenditures charged to the State Children's Insurance Program (SCHIP) was reviewed to ensure that the Health and Human Services Commission (HHSC) provided the appropriate matching rate from State funds. Of the 40 items selected for test work, three September 2006 expenses were matched at the lower 2007 federal fiscal year rate of 27.45% instead of the 2006 rate of 27.54%. The three items are all vendor drug payments and were under matched by approximately $4. HHSC outsources the processing of vendor drug payments to First Health Services Corporation (FHSC). The under matching occurred when FHSC applied an inappropriate effective date in the computer system for the federal fiscal year 2007 rate of September 1, 2006 instead of October 1, 2006. Total amount under matched for September 2006 was approximately $5,448.

Corrective Action:

Corrective action was taken.

Reference No. 08-14

Program Income

CFDA 93.767 - State Children's Insurance Program
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006, October 1, 2004 to September 30, 2005, and October 1, 2003 to September 30, 2004
Award number - 0705TX5021, 0605TX5021, 0505TX5021, and 0405TX5021
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Health and Human Services

Title XXI of the Social Security Act, 42 U.S.C. §§ 1391aa-1397jj) allows states to receive the same rebates for drug purchases as other payers receive. Drug manufacturers are required to provide a listing to Centers for Medicare and Medicaid Services (CMS) of all covered outpatient drugs and, on a quarterly basis, are required to provide their average manufacturer price and their best prices for each covered outpatient drug. Based on this data, CMS calculates a unit rebate amount for each drug, which it then provides to states.

No later than 60 days after the end of the quarter, the State Medicaid agency must provide to manufacturers drug utilization data. Within 30 days of receipt of the utilization data from the state, the manufacturers are required to pay the rebate or provide the state with written notice of disputed items not paid because of discrepancies found.

Health and Human Services Commission (HHSC) contracts with First Health Services Corporation (FHSC) to mail quarterly drug vendor invoices to comply with the 60-day requirement noted above. A sample of 40 invoices was selected for review and the following was noted:

- The December 31, 2006 invoices were sent on March 6, 2007, instead of March 1, 2007.
- The March 31, 2007 invoices were sent on June 7, 2007, instead of May 30, 2007.
- The June 30, 2007 invoices were sent on September 4, 2007, instead of August 29, 2007.

HHSC management was aware of the delayed mailing of the letters through their oversight procedures of FHSC.

Corrective Action:

Corrective action was taken.

Reference No. 08-15

Special Tests and Provisions - Child Support Non-Cooperation

(Prior Audit Issue - 07-15)

CFDA 93.558 - Temporary Assistance for Needy Families
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006 and October 1, 2004 to September 30, 2005
Award number - G0702TXTANF, G0602TXTANF and G0501TXTANF
Type of finding - Significant Deficiency and Material Non-Compliance

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of Health and Human Services

Per 45 CFR Sections 264.30 (b) and (c), if the IV-D agency (i.e., Texas Attorney General) determines that an individual is not cooperating, and the individual does not qualify for a good cause or other exception established by the State agency responsible for making good cause determinations in accordance with Section 454(29) of the Act or for a good cause domestic violence waiver granted in accordance with Section 260.52 of this chapter, then Texas Attorney General's agency must notify Health and Human Services Commission (HHSC) agency promptly. HHSC must then take appropriate action by; (1) Deducting from the assistance that would otherwise be provided to the family of the individual an amount equal to not less than 25 percent of the amount of such assistance; or (2) Denying the family any assistance under the program. Per A2140, the State policy is to reduce benefits 100% for non-cooperation.

HHSC currently maintains two systems for determining eligibility for Temporary Assistance for Needy Families (TANF) - the legacy system, System of Application, Verification, Eligibility, Referral, and Reporting (SAVERR), and the pilot system, Texas Integrated Eligibility Reporting System (TIERS).

In TIERS, sanctions are not being applied correctly on TANF adults who are non-certified payees. When EDBC (eligibility determination) is run after the sanction has been imposed, the sanction is incorrectly removed. TANF benefits should remain forfeited until individual cooperates. Decision tables in TIERS are not properly designed to check conditions that would properly determine if individuals should be included/excluded in sanction determination. HHSC performed a query noting that approximately $83,589 was paid in TANF benefits to ineligible recipients as a result of this system design issue. HHSC management identified this issue during the fiscal year and has initiated corrective action.

The Texas Attorney General Office non-cooperative sanctions are interfaced with SAVERR through the Change Verification System (CVS). Case workers are assigned to each case to manually work the sanction. When information from the Texas Attorney's General Office does not agree with client information in SAVERR, SAVERR generates an error report for resolution. The SAVERR Non-Cooperative Error Reports are not maintained and therefore unavailable for test work.

A sample of 40 beneficiaries who should have had their benefits reduced was selected from SAVERR and a sample of 40 was selected from TIERS. Our review noted the following:

- Of the 40 cases reviewed in TIERS, benefits were not reduced timely for nine cases. For eight of the cases, benefits were reduced one to two months late and for one case benefits were not reduced until the error was discovered during the audit and client erroneously received benefits for three months.
- Of the 40 cases reviewed in SAVERR, benefits were not reduced timely for four cases. For three of the cases, benefits were reduced one-two months late and for one case benefits were not reduced until the error was discovered during the audit and client received benefits for four months.

When HHSC is notified by the Texas Attorney General's office that benefits should be reduced, HHSC sends a denial notification letter to the respective individual and provides for one month to resolve. If the case worker does not manually set the benefit file to sanction status, benefits will continue to pay. In the above 13 instances, the case files were not noted as in sanction status. Total questioned cost for the 13 cases is $2,881.

Corrective Action:

This finding was reissued as current year reference number: 09-18.

Reference No. 08-16

Special Tests and Provisions - Issuance Document Security

(Prior Audit Issue - 07-16)

Food Stamp Cluster

Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 31, 2006 and October 1, 2004 to September 31, 2005

Award number - 6TX400105, 6TX400105 and 5TX400105

Type of finding - Significant Deficiency and Material Non-Compliance

The State is required to maintain adequate security over, and documentation/records for, Authorization to Participate (ATP) cards, other documents authorizing issuance, Electronic Benefit Transfer (EBT) cards (7 CFR Section 274.12(h)(3)), and the food stamp coupons themselves to prevent: couple theft, embezzlement, loss, damage, destruction, unauthorized transfer, negotiation, or use of coupons and alternating or counterfeiting of coupons and other documents authorizing issuance (7 CFR Section 274.7(b) and 274.11(c)).

Initial Year Written: 2006
Status: Partiallly Implemented

U.S. Department of Agriculture

Security over EBT Food Stamp cards (i.e., LoanStar cards) was reviewed for 40 local intake offices. Health and Human Services Commission (HHSC) policy is that logs are maintained at each office to denote receipt, issuance, and destruction of EBT cards. In addition, monthly inventories of the EBT cards are required to be conducted by management of the office and reconciled to the daily logs. HHSC regional offices perform reviews of selected offices for which the office must respond with a corrective action plan. HHSC policy is to perform these audits once every five years. Per review of 40 sites, nine sites were identified with the following exceptions:

- For two sites, the monthly reconciliation between the EBT cards and the PIN access numbers contained errors which were not discovered by management.
- For two sites, management was unable to provide corrective action plan for the regional audit performed during fiscal year 2007.
- For five sites, the EBT cards and/or PIN packet inventory were not maintained in a secure location.
- For one site, there was no authorizing signature validating the monthly inventory reconciliation.
- For one site, there was no log of voided cards available for review.
- For one site, there was no inventory report available for review and the same site has not had a regional audit done in the last five years.

Corrective Action:

This finding was reissued as current year reference number: 09-19.

Reference No. 08-17

Special Tests and Provisions - Managed Care

Medicaid Cluster
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 31, 2006, and October 1, 2004 to September 31, 2005
Award number - 0705TX5028, 0705TX5048, 0605TX5028, 0605TX5048, 0505TX5028, and 0505TX5048
Type of finding - Significant Deficiency

A State may obtain a waiver of statutory requirements in order to develop a system that more effectively addresses the health care needs of its population. A waiver may involve the use of a program of managed care for selected elements of the client population or allow the use of program funds to serve specified populations that would be otherwise ineligible (Sections 1115 of the Social Security Act).

IniriL Year Written: 2007
Status: Partiallly Implemented

U.S. Department of Health and Human Services

A sample of 40 beneficiary and 40 provider complaints was selected for review with no compliance issues noted. Our review found that there is no management review in place to ensure that complaints are processed according to Health and Human Services Commission (HHSC) policies and procedures regarding Medicaid Managed Care Complaints.

Corrective Action:

This finding was reissued as current year reference number: 09-20.

Reference No. 08-18

Special Tests and Provisions - Penalty for Refusal to Work

CFDA 93.558 - Temporary Assistance for Needy Families
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006 and October 1, 2004 to September 30, 2005
Award number - G0702TXTANF, G0602TXTANF and G0501TXTANF
Type of finding - Significant Deficiency and Non-compliance

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Health and Human Services

Per 45 CFR 261.14, if an individual refuses to engage in work required under Section 407 of the Act, the State must reduce or terminate the amount of assistance payable to the family, subject to any good cause or other exceptions the State may establish. Such a reduction is governed by the provisions of §261.16. The State must, at a minimum, reduce the amount of assistance otherwise payable to the family pro rata with respect to any period during the month in which the individual refuses to work. The State may impose a greater reduction, including terminating assistance. A State that fails to impose penalties on individuals in accordance with the provisions of Section 407(e) of the Act may be subject to the State penalty specified at Section 261.54. The State's policy is to reduce benefits 100% for non-cooperation.

The Health and Human Services Commission (HHSC) currently maintains two systems for determining eligibility for Temporary Assistance for Needy Families (TANF) - the legacy system, System of Application, Verification, Eligibility, Referral, and Reporting (SAVERR), and the pilot system, Texas Integrated Eligibility Reporting System (TIERS).

A sample of 40 beneficiaries who should have had their benefits reduced was selected from SAVERR and a sample of 40 was selected from TIERS. For three of the 40 TIERS cases reviewed, the reduction in benefits was not processed timely. The three cases received one month of ineligible benefits, totaling $696. Within TIERS when a case file is in pending status, the electronic data feeds from Texas Workforce Commission (TWC) noting noncompliance with TANF work provisions will not process timely as long as the case file remains in pending status. Once the status is cleared, the TWC provision is processed causing the delay in benefit reduction.

Corrective Action:

This finding was reissued as current year reference number: 09-21.

Reference No. 08-19

Special Tests and Provisions - Provider Eligibility

Medicaid Cluster
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 31, 2006, and October 1, 2004 to September 31, 2005
Award number - 0705TX5028, 0705TX5048, 0605TX5028, 0605TX5048, 0505TX5028, and 0505TX5048
Type of finding - Significant Deficiency and Material Non-compliance

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Health and Human Services

Per 42 CFR Sections 431.107, in order to receive Medicaid payments, providers of medical services must be licensed in accordance with Federal, State, and local laws and regulations to participate in the Medicaid program. 42 CFR Section 455.106 (a) before the Medicaid agency enters into or renews a provider agreement, the provider must disclose to the Medicaid agency the identity of any person who (1) has ownership or control interest in the provider, or is an agent or managing employee of the provider, and (2) has been convicted of a criminal offense related to that person's involvement in any program under Medicare, Medicaid, or the Title XX services program since the inception of those programs. Additionally, per 42 CFR Section 455.103 a State plan must provide that the requirements of 455.106 are met. Per review of the State plan a search should be conducted to ensure that the provider is not included on the Medicaid exclusion list.

A sample of 50 providers receiving Medicaid payments during fiscal year 2007 were selected for review and 23 files were noted to have the following exceptions:

- For seven of the 50 provider files reviewed there was no evidence that a current license to practice was obtained from the provider.
- For 23 of the 50 providers a search to ensure the provider was not on the Medicaid exclusion list was not conducted. A search was subsequently conducted and none of the providers were on the Medicaid exclusion list.
- For one of the 50 providers there was no evidence that the State obtained disclosure of ownership and control interest information or disclosure regarding a provider's owners and other persons convicted of criminal offenses against Medicare, Medicaid, or the other Title XX services provided signed by the provider.

Corrective Action:

This finding will be reissued as current year reference number 09-22.

Reference No. 08-92

Eligibility

CFDA 93.667 - Social Services Block Grant
Award year - October 1, 2005 to September 30, 2007 and October 1, 2006 to September 30, 2008
Award number - G0601TXSOSR and G0701TXSOSR
Type of finding - Significant Deficiency and Non-compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Health and Human Services

The Health and Human Services Commission (HHSC) received Social Services Block Grant (SSBG) funding from the U.S. Department of Health and Human Services to meet the social and health care needs of people affected by Hurricane Katrina and lacking health insurance or other adequate access to care. HHSC established the eligibility criteria to be met to receive services as noted below:

- Completed and signed the Texas Temporary Medicaid Application - Katrina Evacuee Form.
- Applicants must be an evacuee from Alabama, Louisiana or Mississippi.
- Applicants are to provide documentation as to identity and proof of citizenship. However, those who do not have identification or proof of citizenship can self-declare.
- Applicants must be a: (1) child under age of 19, (2) low-income parent of a child under age of 19, (3) pregnant woman, (4) low income Medicare recipient, (5) low income individual in need of long term care, (6) individuals with disabilities, or (7) uncompensated care pool.
- Applicant must meet the gross income limits established by the State of Texas.

A sample of 40 individuals who received benefits was reviewed to ensure they met the eligibility requirements. HHSC was unable to provide the file for seven cases. There was no compliance issues noted in the 33 cases reviewed. The amount of benefits paid for the seven cases not provided was $3,200. Total benefits paid for the year were approximately $2,000,000.

Corrective Action:

Corrective action was taken.

Health and Human Services Commission
Department of Aging and Disability Services
Department of Assistive and Rehabilitative Services
Department of Family and Protective Services
Department of State Health Services

Reference No. 08-20

Allowable Costs/Cost Principles
Cash Management
Equipment and Real Property Management
Matching, Level of Effort, and Earmarking
Period of Availability of Federal Funds
Program Income
Reporting
(Prior Audit Issue - 07-18)

CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Award year - October 1, 2005 to September 30, 2006 and October 1, 2006 to September 30, 2007
Award number - 6TX700506

CFDA 84.126 - Rehabilitation Services - Vocational Rehabilitation Grants to States
Award year - October 1, 2005 to September 30, 2007, October 1, 2005 to September 30, 2007, October 1, 2006 to September 30, 2008 and October 1, 2006 to September 30, 2008
Award number - H126A060064, H126A060065, H126A070064 and H126A070065

CFDA 93.217 - Family Planning - Services
Award year - April 1, 2007 to March 31, 2008 and April 1, 2006 to March 31, 2007
Award number - 2 FPHPA060898-26 and 5 FPHPA060898-25

CFDA 93.268 - Immunization Grants
Award year - January 1, 2006 to December 31, 2006 and January 1, 2007 to December 31, 2007
Award number - CCH622571 - 04 and CCH622571 - 05

CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance
Award year - August 31, 2006 to August 30, 2007
Award number - U90/CCU617001-07

CFDA 93.556 - Promoting Safe and Stable Families
Award year - October 1, 2005 to September 30, 2007 and October 1, 2004 to September 30, 2006
Award number - G0601TX00FP and G0501TX00FP

CFDA 93.558 - Temporary Assistance for Needy Families
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006 and October 1, 2004 to September 30, 2005
Award number - G0702TXTANF, G0602TXTANF and G0501TXTANF

CFDA 93.566 - Refugee and Entrant Assistance Program - State Administered Programs
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006, and October 1, 2004 to September 30, 2005
Award number - G07AATX6100, G06AATX6100, and G05AATX6100

CFDA 93.645 - Child Welfare Services - State Grants
Award year - October 1, 2006 to September 30, 2008
Award number - G0701TX1400

CFDA 93.658 - Foster Care - Title IV-E
Award year - October 1, 2005 to September 30, 2006 and October 1, 2006 to September 30, 2007
Award number - G0601TX1401 and G0701TX1401

CFDA 93.659 - Adoption Assistance
Award year - October 1, 2005 to September 30, 2006 and October 1, 2006 to September 30, 2007
Award number - G0601TX1407 and G0701TX1407

CFDA 93.667 - Social Services Block Grant
Award year - October 1, 2005 to September 30, 2007 and October 1, 2006 to September 30, 2008
Award number - G0601TXSOSR and G0701TXSOSR

CFDA 93.767 - State Children's Insurance Program
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006, October 1, 2004 to September 30, 2005, and October 1, 2003 to September 30, 2004
Award number - 0705TX5021, 0605TX5021, 0505TX5021, and 0405TX5021

CFDA 93.889 - National Bioterrorism Hospital Preparedness Program
Award year - September 1, 2006 to August 31, 2007
Award number - U3RHS07583-01-00

CFDA 93.917 - HIV Care Formula Grants
Award year - April 1, 2006 to March 31, 2007 and April 1, 2007 to March 31, 2008
Award number - 6 X07HA00054-16 and 2 X07HA00054-17

CFDA 93.940 - HIV Prevention Activities-Health Department Based
Award year - January 1, 2007 to December 31, 2007 and January 1, 2006 to December 31, 2006
Award number - U62/CCU623516 and U62/CCU623516

CFDA 93.958 - Block Grants for Community Mental Health Services
Award year - October 1, 2004 to September 30, 2006, October 1, 2005 to September 30, 2007; October 1, 2006 to September 30, 2008
Award number - 05B1TXCMHS; 06B1TXCMHS; 07B1TXCMHS

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse
Award year - October 1, 2004 to September 30, 2006, October 1, 2005 to September 30, 2007 and October 1, 2006 to September 30, 2008
Award number - 05B1TXSAPT, 06B1TXSAPT, and 07B1TXSAPT

CFDA 93.994 - Maternal and Child Health Services Block Grant to the States
Award year - October 1, 2005 to September 30, 2007 and October 1, 2006 to September 30, 2008
Award number - 6 B04MC06591-01 and 1 B04MC07774-01

Aging Cluster
Award year - October 1, 2005 to September 30, 2006 and October 1, 2006 to September 30, 2007
Award number - 06AATXT3SP, 06AATXNSIP, 07AATXT3SP, and 07AATXNSIP

Disability Insurance Cluster
Award year - October 1, 2005 to September 30, 2006 and October 1, 2005 to September 30, 2006
Award number - 04-0604TXD102 and 04-06o4TXD100

Emergency Food Assistance Cluster
Award year - October 1, 2006 to September 30, 2007 and October 1, 2005 to September 30, 2006
Award number - 6TX810815 and 5TX810815

Food Stamp Cluster
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 31, 2006 and October 1, 2004 to September 31, 2005
Award number - 6TX400105, 6TX400105 and 5TX400105

Medicaid Cluster
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 31, 2006, and October 1, 2004 to September 31, 2005
Award number - 0705TX5028, 0705TX5048, 0605TX5028, 0605TX5048, 0505TX5028, and 0505TX5048
Type of finding - Significant Deficiency

Initial Year Written; 2006
Status: Implemented

U.S. Department of Health and Human Services
U.S. Department of Agriculture
U.S. Department of Education
Social Security Administration

The Health and Human Services Commission (HHSC) Enterprise Internal Audit conducted a review of the enterprise Health and Human Services Administrative System (HHSAS) Financials Security Controls and issued their report December 13, 2005. HHSAS is utilized by all five Health and Human Services entities - HHSC, Department of State Health Services (DSHS), Department of Family and Protective Services (DFPS), Department of Aging and Disability Services (DADS), and Department of Assistive and Rehabilitative Service (DARS). The report notes the following:

- "Access privileges are not always appropriately restricted, and some high-privilege administrative accounts are shared by multiple HHSAS Financials Enterprise Support Center (ESC) personnel."

  The report further notes: "HHSAS financials is supported by an Oracle database management system administered by the HHSAS ESC technical team, which consists of six analysts. ESC technical analysts access the database using individual accounts to diagnose HHSAS production issues. However, when updates to an HHS agency database are needed to resolve a production issue, the technical analysts access the database using the application system administrator account. The account has full access privileges in the database, and is the account used by the HHSAS application to update the database. Database updates performed by ESC technical analysts using the account are indistinguishable from legitimate activities processed by the HHSAS application at the request of HHS agency users. "

- "Change management controls do not ensure that application code changes to HHSAS financials are authorized and approved prior to implementation."

  The report further notes: "To accomplish programming changes to HHSAS financials, the ESC employs STAT, a third party version control software tool. STAT is used to log, route, track and maintain detailed documentation for HHSAS financials changes."

Upon follow-up of the above "access privilege" comment, we noted that the password is known by seven persons in ESC. Evidence was noted that a mitigating control exists that someone other than the developer closes the change request ticket, which allows for review by someone other than the developer. However the ESC personnel have open access to production.

During compliance work performed, no exceptions were noted which appeared to have resulted from the above deficiencies.

Corrective Action:

Corrective Action was taken.

Health and Human Services Commission
Department of State Health Services

Reference No. 08-21

Procurement and Suspension and Debarment

(Prior Audit Issue - 07-19, 06-15, 06-14, 06-13, 05-17, 05-14, 05-05)

CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Award year - October 1, 2005 to September 30, 2006 and October 1, 2006 to September 30, 2007
Award number - 6TX700506

CFDA 93.268 - Immunization Grants
Award year - January 1, 2006 to December 31, 2006 and January 1, 2007 to December 31, 2007
Award number - CCH622571 - 04 and CCH622571 - 05

CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance
Award year - August 31, 2006 to August 30, 2007
Award number - U90/CCU617001-07

CFDA 93.558 - Temporary Assistance for Needy Families
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006 and October 1, 2004 to September 30, 2005
Award number - G0702TXTANF, G0602TXTANF and G0501TXTANF

CFDA 93.767 - State Children's Insurance Program
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 30, 2006, October 1, 2004 to September 30, 2005, and October 1, 2003 to September 30, 2004
Award number - 0705TX5021, 0605TX5021, 0505TX5021, and 0405TX5021

CFDA 93.917 - HIV Care Formula Grants
Award year - April 1, 2006 to March 31, 2007 and April 1, 2007 to March 31, 2008
Award number - 6 X07HA00054-16 and 2 X07HA00054-17

CFDA 93.994 - Maternal and Child Health Services Block Grants to the States
Award year - October 1, 2005 to September 30, 2007 and October 1, 2006 to September 30, 2008
Award number - 6 B04MC06591-01 and 1 B04MC07774-01

Food Stamp Cluster
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 31, 2006 and October 1, 2004 to September 31, 2005
Award number - 6TX400105, 6TX400105 and 5TX400105

Medicaid Cluster
Award year - October 1, 2006 to September 30, 2007, October 1, 2005 to September 31, 2006, and October 1, 2004 to September 31, 2005
Award number - 0705TX5028, 0705TX5048, 0605TX5028, 0605TX5048, 0505TX5028, and 0505TX5048
Type of finding - Significant Deficiency and Non-Compliance

States shall use the same State policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations. U.S. Department of Health and Human Services requires the following for procurement (45CFR 92.36):

- Verify the contract file documents the significant history of the procurement.
- Verify the procurements provide full and open competition.

Initial Year Written: 2004
Status: Partially Implemented

U.S. Department of Health and Human Services
U.S. Department of Agriculture

- Verify that contract files exist and ascertain if appropriate cost or price analysis was performed in connection with procurement actions, including contract modifications and that this analysis supported the procurement action.
- Contracts greater than $25,000 must be reviewed to ensure the vendor is not suspended or debarred.

In addition, under the Texas Government Code, Chapter 2155, subchapter A General Provisions, Section 2155.005(a), a bidder offering to sell goods or services to the state shall certify on each bid submitted that neither the bidder, nor the person represented by the bidder, nor any person acting for the represented person has:

(1) Violated the antitrust laws codified by Chapter 15, Business & Commerce Code, or the federal antitrust laws; or

(2) Directly or indirectly communicated the bid to a competitor or other person engaged in the same line of business.

Lastly, the Health and Human Services Commission Procurement Manual requires that purchases or other acquisitions that will cost more than $5,000 are to be competitively bid unless the purchasing of goods or services are exempt from competitive bidding in which case the exemption must be documented in the purchasing documentation. Health and Human Services Commission (HHSC) requires a signed bid document and a signed purchase to execute a contract with a vendor.

Upon review of selected vendor files, for the Department of State Health Services (DSHS), the following was noted:

- Public Health Preparedness and Response for Bioterrorism, CFDA 93.283 - For the selected and reviewed vendor files, one file contained a final purchase order that was not signed indicating State authorization. A second purchase order was procured under the Direct Publication purchasing guidelines but did not have the required memorandum or statement on the purchase order that the goods/services are not available from any other source. A third file did not have documentation of the solicitation of bids or a bid tabulation nor justification for sole source. Lastly, a fourth vendor file could not be located. The procurement amounts for these four files of forty reviewed was approximately $87,000.
- Immunization Grants, CFDA 93.268 - For the selected and reviewed vendor files, there was one of twelve vendor files where the original contract amount was estimated to be under the procurement guidelines threshold, however the final procured amount exceeded $5,000. Formal procurement was not documented for this vendor. The contract amount for this one file was approximately $7,500.
- Maternal and Child Health Services, CFDA 93.994 - For one of the thirteen selected and reviewed vendor files, documentation was not available to demonstrate an attempt to solicit bids from at least three vendors. Thus there was no evidence that historically underutilized businesses were solicited, bid tabulations were prepared, or sole sourcing was justified. Additionally, there were two vendor files that could not be located at all to review any documentation. The contract amount for these three files of thirteen was approximately $290,000.
- HIV Care Formula Grants, CFDA 93.917 - One of the three purchase orders reviewed for the selected vendors was not signed indicating State authorization. The contract amount for this vendor was approximately $35,000.
- Nutrition Program for Women, Infants, and Children, CFDA 10.557 - For one of the thirty-four files selected there was no CMBL listing or bid from the winning vendor. The contract amount for this vendor was $20,000.

The Health and Human Services Commission (HHSC) has a cost allocation plan for its federal programs. Therefore expenses are allocated to the various federal programs based on the prescribed methods in the respective plans. Upon review of 50 selected vendor files, for the Medicaid Cluster at HHSC, and 40 selected vendor files for Temporary Assistance for Needy Families (TANF) CFDA 93.558, Food Stamp Cluster, and State Insurance Children's Program (SCHIP) CFDA 93.767, the following items were noted for all four programs:

- One vendor file did not have evidence that HHSC verified that the vendor was not suspended or debarred prior to awarding the contract. Upon review of the EPLS, the vendor was not suspended or debarred so there are no questioned costs.

- Four vendor procurement files did not have signed contracts, bids, bid tabulations, or request for bids. HHSC disbursed approximately $150,000 to these vendors. Two of these four files did not have antitrust certifications.
- For one vendor a renewal option exercised seven months after the renewal option had expired. The renewal contract was for $50,000.
- For one vendor file, there was no documentation of bidding or sole source justification. The contract was for approximately $19,000.

The TANF program had the following addition exception:

- For one additional vendor file, there was no documentation of sole source justification. The contract was for approximately $19,000.

In addition, the Food Stamp program had the following additional exception:

- One vendor procurement file did not have signed contracts, bids, bid tabulations, or request for bids. The contract was for approximately $187,000.

Corrective Action:

This finding was reissued as current year reference number: 09-25.

Department of Human Services

Reference No. 02-23

Allowable Costs/Cost Principles/Auto-Eligibility Approval by FEMA

CFDA 83.543 - Individual Family Grants (FEMA)
Type of finding - Non-Compliance

Initial Year Written: 2001
Status: Partially Implemented

Federal Emergency Mangement Agency

In an effort to expedite assistance, FEMA automated the awarding process for selected individuals affected by Tropical Storm Allison. When caseworkers (both Federal and DHS employees) visit sites and perform inspections, their case files are loaded into NEMIS, FEMA's computer system. If the case file passed established threshold checks, approval was automatic and the award was transferred by DHS' computer system into the nightly batch of warrants requested from the State Treasury. For the files that were not auto approved, DHS personnel worked the files and when approval was given, they too were transferred into the nightly batch of warrant requests.

FEMA has quality control procedures in place to monitor disasters. During the performance of these procedures, FEMA discovered that over payments were made to the auto approved (i.e., no DHS involvement) eligible recipients. The recipients were eligible for grant funds but the calculation of the amount was incorrect. FEMA has established an IFG Recoupment Process which includes reviewing 3,029 auto-approved files. Per their review, FEMA noted 814 over awards or a 27% error rate due to a FEMA programming error. The estimated dollars with those 814 files is $1,835,207. These files were considered to be high-risk by FEMA (i.e., based on the nature of the programming error). DHS estimates that about 36,715 files were auto approved and the average claim per file is $5,014.

Recommendation:

DHS is currently involved with FEMA assisting with the resolution of these over awards. The weekly Situation Reports published by FEMA include the current status of the Recoupment Process. DHS should continue to monitor FEMA's process.

Management Response and Corrective Action Plan 2003:

IFG personnel worked with FEMA personnel throughout fiscal year 2002 to identify cases and recoup Federal and State funds from Tropical Storm Allison. The State and FEMA are currently discussing the management and monitoring of recoupment cases. IFG is manually testing as many cases as possible related to Disaster 1425 that are auto-approved by NEMIS. As amounts that should be recouped are identified, the case are placed in the NEMIS recoupment queue. At present, there are about 700 cases representing $1,624,000 in debt collection at FEMA's disaster finance center, of which approximately $44,000 has been collected as of August 2003. Discussion is being held with U.S. Department of Treasury (IRS) regarding collection of these outstanding amounts.

Management Response and Corrective Action Plan 2004:

There are about 700 cases with overpayments of approximately $1,617,000 being pursued by FEMA and the U.S. Department of Treasury. As of February 2005, approximately $78,000 total has been returned. The U.S. Department of Treasury has begun turning cases over to private collection agencies.

Management Response and Corrective Action Plan 2005:

FEMA and HHSC staff continue to work closely on the recovery of overpayments associated with Tropical Storm Allison. As part of this recovery process, recipients have an opportunity to appeal. If no appeal is requested or if the recipient loses their appeal, FEMA has developed and implemented a process with the U.S. Treasury, Internal Revenue Service to refer delinquent accounts for collection. As of November 2005, a total of $473,662.54 has been recouped, consisting of $152,229.47 in interest and $321,433.07 in principal.

Management Response and Corrective Action Plan 2006:

FEMA and HHSC staff continues to work closely on the recovery of overpayments associated with Tropical Storm Allison. As part of this recovery process, recipients have an opportunity to appeal. If no appeal is requested or if the recipient loses their appeal, FEMA has developed and implemented a process with the U.S. Treasury, Internal Revenue Service to refer delinquent accounts for collection. As of January 19, 2007, a total of $363,779 in principal has been collected.

Management Response and Corrective Action Plan 2007:

FEMA and HHSC staff continues to work closely on the recovery of overpayments associated with Tropical Storm Allison. As part of this recovery process, recipients have an opportunity to appeal. If no appeal is requested or if the recipient loses their appeal, FEMA has developed and implemented a process with the U.S. Treasury, Internal Revenue Service to refer delinquent accounts for collection. As of January 31, 2008, a total of $425,878 in principal has been collected.

Management Response and Corrective Action Plan 2008:

FEMA and HHSC staff continues to work closely on the recovery of overpayments associated with Tropical Storm Allison. As part of this recovery process, recipients have an opportunity to appeal. If no appeal is requested or if the recipient loses their appeal, FEMA has developed and implemented a process with the U.S. Treasury, Internal Revenue Service to refer delinquent accounts for collection. As of December 31, 2008, a total of $483,535 in principal has been collected.

Implementation Date: *On-going*

Responsible Person: *Allen Bledsoe and Donald Baggett*

Texas Higher Education Coordinating Board

Reference No. 08-22
Subrecipient Monitoring
(Prior Audit Issue - 07-21)

CFDA 84.048 - Vocational Education - Basic Grants to States
Award year - July 1, 2006 to September 30, 2007
Award number - 07420206712001, 07420207712001, 07420208712001, and 07420209712001
Type of Finding - Significant Deficiency

Initial Year Written: 2006
Status: Implemented

U. S. Department of Education

The expense report submission system is part of the Perkins Grants system and is called the "Perkins Project Deliverables" system. It is housed on a Windows NT server and MS SQL database. Developers have access to deploy code changes to production. Three developers have system-administrative privileges on this application. In addition, no formal change-management procedures are in place.

In addition, the Education Data Center (EDC) application is used to accept incoming student reporting and financial aid data from technical and community colleges, the sub recipients. This application is housed on a Windows NT server and MS SQL database (called "EDCPROD"). Developers have access to deploy code changes to production.

When developers have system-administrative access, appropriate segregation of duties are not in place. Users with inappropriate rights to modify application code or data create a risk of unauthorized changes to the production environment and/or a risk of unintentional errors or omissions in processing.

No compliance exceptions were noted per review of 40 subrecipients and the related monitoring that the Texas Higher Education Coordinating Board (THECB) performs.

Corrective Action:

Corrective action was taken.

Texas Juvenile Probation Commission

Reference No. 08-23
Subrecipient Monitoring
(Prior Audit Issue - 07-23, 06-21, 05-31)

CFDA 93.658 - Foster Care - Title IV-E
Award year - October 1, 2005 to September 30, 2006 and October 1, 2006 to September 30, 2007
Award number - G0601TX1401 and G0701TX1401
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2004
Status: Partially Implemented

U.S. Department of Health and Human Services

The Texas Juvenile Probation Commission (TJPC) is required by OMB Circular A-133, Section .400 to monitor subrecipients to ensure compliance with Federal rules and regulations, as well as the provisions of the contracts or grant agreements. TJPC's subrecipient monitoring procedures include a risk assessment process, standardized contracts, training and technical assistance, program and financial monitoring and review of agreed-upon procedures reports required to be performed at the juvenile probation department level. TJPC relies on the Department of Protective Services to determine eligibility and to set the reimbursement rates. TJPC passes through a 99% of their Foster Care funds to subrecipients (i.e., Texas counties). During fiscal year 2007 there were approximately 150 counties that received foster care funds of $40,300,000 from TJPC.

More specifically, TJPC's subrecipient monitoring process includes:

- Yearly grant awards exist with each county with an approved 2030 budget form that estimates the amount of foster care entitlement funds expected to be incurred for the fiscal year. The contract is used to communicate the CFDA information and applicable regulations.
- To receive enhanced administrative reimbursement, the county must also file an implementation plan that documents their indirect cost rate. TJPC's fiscal personnel review the implementation plans for completeness and reasonableness of the indirect rate.
- Quarterly or monthly reimbursement requests from the counties are recalculated based on the applicable reimbursement rate by TJPC personnel prior to approval for payment.
- There is a risk assessment process and high risk counties were selected for a financial desk review that includes review of payroll effort documentation, proper use of travel reimbursement rates, and allowability of expenses.
- TJPC also requires an agreed upon procedures report from each county which includes provisions for the local auditor to review the accuracy of the fees paid to private service providers, the categorization of training costs into the appropriate categories, and the allowable expenses for direct and indirect categories. Also the agreed upon procedures report is to note if there are any findings related to the Foster Care program in the county's A-133 report.

For the fiscal year 2007, the top 18 counties received a financial desk review and no financials reviews were performed in 2006. As part of the desk reviews TJPC selects expenditures for one quarter and requests invoices and payroll detail, including timesheets, to assess the allowability of expenditures.

TJPC's monitoring process also relies heavily on the performance of the agreed upon procedures reports. The suggested procedures in the agreed-upon procedures polices and not specific enough to determine whether the respective auditors are selecting samples of invoices and timesheets to review for allowable costs.

Management Response and Corrective Action Plan 2007:

It is TJPC's policy to use a risk assessment to identify and audit the juvenile probation departments receiving Title IV-E funds that are at the highest risk. Based on the revised risk assessment, 20 counties received either a financial desk audit or an on-site audit during the 2006-2007 biennium. Title IV-E funds were allocated under the State Financial Assistance Contract which is a biennium contract for fiscal years 2006-2007. The audit period for each audit was established to be the 1st Quarter of fiscal year 2006. Revisions to the contract requirements (Compliance Resource Manual) can only be made for the next contract period 2008-2009.

The audits included a random sample of expenditures in the budget categories of salaries and fringe benefits, travel, supplies and utilities to determine whether those expenditures are allowable and should have been included in the administrative claim for reimbursement to the department. The audit also includes a review of expenditures paid with Title IV-E reimbursement funds. If it was determined that expenditures were unallowable, those funds were refunded back to TJPC.

The Title IV-E Fiscal Unit conducts trainings and provides technical assistance to all departments throughout the biennium due to the requirement revisions by the federal government and the Texas Department of Family and Protective Services.

Management Response and Corrective Action Plan 2008:

During fiscal year 2008 there were approximately 150 counties that received foster care funds of approximately $19,400,000 from TJPC. TJPC has revised the audit requirements for the annual "Agreed Upon Procedures Reports" to include assurances for the independent auditor to review costs reported on the Title IV-E Foster Care Program administrative claims. The costs reported on the claims will be audited as an accurate representation of allowable expenses incurred on behalf of the Title IV-E Program. The audit requirements also include an assurance stating that any and all findings related to the Title IV-E program noted in the annual Single Audit for the subrecipient, if applicable, will be disclosed in the Schedule of Findings and Questioned Costs of the annual independent audit plus the reporting package as prescribed by OMB Circular A-133.

Implementation Date: *Fiscal year 2009*

Responsible Person: *Annie Collier*

Department of State Health Services

Reference No. 08-24
Allowable Costs/Cost Principles
Period of Availability of Federal Funds
(Prior Audit Issue - 07-30)

CFDA 93.268 - Immunization Grants
Award year - January 1, 2006 to December 31, 2006 and January 1, 2007 to December 31, 2007
Award number - CCH622571 - 04 and CCH622571 - 05

CFDA 93.889 - National Bioterrorism Hospital Preparedness Program
Award year - September 1, 2005 to August 31, 2006 and September 1, 2006 to August 31, 2007
Award number - U3RHS05946-01-01 and U3RHS07583-01-00

CFDA 93.917 - HIV Care Formula Grants
Award year - April 1, 2006 to March 31, 2007 and April 1, 2007 to March 31, 2008
Award number - 6 X07HA00054-16 and 2 X07HA00054-17

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse
Award year - October 1, 2004 to September 30, 2006, October 1, 2005 to September 30, 2007 and October 1, 2006 to September 30, 2008
Award number - 05B1TXSAPT, 06B1TXSAPT, and 07B1TXSAPT

CFDA 93.994 - Maternal and Child Health Services Block Grant to the States
Award year - October 1, 2005 to September 30, 2007 and October 1, 2006 to September 30, 2008
Award number - 6 B04MC06591-01 and 1 B04MC07774-01
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of Health and Human Services

In accordance with OMB Circular A-87, attachment B, Section 8h(3), "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee."

For employees who are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages are required to be supported by personnel activity reports or equivalent documentation which:

- Reflect an after-the-fact distribution of the actual activity of each employee,
- Account for the total activity for which each employee is compensated,
- Are prepared at least monthly and must coincide with one or more pay periods, and
- Are signed by the employee.

At the Department of State Health Services (DSHS) most employees are paid monthly and, regardless of whether they work solely on one Federal award or multiple awards, they are all required to complete timesheets at least monthly. Typical monthly timesheet activity consists of regularly scheduled hours worked and charged to the labor account codes assigned to the employee's position. Employees have a position number that is set up at the start of each year with a task profile containing the number of hours the employee is expected to work each week and the fund and labor account codes that the employee is budgeted to charge. When an employee does not deviate from their task profile during the month, all that is required is that they sign the timesheet and check the box that there were no deviations from task profile. When their actual time deviates from the task profile (e.g. sick time, vacation time, hours worked on different projects), the employee enters in the corresponding differences in hours and/or activities from the profile and signs the timesheet. Regardless of whether an employee deviates from their task profile or not, these monthly timesheets serve as certification of hours worked and are required by DSHS policy to be approved and signed by the employee and the employee's supervisor.

- Out of 13 payroll items tested for CFDA 93.268 - Childhood Immunization, one timesheet submitted was not signed and certified by the employee or the employee's supervisor in a timely fashion. The timesheet was signed more than 90 days after the end of the pay period. Approximately $3,050 was charged to the grant for this individual for this pay cycle. Total payroll and benefits charged to this grant for the fiscal year were approximately $2,217,000.
- Out of 14 payroll items tested for CFDA 93.889 - National Bioterrorism Hospital Preparedness Program, three timesheets were not signed and certified by the employee or the employee's supervisor in a timely fashion. The timesheets were signed more than 90 days after the end of the pay period. Approximately $8,400 was charged to the grant for these individuals for this pay cycle. Total payroll and benefits charged to this grant for the fiscal year were approximately $1,747,000.
- Out of two payroll items tested for CFDA 93.917 - HIV Care, one timesheet submitted was not signed by the employee's supervisor. Approximately $5,370 was charged to the grant for this individual for this pay cycle. Total payroll and benefits charged to this grant for the fiscal year were approximately $1,260,000
- Out of 35 payroll items tested for CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse, two timesheets submitted were not signed and certified by the employee or the employee's supervisor in a timely fashion. The timesheets were signed more than 90 days after the end of the pay period. Approximately $730 was charged to the grant for these two individuals for this pay cycle. Total payroll and benefits charged to this grant for the fiscal year were approximately $4,738,916.
- Out of 28 payroll items tested for CFDA 93.994 - Maternal and Child Health Services, one timesheet submitted was not signed and certified by the employee or the employee's supervisor in a timely fashion. The timesheets were signed more than 90 days after the end of the pay period. Approximately $500 was charged to the grant for this individual for this pay cycle. Total payroll and benefits charged to this grant for the fiscal year were approximately $6,861,000.

Corrective Action:

This finding was reissued as current year reference number: 09-29.

Reference No. 08-25
Allowable Costs/Cost Principles
Special Tests and Provisions - Food Instrument Disposition
Special Tests and Provisions - Review of Food Instruments to Enforce Price Limitations and Detect Errors
(Prior Audit Issue - 07-31)

CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Award year - October 1, 2005 to September 30, 2006 and October 1, 2006 to September 30, 2007
Award number - 6TX700506
Type of finding - Significant Deficiency

Initial Year Written: 2006
Status: Partially Implemented

U. S. Department of Agriculture

The Department of State Health Services (DSHS) utilizes the WIC EBT (Lone Star cards) and WIC TX WIN (paper voucher) systems to process the food vouchers for the Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.557 (WIC). Development Team Leads have access to migrate changes to the production environment for both systems. Access to migrate changes to production environment should be restricted appropriately based on job function to help ensure adequate internal controls are in place and appropriate segregation of duties exist. In general, programmers should not have access to migrate changes to production environment. In addition, no periodic review is performed of active users and user access right to identify and remove inappropriate system access to WIC EBT or WIC TX WIN.

No compliance exceptions were noted related to this test work for the major program above.

Corrective Action:

This finding was reissued as current year reference number: 09-30.

Reference No. 08-26

Earmarking

(Prior Audit Issue - 07-34 and 05-11)

CFDA 93.994 - Maternal and Child Health Services Block Grant to the States
Award year - October 1, 2005 to September 30, 2007 and October 1, 2006 to September 30, 2008
Award number - 6 B04MC06591-01 and 1 B04MC07774-01
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2004 Status: Implemented U.S. Department of Health and Human Services

In accordance with 42 USC 705(a)(3)(A) and 42 USC 705(a)(3)(B), the state agency must use at least 30% of payment amounts for services for children with special health care needs.

Monthly reports are submitted to management which detail the current expenditure level and to-date percentage for each of the earmarking requirements. Although funds are earmarked at the beginning of the award period in amounts sufficient to meet the percentage requirements, the subrecipient contracts used to meet these requirements are sometimes not fully expended during the grant award period and thus, cause the Department of State Health Services (DSHS) to be noncompliant with these minimum earmarking requirements. It was noted that the state agency used 25.5% of total federal funds on services for children with special health care needs for the award year October 1, 2004 - September 30, 2006. An additional approximately $1,702,900 was needed for children with special health care needs.

Corrective Action:

Corrective action was taken.

Reference No. 08-27

Special Tests and Provisions - Control, Accountability and Safeguarding of Vaccines

CFDA 93.268 - Immunization Grants
Award year - January 1, 2006 to December 31, 2006 and January 1, 2007 to December 31, 2007
Award number - CCH622571 - 04 and CCH622571 - 05
Type of finding - Non-compliance

Initial Year Written: 2007 Status: Implemented U.S. Department of Health and Human Services

According to Federal requirements at A-102 Common Rule §___.20, State recipients are required to maintain effective control and accountability for all vaccines. Furthermore, vaccines must be adequately safeguarded and used solely for authorized purposes.

The storage and distribution of vaccines was outsourced to a third party - General Injectable and Vaccines (GIV) during fiscal year 2004. Historically, GIV has hired their independent auditor to perform an Agreed Upon Procedures (AUP) engagement related to GIV inventory, consisting of testing the roll forward of vaccines including receipt, transfer to providers, loss, and ending inventory. Additionally, DSHS has historically done a yearly site visit of GIV to ensure proper safeguarding of vaccines.

Per DSHS management, neither the AUP nor the site visit was performed during fiscal year 2007. DSHS management noted that the GIV contract was initially going to be terminated in the middle of fiscal year 2007, and the shipping and storing of vaccines was going to be taken over by the Centers for Disease Control (CDC). However, this transfer of responsibilities was delayed until subsequent to fiscal year 2007. To compensate for the delay in transfer, DSHS did monitor estimated to actual inventory on a monthly basis by vaccine to manage the levels of inventory on hand.

Corrective Action:

Corrective action was taken.

Reference No. 08-28

Special Tests and Provisions - Food Instrument Disposition

CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Award year - October 1, 2005 to September 30, 2006 and October 1, 2006 to September 30, 2007
Award number - 6TX700506
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Agriculture

In accordance with 7 CFR Section 246.12(q) a State agency is required to account for the disposition of all food instruments within 150 days of the food instrument's first valid date for participant use. That time frame was reduced to 120 days for all food instruments issued on or after March 27, 2007. The State agency must identify all food instruments as either issued or voided; and identify issued food instruments as either redeemed or unredeemed. Redeemed food instruments must be identified as one of the following: (1) validly issued, (2) lost or stolen, (3) expired, (4) duplicate, or (5) not matching valid enrollment and issuance records. State agencies generally do this by analyzing computer reports that provide detailed issuance and redemption information on each food instrument.

A sample of 40 unreconciled food instruments issued in fiscal year 2007 was selected for review. 6 of the 40 items exceeded the 150 or 120 days requirement to identify the status of the food instrument. In two of the six cases, the food instruments were issued prior to March 27, 2007 and exceeded the 150 day requirement by 41 and 4 days. In the other four cases, the food instruments were issued subsequent to March 27, 2007 and exceeded the 120 day requirement by one to six days. Per review of these six situations, DSHS contacted the local agency approximately more than 90 days subsequent to the issue date. In each case, WIC Food Issuance and Redemption Services (FIRS) indicated that follow up phone calls were made to the local agency; however, there was no formal tracking of these attempted contacts. All six vouchers were found to be correctly classified as issued, lost, expired, duplicated, or not matched; therefore, there are no questioned costs.

Corrective Action:

Corrective action was taken.

Reference No. 08-29

Special Tests and Provisions - Peer Reviews

CFDA 93.958 - Block Grants for Community Mental Health Services
Award year - October 1, 2004 to September 30, 2006, October 1, 2005 to September 30, 2007; October 1, 2006 to September 30, 2008
Award number - 05B1TXCMHS; 06B1TXCMHS; 07B1TXCMHS
Type of finding - Material Weakness and Scope Limitation

Initial Year Written: 2007
Status: Implemented

U.S. Department of Health and Human Services

The Department of State Health Services (DSHS) must provide for independent peer reviews that assess the quality, appropriateness, and efficacy of treatment services provided to individuals. At least five percent of the entities providing services in the State shall be reviewed annually. The entities reviewed shall be representative of the entities providing the services (42 USC 300x-53(a)).

To determine the sufficiency of peer reviews, DSHS provided two different types of reviews performed during fiscal year 2007. The first type was a review of Mental Health and Mental Retardation (MHMR) Texoma Center (the Center) whose purpose was to provide the DSHS Mental Health Contracts Unit with an accurate assessment of the current business and operational practices that may be hindering the Center from operating in a financially viable and stable manner, and to provide written recommendations to DSHS regarding the feasibility of returning the Center to financial stability. The second review had the goal of determining whether the Local Mental Health Authorities (LMHAs) were meeting the standards outlined in the Mental Health Community Standards, Rule 412.310 requiring centers to meet a 14-day timeframe between when a person makes an initial call to when the person is first seen for an initial intake for routine services. Neither of these types of reviews was sufficient to meet the Federal compliance requirement for peers reviews noted above.

DSHS's rationale for not performing peer reviews is that they believe that communications from the Substance Abuse and Mental Health Services Administration (SAMHSA), the federal cognizant agency, waived DSHS of this requirement. The correspondence from SAMHSA indicates that while the requirement for peer reviews remains in the statute for the program, it is not monitored or reviewed by SAMHSA, and efforts have been made and continue to be made to remove this requirement from the statute.

Corrective Action:

Corrective action was taken.

Reference No. 08-30

Subrecipient Monitoring

(Prior Audit Issue - 07-36, 06-16, 05-20, 05-18, 04-07, 04-27, 03-12, 02-11, 02-15, 02-19, 01-555-36)

CFDA 93.217 - Family Planning - Services
Award year - April 1, 2007 to March 31, 2008 and April 1, 2006 to March 31, 2007
Award number - 2 FPHPA060898-26 and 5 FPHPA060898-25

CFDA 93.268 - Immunization Grants
Award year - January 1, 2006 to December 31, 2006 and January 1, 2007 to December 31, 2007
Award number - CCH622571 - 04 and CCH622571 - 05

CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance
Award year - August 31, 2006 to August 30, 2007
Award number - U90/CCU617001-07

CFDA 93.889 - National Bioterrorism Hospital Preparedness Program
Award year - September 1, 2005 to August 31, 2006 and September 1, 2006 to August 31, 2007
Award number - U3RHS05946-01-01 and U3RHS07583-01-00

CFDA 93.917 - HIV Care Formula Grants
Award year - April 1, 2007 to March 31, 2008 and April 1, 2006 to March 31, 2007
Award number - 2 X07HA00054-17 and 6 X07HA00054-16

CFDA 93.940 - HIV Prevention Activities - Health Department Based
Award year - January 1, 2007 to December 31, 2007 and January 1, 2006 to December 31, 2006
Award number - U62/CCU623516 and U62/CCU623516

CFDA 93.958 - Block Grants for Community Mental Health Services
Award year - October 1, 2004 to September 30, 2006, October 1, 2005 to September 30, 2007; October 1, 2006 to September 30, 2008
Award number - 05B1TXCMHS; 06B1TXCMHS; 07B1TXCMHS

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse
Award year - October 1, 2006 to September 30, 2008, October 1, 2005 to September 30, 2007 and October 1, 2004 to September 30, 2006
Award number - 07B1TXSAPT, 06B1TXSAPT, and 05B1TXSAPT

CFDA 93.994 - Maternal and Child Health Services Block Grants to the States
Award year - October 1, 2005 to September 30, 2007 and October 1, 2006 to September 30, 2008
Award number - 6 B04MC06591-01 and 1 B04MC07774-01

Non-major Programs:

CFDA 14.241 - Housing Opportunities for Persons with AIDS
CFDA 66.001 - Air Pollution Control Program Support
CFDA 66.701 - Toxic Substances Compliance Monitoring Cooperative Agreements
CFDA 93.000 - Hansen's Disease and Detection of Latent Tuberculosis Infection in Health Care Workers
CFDA 93.006 - State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program
CFDA 93.018 - Strengthening Public Health Services at U.S.-Mexico Border
CFDA 93.116 - Project Grants and Cooperative Agreements for Tuberculosis Control Programs
CFDA 93.150 - Projects for Assistance in Transition from Homelessness
CFDA 93.197 - Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children
CFDA 93.230 - Consolidated Knowledge Development and Application (KD&A) Program
CFDA 93.235 - Abstinence Education Program
CFDA 93.243 - Substance Abuse and Mental Health Services - Projects of Regional and National Significance
CFDA 93.275 - Substance Abuse and Mental Health Services - Access to Recovery
CFDA 93.279 - Drug Abuse and Addiction Research Programs
CFDA 93.558 - Temporary Assistance for Needy Families
CFDA 93.566 - Refugee and Entrant Assistance - State Administered Programs
CFDA 93.576 - Refugee and Entrant Assistance - Discretionary Grants
CFDA 93.667 - Social Services Block Grant
CFDA 93.769 - Demonstration to Maintain Independence and Employment
CFDA 93.943 - Epidemediologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups
CFDA 93.944 - Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance
CFDA 93.945 - Assistance Programs for Chronic Disease Prevention and Control
CFDA 93.974 - Family Planning - Service Delivery Improvement Research Grants
CFDA 93.977 - Preventative Health Services - Sexually Transmitted Diseases Control Grants
CFDA 93.978 - Preventative Health Services - Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants
CFDA 93.982 - Mental Health Disaster Assistance and Emergency Mental Health
CFDA 93.988 - Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems
CFDA 93.991 - Preventive Health and Health Services Block Grant
CFDA 97.032 - Crisis Counseling
Type of finding - Significant Deficiency and Material Non-Compliance

Department of State Health Services (DSHS) passed through approximately 26% of federal funds for fiscal year 2007 to subrecipients to carry out the objectives of the federal programs. DSHS is required by OMB Circular A-133, Section .400, to monitor subrecipients to ensure compliance with Federal rules and regulations, as well as the provisions of the contracts or grant agreements. According to OMB Circular A-133, DSHS also must ensure that subrecipients expending Federal funds in excess of $500,000 have an OMB Circular A-133 Single Audit performed and provide a copy to DSHS. DSHS is to review the report and to issue a management decision, if applicable.

Initial Year Written: 2000
Status: Partially Implemented

U.S. Department of Health and Human Services
U.S. Department of Homeland Security
U.S. Department of Housing and Urban Development
Environmental Protection Agency

DSHS' subrecipient monitoring procedures include use of standardized contracts, a risk assessment process, technical assistance, program monitoring, and financial monitoring. The A-133 audit report collection and review is centralized and performed by Health and Human Services Commission (HHSC) Office of Inspector General (OIG) for the State of Texas. In addition, each of the three divisions of DSHS with subrecipient contracts also have a Contract Management Unit (CMU) to perform a variety of procedures for their respective grants. Some of the CMU procedures include: review and approval of requests for payments received from subrecipients and monitoring of periodic reports received to ensure the respective subrecipient remains within the budget per the contract, perform closeout procedures, and coordinate and communicate with the Director, Contract Oversight and Support Section, and other DSHS departments, to ensure subrecipient contracts include necessary elements, and necessary issues are being escalated when required.

While there has been an increase in communication between the various departments involved in the subrecipient monitoring processes, from contract set-up through contract close-out, there is still heavy reliance placed on the financial monitoring site visits and other fiscal related activities being performed by the Contract Oversight and Support Section (COS). The procedures conducted by the CMU are primarily high level and do not appear to adequately lessen the reliance placed on the site visits and other fiscal activities being performed by COS.

Furthermore, for a number of the financial monitoring visits performed in the last two years, the monitoring reports did not appear to be reviewed timely by management. Some on-site review reports have still not been sent out to the subrecipient to notify them of their findings and it had been six months or more after the initial visit. Additionally, while HHSC OIG notifies COS personnel at DSHS of subrecipient A-133 findings specific to DSHS funding and of delinquent submissions, DSHS does not appear to have formal policies and procedures in place in regards to how to proceed with the recording, imposing, and maintaining of sanctions on subrecipients in this regard.

The 2007 level of funding for the overall COS risk assessment at DSHS is as follows:

- 262 high risk subrecipients receiving approximately $133.4 million in funding,
- 297 moderate risk receiving approximately $298.7 million in funding and
- 59 low risk subrecipients receiving approximately $50.9 million in funding.

Included in the above subrecipient totals, is an estimated 34% of contract funds that are paid on a unit rate or fee for service basis. These contracts consist of mainly a set fee paid for each service provided (i.e., shot given, claim processed, etc.). COS identifies the unit rate subrecipients in their risk assessment process within the payment type attribute. This attribute is given a 10% weighting factor in the overall COS risk assessment score, which is considered in the selection of sites to visit by COS. In addition, the unit rate contracts are monitored through programmatic reviews utilizing audit procedures such as review of claims, eligibility determinations, resulting deliverables, and vaccine usages.

Financial monitoring of subrecipients by COS is summarized below for the past three years. The three year coverage is approximately 68%.

- In fiscal year 2007, 90 of approximately 620 subrecipients, 19% of subrecipient contract values
- In fiscal year 2006, 83 of approximately 520 subrecipients, 30% of subrecipient contract values
- In fiscal year 2005, 69 of approximately 725 subrecipients, 19% of subrecipient contract values

KPMG also notes that out of the 90 subrecipients who had financial monitoring site visits in 2007, 12 (13%) were rated as low risk, 35 (39%) were rated as moderate risk, and the remaining 48% visited were considered high risk.

Additionally, out of the 90 subrecipients visited for financial monitoring in 2007, 54 (60%) had been finalized with the final report being sent to the subrecipient as of October 2007. The remaining 2007 financial site visits were pending either the initial draft report to the subrecipient, the subrecipient's corrective action plan, or the final acceptance report to the subrecipient. On average, the amount of time it took to get an initial report out to the subrecipient after a financial monitoring review in fiscal year 2007 was 4.5 months.

Total payments to subrecipients charged to the major and non-major programs for fiscal year 2007 were:

Federal Program		Amount Charged to the Federal Program in FY07
CFDA 14.241	$	2,870,081
CFDA 66.001		20,000
CFDA 66.701		4,200
CFDA 93.000		311,187
CFDA 93.006		40,032
CFDA 93.018		377,933
CFDA 93.116		3,935,892
CFDA 93.150		3,700,144
CFDA 93.197		408,253
CFDA 93.217		15,134,323
CFDA 93.230		50,146
CFDA 93.235		4,255,467
CFDA 93.243		7,048,397
CFDA 93.268		8,939,727
CFDA 93.275		13,177,647
CFDA 93.279		18,586
CFDA 93.283		66,384,231
CFDA 93.558		1,912,379
CFDA 93.566		2,568,904
CFDA 93.576		32,613
CFDA 93.667		3,030,622
CFDA 93.769		2,065,194
CFDA 93.889		29,661,263
CFDA 93.917		18,020,939
CFDA 93.940		10,147,421
CFDA 93.943		39,494
CFDA 93.944		1,011,591
CFDA 93.945		49,387
CFDA 93.958		31,402,188
CFDA 93.959		115,036,407
CFDA 93.974		174,997
CFDA 93.977		4,808,094
CFDA 93.978		305,141
CFDA 93.982		7,200,052
CFDA 93.988		440,412
CFDA 93.991		2,295,578
CFDA 93.994		13,259,247
CFDA 97.032		641,087
Total	$	370,779,256

Corrective Action:

This finding was reissued as current year reference number: 09-31.

Texas Education Agency

Reference No. 08-31

Allowable Costs/Cost Principles

CFDA 84.048 - Vocational Education - Basic Grants to States
Award year - July 1, 2004 to September 30, 2005; July 1, 2005 to September 30, 2006; July 1, 2006 to September 30, 2007; July 1, 2007 to September 30, 2008
Award number - V048A040043, V048A050043, V048A060043, V048A070043

Special Education Cluster
Award year - July 1, 2004 to September 30, 2005; July 1, 2005 to September 30, 2006; July 1, 2006 to September 30, 2007; July 1, 2007 to September 30, 2008
Award number - H027A040008 and H173A040004, H027A050008 and H173A050004, H027A060008 and H173A060008, H027A070008 and H173A070008
Type of finding - Significant Deficiency

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Education

Access to the Budget Analysis Tool (BAT) application production server is not restricted appropriately. Two developers have "Budget Management User" access to the BAT application. Budget Management Users (BPM) are users within the Texas Education Agency (TEA) Budget Office that are authorized to perform all processes, generate any report, and modify any agency budget information from within BAT. This includes adjusting funding percentages/structures, adding/modifying division/sub object information and adding/adjusting position forecasting information for any division within TEA. Controls should be in place to restrict developer's access to the production environment.

No compliance exceptions were noted during the review of selected 2007 allowable cost transactions for the major program noted above.

Corrective Action:

This finding was reissued at current year reference number: 09-33.

Reference No. 08-32

Subrecipient Monitoring

CFDA 84.011 - Migrant Education - State Grant Program
Award year - July 1, 2004 to September 30, 2005; July 1, 2005 to September 30, 2006; July 1, 2006 to September 30, 2007; July 1, 2007 to September 30, 2008
Award number - S011A040044, S011A050044, S011A060044, S011A070044

CFDA 84.048 - Vocational Education - Basic Grants to States
Award year - July 1, 2004 to September 30, 2005; July 1, 2005 to September 30, 2006; July 1, 2006 to September 30, 2007; July 1, 2007 to September 30, 2008
Award number - V048A040043, V048A050043, V048A060043, V048A070043

CFDA 84.357 - Reading First State Grants
Award year - July 1, 2004 to September 30, 2005; July 1, 2005 to September 30, 2006; July 1, 2006 to September 30, 2007; July 1, 2007 to September 30, 2008
Award number - S357A040045, S357A050045, S357A060045, S357A070045

Special Education Cluster
Award year - July 1, 2004 to September 30, 2005; July 1, 2005 to September 30, 2006; July 1, 2006 to September 30, 2007; July 1, 2007 to September 30, 2008
Award number - H027A040008 and H173A040004, H027A050008 and H173A050004, H027A060008 and H173A060004, H027A070008 and H173A070004

Non-major Programs:

CFDA 12.000 - Troops to Teachers
CFDA 84.002 - Adult Education - State Grant Program
CFDA 84.010 - Title I Grants to Local Educational Agencies
CFDA 84.013 - Title I Program for Neglected and Delinquent Children
CFDA 84.144 - Migrant Education - Coordination Program
CFDA 84.181 - Special Education - Grants for Infants and Families with Disabilities
CFDA 84.184 - Safe and Drug - Free Schools & Communities - National Programs
CFDA 84.186 - Safe and Drug - Free Schools & Communities - State Grants
CFDA 84.196 - Education for Homeless Children and Youth
CFDA 84.206 - Javits Gifted and Talented Students Education Grant Program
CFDA 84.213 - Even Start - State Educational Agencies
CFDA 84.281 - Eisenhower Professional Development State Grants
CFDA 84.282 - Charter Schools
CFDA 84.287 - Twenty - First Century Community Learning Centers
CFDA 84.298 - State Grants for Innovative Programs
CFDA 84.318 - Education Technology State Grants
CFDA 84.330 - Advanced Placement Program
CFDA 84.332 - Comprehensive School Reform Demonstration
CFDA 84.334 - Gaining Early Awareness and Readiness for Undergraduate Programs
CFDA 84.358 - Rural Education
CFDA 84.365 - English Language Acquisition Grants
CFDA 84.366 - Mathematics and Science Partnerships
CFDA 84.367 - Improving Teacher Quality State Grants
CFDA 84.369 - Grants for State Assessments and Related Activities
CFDA 84.938 - Hurricane Education Recovery
CFDA 93.558 - Temporary Assistance for Needy Families
CFDA 93.630 - Developmental Disabilities Basic Support and Advocacy Grants
CFDA 93.938 - Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems
CFDA 94.004 - Learn and Serve America - School and Community Based Programs
CFDA 97.036 - Public Assistance Grants (including CFDA 83.544)

Type of finding - Significant Deficiency and Material Non-Compliance

The Texas Education Agency (TEA) passes through a significant amount of federal funds to subrecipients to carry out the objectives of the federal programs. The TEA is required by OMB Circular A-133, Section .400, to monitor subrecipients to ensure compliance with Federal rules and regulations, as well as the provisions of the contracts or grant agreements. According to OMB Circular A-133, the TEA must assure that subrecipients expending Federal funds in excess of $500,000 have an OMB Circular A-133 Single Audit performed and provide a copy to the TEA. The TEA is to review the report and to issue a management decision, if applicable.

Initial Year Written: 2007

Status: Partially Implemented

U.S. Department of Education
U.S. Department of Health and Human Services
Corporation of National and Community Services
U.S Departmemt of Defense
U.S. Department of Homeland Security

The TEA's subrecipient monitoring procedures include use of standard contracts, technical assistance, a risk assessment process, program monitoring, and financial monitoring including compliance reviews, site visits, and A-133 audit report collection and review. In addition, the TEA employs the use of certain edits within their computer system, TGIF, to assist with period of availability and reasonableness of monthly draw amounts based on total amounts awarded.

The monitoring of subrecipient compliance with fiscal requirements is performed primarily by the Grant Audits Section of the Division of Financial Audits. Specifically, this section uses a risk assessment process to identify subrecipients for financial monitoring. The risk assessment process includes the use of critical indicators, such as "independent auditor identified an instance(s) of material noncompliance and/or material weaknesses in internal controls," that classify subrecipients as high risk grantees. For the 2007 fiscal year, the section conducted compliance reviews of 10 subrecipients that failed three or more critical indicators and an additional 43 subrecipients who failed 1 or 2 critical risk indicators. During the conduct of the compliance reviews, section auditors requested certain fiscal records from the subrecipient and reviewed these records to determine compliance with federal fiscal requirements.

In addition to the compliance reviews, the section also received complaints from external parties or referrals from TEA program personnel or grant administrators to perform an audit, investigation, review or other monitoring activity of specific grantees and grants. In each instance, the audit, review or other monitoring activity was initiated as a correspondence or desk process. However, in certain instances, section auditors determined that an onsite visit was warranted due to the scope of the monitoring activity (e.g., multiple years, multiple grants) or the complexity of the issues identified. In 2007, section auditors conducted 11 audits or investigations pursuant to a complaint filed with the TEA or a referral from a TEA division. To the degree feasible, TEA program personnel and auditors coordinated efforts as to the deployment of resources to review selected subrecipients. In total for fiscal year 2007, 54 audits, investigations and compliance reviews were performed. Of this number, seven were conducted onsite.

In addition to the work performed by the Grant Audits Section, the Investigations Section of the Division of Financial Audits performed onsite follow up visits on selected corrective action plans submitted by grantees as part of the annual A-133 audit report. Section auditors exercised their professional judgment in assessing the severity of the compliance issues identified by independent auditors in the annual audit report to determine which issues warranted an in-depth onsite follow up visit. The onsite follow up visits included the selection of sample items to ascertain if the subrecipient corrected the identified deficiency. In fiscal year 2007, section auditors conducted 3 onsite follow up visits.

Despite the coordination between program and fiscal personnel, TEA's primary focus is on performance and program results with a limited number of resources available to monitor fiscal compliance. Of the approximately 1,370 subrecipients, 444 were assessed as high risk in 2007. Of this number, a total of 57 subrecipients underwent a follow-up review, audit, investigation, or compliance review (10 were onsite). These 57 subrecipients accounted for approximately 16.2% of the total funds passed through in fiscal year 2007.

Similarly, in fiscal year 2006, 159 were assessed as high risk in 2006. A total of 53 subrecipients underwent a follow-up review, audit, investigation, or compliance review. (Note: Of the 53 audits, investigations and compliance reviews conducted, 14 were conducted onsite.) These 53 subrecipients accounted for approximately 12.6% of the total funds passed through in fiscal year 2006. In summary, approximately 14.5% of the total funds passed through had financial monitoring in the past 2 years.

Total payments to subrecipients charged to the major and non-major programs for fiscal year 2007 were:

Federal Program	Amount Charged to the Federal Program
12.000	$ 220,327
84.002	41,407,823
84.010	1,208,779,643
84.011	53,432,267
84.013	8,211
84.048	50,613,305
84.144	103,002
84.181	75,349
84.184	(216,209)
84.186	23,775,589
84.196	6,140,167
84.206	306,054
84.213	10,290,267
84.281	(6,341)
84.282	10,548,456
84.287	84,780,295
84.298	10,772,343
84.318	19,935,539
84.330	24,317
84.332	8,946,856
84.334	1,067,469

Federal Program		Amount Charged to the Federal Program
84.357		85,742,635
84.358		7,389,460
84.365		84,266,016
84.366		2,577,976
84.367		248,844,335
84.369		3,800,000
84.938		18,400,163
93.558		8,058,070
93.630		3,367,688
93.938		74,215
94.004		2,657,946
97.036		(1,248,668)
Child Nutrition Cluster		1,187,417,254
Special Education Cluster		969,891,986
Total	$	4,152,243,805

Corrective Action:

This finding was reissued as current year reference number: 09-32.

Texas State Library and Archives Commission

Reference No. 07-38

Subrecipient Monitoring

CFDA 45.310 - State Library Program
Award year - October 1, 2003 to September 30, 2005, October 1, 2004 to September 30, 2006, October 1, 2005 to September 30, 2007
Award number - LS-00-04-0044-04, LS-00-05-0044-05, LS-00-06-0044-06
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2006
Status: Implemented

National Foundation of the Arts and the Humanities

The Texas State Library and Archives Commission (State Library) is required by Federal regulations to monitor subrecipients to ensure compliance with Federal rules and regulations, as well as the provisions of the contracts or grant agreements. The State Library's subrecipient monitoring procedures include a risk assessment process, technical assistance, and site visits. According to OMB Circular A-133, Section .400, the State Library must assure that subrecipients expending Federal funds in excess of $500,000 have an OMB Circular A-133 audit performed and provide a copy to the State Library within the required timeframes.

The State Library does not have a process to collect the OMB Circular A-133 reports nor to review and issue any necessary management decisions. Approximately $8 million was passed through to subrecipients during fiscal year 2006.

Additionally, the State Library requires its subrecipients to have an approved Budget Revision when making cumulative transfers among budget cost categories or projects which are expected to exceed 10 percent of the total grant. The State Library does monitor the budget revisions with each request for payment, ensuring that no changes were made per that involve in excess of 10%. However there is no formal policy to review the cumulative expenditures to ensure requests have been made and approved in advance of 10% fluctuations between budget categories or projects. For one of five files reviewed, the State Library Program did not approve the subrecipient's change in budget which was greater than 10 percent.

Corrective Action:

Corrective action was taken.

Summary Schedule of Prior Audit Findings - Other Auditors

Federal regulations (*Office of Management and Budget Circular OMB Circular A-133*) state, "the auditee is responsible for follow-up and corrective action on all audit findings." As part of this responsibility, the auditee reports the corrective action it has taken for the following:

- Each finding in the 2007 Schedule of Findings and Questioned Costs.
- Each finding in the 2007 Summary Schedule of Prior Audit Findings that was not identified as implemented or reissued as a current year finding.

This section of the Summary Schedule of Prior Audit Findings for the year ended August 31, 2008, has been audited by other auditors.

Lamar Institute of Technology

Reference No. 08-33
Eligibility

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

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Education

The determination of the federal student assistance award amount is based on financial need. Financial need is defined as the student's cost of attendance (COA) minus the expected family contribution (EFC). For Title IV programs, the amount of financial resources available is generally the EFC that is computed by the federal central processor and included on the student's Institutional Student Information Report (ISIR) provided to the institution. Awards must be coordinated among the various programs and with other federal and non-federal assistance to ensure that total assistance is not awarded in excess of the student's financial need (Federal Perkins Loan, Federal Work Study, and Federal Supplemental Educational Opportunity Grant, Title 34, Code of Federal Regulations, Sections 673.5 and 673.6; Federal Family Education Loans, Title 34, Code of Federal Regulations, Section 682.603).

COA refers to the "tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." Institutions also may include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087ll).

For the Federal Pell Grant program, the payment and disbursement schedules provided each year by the U.S. Department of Education are used for determining award amounts. This schedule provides the maximum annual amount a student would receive for a full academic year for a given enrollment status, EFC, and COA. There are separate schedules for three-quarter-time, half-time, and less-than-half-time students, as well as students with low assessed tuition. All of the schedules, however, are based on the COA of a full-time student for a full academic year.

Lamar Institute of Technology (Institute) calculated financial need incorrectly for 2 of 50 (4 percent) students tested. Specifically:

- The Institute did not adjust one student's COA calculation to reflect less than half-time enrollment in one of the enrollment periods. As a result, the Institute overestimated the student's financial need by $2,897.

- The Institute did not adjust another student's COA to reflect additional enrollment in one class prior to disbursement of financial assistance, as required by its policies. As a result, the Institute underestimated the student's financial need by $457.

Neither of these errors affected the students' eligibility for the Federal Family Education Loan amounts they received, and neither of these errors resulted in loan overpayments or questioned costs.

The second student discussed above also received an incorrect Pell Grant award of $3,544 instead of $4,050 because his enrollment level in the Fall 2006 semester was not adjusted from three-quarter-time to full-time. The Institute has corrected the Pell Grant award to this student.

Recommendation:

The Institute should improve its process for reviewing its Student Financial Aid System's financial need calculations and awards to ensure that (1) the information in that system is accurate and (2) awards are based on the correct level of enrollment.

Management Response and Corrective Action Plan 2007:

Management concurs with findings related to student eligibility, specifically related to proper calculation of student cost of attendance, needs analysis and accurate determination of Pell Grant eligibility. Automated systems are in place to receive Institutional Student Information Record (ISIR) information, to include student/family resource data, projected enrollment level, housing status, Expected Family Contribution, and subsequently load this data into the Financial Aid Module (FAM) of our Student Information System (SIS). Additionally we utilize the Packaging Aid Resource System (PARS) module to automate packaging of various sources of financial assistance. This system is established to determine enrollment levels, assign corresponding cost of attendance budgets, award correct Pell Grant amounts based on EFC, calculate unmet need and authorize awards from additional funding sources as appropriate. Mechanisms are in place to compare anticipated enrollment levels from student data from the Free Application for Federal Student Aid (FAFSA) and from FAM which reflects actual/registered hours on our campus at the time of awarding. These systems are effective and accurate when manual intervention does not occur. In many cases, however, the student's projection of anticipated enrollment does not reflect reality when registration occurs. In situations where Anticipated FAM Hours do not match the registered hours disbursement of financial aid awards are blocked. Many manual adjustments must occur to update enrollment level, cost of attendance budgets eligibility and award amounts so that disbursement can actually be completed. This is where human intervention may result in errors such as those sited here. In an effort to ensure that financial need has been calculated correctly and that awards are subsequently determined appropriately we have relied on an "in-house FOCUS report/query generated by our Institutional Research department. This report provides output indicating all potential aid recipients whose anticipated hours do not match registered hours for a given term.

In response to this finding and after research into options available improve our processes and to improve accurate use of system information and awards based on the correct level of enrollment, the financial aid office will implement the use of an additional program designed to provide better fund management. This report (SBAL16) provides output on a fund specific basis, displaying student identification data, EFC, the amount of Pell Grant (for example) that has been offered and the number of registered hours for each semester. This output will be reviewed against cost of attendance budget for each student to ensure that need (COA – EFC) has been properly calculated for the actual enrollment level and that awards have been made at appropriate levels.

Management Response and Corrective Action Plan 2008:

As indicated in previous communication the Financial Aid Department discovered available computerized programs to provide increased accuracy of disbursements based on expected family contribution and accurate cost of attendance budgets as determined by enrollment level. This department continues to utilize the SBAL 16 which provides effective comparative data related to specific aid sources, EFC for identified students, award amounts, and registered hours which is compared to system generated cost of attendance budgets enabling adjustments to be made as appropriate. Additionally the addition of an Assistant Director will allow for an additional level of oversight and monitoring ensuring that awards are being made properly based on actual enrollment, accurate cost of attendance budgets, expected family contribution and other relevant aid.

Implementation Date: *February 2008*

Responsible Person: *Lisa Schroeder*

Reference No. 08-34

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 84.063 Award Number Not Applicable, CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Education

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300(b)).

Lamar Institute of Technology (Institute) does not maintain appropriate segregation of duties between its admissions and the financial aid offices. All of the employees in the financial aid office have full access to the student information system and the admission screens. These screens provide users with the ability to add and remove students, as well as modify access to students' personal records.

Recommendations:

The Institute should:

- Restrict full access to the admissions screens for financial aid employees so that they cannot add/remove students and modify student personal records in the student information system.

- Review all access to the student information system on an annual basis to ensure that access is valid and that appropriate level of access are assigned to employees based on their current job function.

Management Response and Corrective Action Plan 2007:

Management concurs with findings related to the importance of maintaining proper segregation of duties between admissions and the financial aid office. We agree that the institute should restrict input access to admissions screens to prevent the ability to add/remove students and/or modify student personal records in the Student Information System. Although an interim review has determined that such access exists on lower level screens that fall with the shared components area, we agree that such access is unnecessary, and does not maintain proper separation of duties. In response to issues sited here, requests will be submitted to the Admissions, Records and Information Technology departments to review access for all LIT financial aid personnel. A request will subsequently be submitted through all of the respective security channels to amend access as appropriate and to specifically transforming input capability to view-only access on all of the admissions screens that currently allow updates by financial aid staff. A schedule will be established to provide for annual review of security templates and access granted to financial aid personnel. Additional reviews will be requested as appropriate in the cased of system-wide changed, new personnel etc.

Management Response and Corrective Action Plan 2008:

Following the audit, Financial Aid personnel were immediately instructed to discontinue any access involving updates to screens that fall within the admissions/records areas of authority. This was done as a pre-emptive effort to prevent inappropriate update access to areas outside the scope of our responsibility. The necessary changes were submitted to the Security Officer at the Central Computing Center. Security templates have been amended, authorizing Financial Aid personnel "view-only" access to the admissions/records data fields in the 100 and 200 levels screens.

Implementation Date: *February 2008*

Responsible Person: *Lisa Schroeder*

Lamar State College - Orange

Reference No. 08-35

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
Type of finding - Significant Deficiency

System Access

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300(b)).

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

Lamar State College - Orange (College) does not maintain appropriate access to its Student Information System and does not evaluate employees' access levels on a regular basis. The College's financial aid director has access to enter payments and refunds, as well as the ability to add, delete, and register students within the Student Information System. In addition, a financial aid employee has access within the Student Information System to add students, as well as modify and delete student information.

When there is inappropriate access to the Student Information System, fictitious student accounts could be created; student personal information could be modified; and unauthorized aid could be awarded, disbursed, and refunded.

Disbursement Notification

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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 the 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 made in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

The College did not consistently send the required notifications to FFELP loan recipients in fiscal year 2007. Auditors we are unable to verify that the College sent notifications to 11 of 12 (91.67 percent) FFELP loan recipients tested. In addition, the disbursement notification the College provided did not contain any of the required criteria.

The College's Financial Aid Office uses a manual process to produce the notifications. Specifically, it depends on staff to accurately review the *Texas Guaranteed Student Loan Corporation Disbursement Report* and create notification e-mails. When the College does not distribute the required notifications, this reduces the opportunity for loan recipients to cancel the awards if they choose to do so.

Transfer Students

If a student transfers from one institution to another institution during the same award year, the institution to which the student transfers must request from the Secretary of the U.S. Department of Education, through the National Student Loan Data System (NSLDS), updated information about that student so it can make certain required determinations. In addition, the institution may not make a disbursement to that student for seven days following its request unless (1) it receives the information from NSLDS in response to its request or obtains that information directly by accessing NSLDS and (2) the information it receives allows it to make that disbursement (Title 34, Code of Federal Regulations, Section 668.19 (b) 1).

The College's Financial Aid Office does not have a documented process to ensure that it verifies transfer students' financial aid history prior to disbursement of funds. The College had no documentation available to show that it accessed NSLDS prior to its disbursement of funds to four transfer students tested. The College's transfer student verification process is manual, and the College does not retain printouts or record dates of its NSLDS access in the Student Information System.

Corrective Action:

Corrective action was taken.

Lamar State College - Port Arthur

Reference No. 08-36
Eligibility

Student Financial Assistance Cluster
Award Year - July 1, 2006 to June 30 2007
Award Number - CFDA 84.007 P007A066986, 84.033 P033A066986 and CFDA 84.063 P063P064241
Type of Finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

The determination of the federal student assistance award amount is based on financial need. Financial need is defined as the student's cost of attendance minus the expected family contribution (EFC). For Title IV programs, the amount of financial resources available is generally the EFC that is computed by the federal central processor and included on the student's Institutional Student Information Report (ISIR) that is provided to the institution. Awards must be coordinated among the various programs and with other federal and non-federal assistance to ensure that total assistance is not awarded in excess of the student's financial need (Federal Perkins Loan, Federal Work Study, and Federal Supplemental Educational Opportunity Grant, Title 34, Code of Federal Regulations, Sections 673.5 and 673.6; Federal Family Education Loans, Title 34, Code of Federal Regulations, Section 682.603(d) (2)).

The phrase "cost of attendance" refers to the "tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." The institution may also include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087ll).

For 4 of 30 students tested at Lamar State College - Port Arthur (College), the cost of attendance budgets were calculated incorrectly and did not match the student financial aid budget schedule. This was primarily due to an information technology coding error, which resulted in the Financial Aid System miscalculating the students' financial need. This resulted in underawarding students their maximum potential federal assistance.

Corrective Action:

Corrective action was taken.

Reference No. 08-37
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 84.007 P007A066986 and CFDA 84.063 P063P064241
Type of Finding - Significant Deficiency and Non-Compliance

Early Disbursement of Title IV, Higher Education Act (HEA) Program Funds

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

If a student is enrolled in a credit-hour educational program that is offered in semester, trimester, or quarter academic terms, the earliest an institution may disburse Title IV, Higher Education Act (HEA) program funds to a student or parent for any payment period is 10 days before the first day of class for a payment period (Title 34, Code of Federal Regulations, Section 668.164 (f) (1)).

Lamar State College - Port Arthur (College) disbursed funds more than 10 days before the first day of class for 28 of 64 disbursements tested (for 15 of 40 students) for the spring 2007 semester. In each case, the College disbursed the funds 11 days before the start of class, instead of the required 10 days (1 day early). All other disbursement information, including the amount of the disbursement, was correct.

According to management, the College purposely scheduled this disbursement date to occur on a Friday in an effort to improve business operations by eliminating the need for such a time-consuming task at the start of the work week. However, in its attempt to increase efficiency, the College inadvertently failed to meet all compliance requirements.

Inappropriate Access to the Financial Aid System

User access to the College's Financial Aid System was inappropriately defined. The Vice President of Student Services had update capabilities to the financial aid module, as well as to the business services/accounting module. In addition, the Assistant Director of Computer Services had update capabilities in the business services/accounting module, as well as to other modules within the Financial Aid System. Improper user access to both of these modules increases the risk of unauthorized federal assistance being awarded and/or disbursed. After the completion of audit fieldwork, the College tightened user access security measures, and these users' access to the Financial Aid System has been corrected.

Corrective Action:

Corrective action was taken.

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 P063P062319
Type of finding - Significant Deficiency and Non-Compliance

Pell Payment Data

Initial year Written: 2007
Status: Partially Implemented
U.S. Department of Education

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 5-3-16).

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 5-3-25).

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.

Management Response and Corrective Action Plan 2007:

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.

Management Response and Corrective Action Plan 2008:

Description of Corrective Action Taken:

Pell Payment Data

Using processes found in SIS Plus, the University has automated the reporting of Federal Pell Disbursements to the Common Origination and Disbursement (COD) System.

Disbursement Notification

The Loan Manager requests a data file containing loan disbursements. The information is them imported into a Microsoft Access database to generate a mail merge document. The letters are then sent via mail to students within 30 days after crediting the student's account.

Implementation Date: *August 2008*

Responsible Person: *Carlos Clark*

Department of Public Safety

Reference No. 08-39
Reporting

Homeland Security Cluster
Award year - see below
Award number - see below
Type of finding - Significant Deficiency and Non-Compliance

The Office of Management and Budget's Circular A-133 Compliance Supplement requires recipients to submit the Financial Status Report, SF-269 (OMB No. 0348-0039) on a quarterly basis for the Homeland Security Cluster. Recipients use the SF-269 to report the status of funds for all non-construction projects and for construction projects for which the financial status report is required in lieu of the SF-271.

Initial Year Written: 2007
Status: Implemented

U.S. Department of Homeland Security

Four of the five (80 percent) SF-269 reports auditors tested at the Department of Public Safety (Department) did not tie to the Department's accounting records. The differences ranged from $15,916 to $118,341. The total dollar value of these discrepancies represented 0.18 percent to 1.31 percent of the total expenditures reported on these reports. The reports did not tie to accounting records because the Department did not report component units' expenditures correctly. Specifically:

- One of the component units on the SF-269 report covering January 1, 2007, to March 31, 2007, included an expenditure of $170,310 that needed to be reallocated in the internal accounting system to the correct budget. At the time of audit testing, $118,229 had not yet been corrected.

- One of the component units on the SF-269 report for July 1, 2006, to September 30, 2006, included an expenditure of $80,237 that was for a prior period. It was not included in the prior period and, as a result, was recorded in the July 1, 2006, to September 30, 2006, report.

- One of the component units on the SF-269 report for April 1, 2007, to June 30, 2007, was understated by $74,786, and another component unit was overstated by $15,761.

- One of the component units on the SF-269 report for July 1, 2007, to September 30, 2007, was understated by $12,390 ($19,431 was inappropriately excluded and $7,041 was inappropriately included, resulting in a net understatement of $12,390).

The Homeland Security Cluster has multiple grant sub awards and award years, as noted below:

Award Number	Award Year
2003-MU-T3-4020	October 1, 2004 - April 30, 2007
2004-GE-T4-4015	December 1, 2003 - December 31, 2007
2005-GE-T5-4025	October 1, 2004 - December 31, 2008
2006-GE-T6-0068	June 30, 2006 - June 30, 2009

Corrective Action:

Corrective action was taken.

Reference No. 08-40

Subrecipient Monitoring

(Prior Audit Issue - 07-29)

CFDA 97.039 - Hazard Mitigation Grant Program (including CFDA 83.548)
Award year - see below
Award number - see below

CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) (including CFDA 83.544)
Award year - see below
Award number - see below

CFDA 97.008 - Urban Areas Security Initiative
Award year - December 1, 2003 - December 31, 2007
Award number - 2004-TU-T4-4013

Homeland Security Cluster
Award year - see below
Award number - see below
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2006
Status: Implemented

U.S. Department of Homeland Security

The Department of Public Safety (Department) passes through a significant amount of federal funds to subrecipients to carry out the objectives of federal programs. The Department is required by Office of Management and Budget (OMB) Circular A-133, Section .400, to monitor subrecipients to ensure compliance with federal rules and regulations, as well as the provisions of the contracts or grant agreements. According to OMB Circular A-133, the Department must ensure that subrecipients that spend more than $500,000 in federal funds have an OMB Circular A-133 Single Audit performed and provide a copy of the single audit report to the Department. The Department is required to review the audit report and to issue a management decision, if applicable.

The Department asserts that its subrecipient monitoring process includes:

- Completing Public Assistance award packages (including quarterly progress reports) for the Public Assistance grants.
- Conducting close-out audits for all large Public Assistance projects, using dollar thresholds set annually by the federal government. For disasters declared in fiscal year 2007, the threshold distinguishing between a large project and a small project was $57,000.
- Conducting site visits for Hazard Mitigation grants awarded for structural construction projects that are 50 percent complete.
- Reviewing quarterly reports for all other Hazard Mitigation grants.
- Conducting close-out audits for Hazard Mitigation grants.
- Conducting on-site visits for Homeland Security Cluster grants and Urban Areas Security Initiative grants.
- Sending certification letters to subrecipients that receive federal funds in a fiscal year to determine whether the Department should receive a single audit report.
- Reviewing and documenting the results of the single audits for all federal grant programs by completing an audit checklist.

CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Auditors identified the following issues:

- For 4 of 30 (13 percent) jurisdiction files tested, the Department did not prepare complete Public Assistance award packages. Each package should include five documents: project application summary, project worksheet, project completion and certification report, public grant summary, and package pick up checklist. The four files did not contain one of the two necessary signatures on the package pick up checklist; obtaining these signatures is important because they indicate that the jurisdiction understands and agrees to various grant provisions, including the single audit requirement. A representative from the Department and jurisdiction are required to sign the checklist.

- For 7 of 30 (23 percent) close-out audits tested, the Department did not have audit checklists in the audit documentation.

- For 16 of 23 (70 percent) close-out audits tested that had audit checklists, the Department did not have evidence that the auditor or the jurisdiction checked the debarment lists as required by the Department.

- For 4 of 30 (13 percent) subrecipients tested, the Department did not receive a certification letter or any correspondence regarding whether the subrecipients were required to obtain a single audit. If these subrecipients were required to submit a single audit report, the reports had not been submitted.

- Although there were no findings involving federal funds in the single audit reports that auditors tested, the Department does not have a process to ensure that it follows up on findings involving federal findings, as discussed in more detail below.

The Public Assistance grant program had multiple grant subawards and award years active during fiscal year 2007 as noted below:

Disaster Number	Grant Number	Start Date
1257	FEMA-1257-DR	October 21, 1998
1274	FEMA-1274-DR	May 6, 1999
1287	FEMA-1287-DR	August 22, 1999
1323	FEMA-1323-DR	April 7, 2000
1356	FEMA-1356-DR-TX	January 8, 2001
1379	FEMA-1379-DR	June 9, 2001
1425	FEMA-1287-DR	July 4, 2002
1479	FEMA-1323-DR	July 17, 2003
1606	FEMA-1606-DR	September 24, 2005
3216	FEMA-3216-DR	September 2, 2005
3261	FEMA-3261-DR	September 21, 2005
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006
1709	FEMA-1709-DR	July 13, 2007
3277	Hurricane Dean (EM)	August 18, 2007

CFDA 97.039 - Hazard Mitigation Grant Program

Auditors identified the following issues:

- For 4 of 5 (80 percent) close-out audits tested, the Department did not maintain sufficient procurement documentation in the audit file as required by its audit checklist.
- For 1 of 5 (20 percent) close-out audits tested, the Department did not have an audit checklist in the audit documentation.

- For all 4 close-out audits tested that had audit checklists, the Department did not have evidence that the jurisdiction or auditor checked the debarment lists as required by the Department.
- Four of 8 (50 percent) single audits tested had findings related to federal funding received by the Department. The Department did not follow up on these findings and did not ensure that corrective action had been taken.

The Hazard Mitigation Grant had multiple grant subawards and award years active during fiscal year 2007 as noted below:

Disaster Number	Grant Number	Start Date
1257	FEMA-1257-DR-TX	October 21, 1998
1356	FEMA-1356-DR	January 8, 2001
1379	FEMA-1379-DR-TX	June 9, 2001
1425	FEMA-1425-DR-TX	July 4, 2002
1439	FEMA-1439-DR-TX	November 5, 2002
1434	FEMA-1434-DR-TX	September 26, 2002
1479	FEMA-1479-DR-TX	July 17, 2003
1606	FEMA-1606-DR-TX	September 24, 2005
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006
1697	FEMA-1697-DR	May 1, 2007
1709	FEMA-1709-DR	June 29, 2007

CFDA 97.008 - Urban Areas Security Initiative

Auditors identified the following issues:

- For 3 of 34 (9 percent) subrecipients tested, the Department did not receive a certification letter or any correspondence regarding whether they were required to obtain a single audit. If the subrecipients were required to submit a single audit report, the audit reports had not been submitted.
- All 3 single audits had findings related to federal funding received by the Department. The Department did not follow up on these findings and did not ensure that corrective action had been taken.

CFDA 97.067 - Homeland Security Cluster

Auditors identified the following issues:

- For 1 of 50 (2 percent) subrecipients tested, the Department had not received a certification letter or any correspondence regarding whether the subrecipient was required to obtain a single audit. If the subrecipient was required to submit a single audit report, the audit report had not been submitted.
- Auditors identified one subrecipient with a single audit finding related to Homeland Security grant. The Department did not follow up on the finding and did not ensure that corrective action had been taken.

The Homeland Security Cluster had multiple grant subawards and award years active in fiscal year 2007 as noted below:

Award Number	Award Year
2003-MU-T3-4020	October 1, 2004 - April 30, 2007
2004-GE-T4-4015	December 1, 2003 - December 31, 2007
2005-GE-T5-4025	October 1, 2004 - December 31, 2008
2006-GE-T6-0068	June 30, 2006 - June 30, 2009

Corrective Action:

Corrective action was taken.

Reference No. 08-41

Special Tests and Provisions - Subgrant Awards

CFDA 97.008 - Urban Areas Security Initiative
Award year - December 1, 2003 - December 31, 2007
Award number - 2004-TU-T4-4013

Homeland Security Cluster
Award year - see below
Award number - see below
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Homeland Security

The Office of Management and Budget Circular A-133 Compliance Supplement specifies that states must obligate funds for subgrants within 60 days after the date of the grant award (Title III, Pub L. No. 108-90; Title III, Pub L. No. 108-334; Title III, Pub L. No. 109-90; and Title I, Chapter 6, Pub. L. 108-11, 117 Stat 583). According to the Compliance Supplement, "obligate" has the same meaning as in federal appropriations laws; there must be an action by the State to establish a firm commitment; the commitment must be unconditional on the part of the State; there must be documentary evidence of the commitment, and the award terms must be communicated to the subgrantee and, if applicable, accepted by the grantee.

CFDA 97.008 - Urban Areas Security Initiative

For all seven awards tested, the Department did not obligate the funds within the required 60-day period. The Department obligated the funds 91 days after the date of the grant award.

CFDA 97.067 - Homeland Security Cluster

For the two awards tested, the Department did not obligate the funds within the required 60-day period. The Department obligated the funds 91 and 102 days after the date of the grant award.

The Homeland Security Cluster had multiple grant subawards and award years active in fiscal year 2007 as noted below:

Award Number	Award Year
2003-MU-T3-4020	October 1, 2004 - April 30, 2007
2004-GE-T4-4015	December 1, 2003 - December 31, 2007
2005-GE-T5-4025	October 1, 2004 - December 31, 2008
2006-GE-T6-0068	June 30, 2006 - June 30, 2009

Corrective Action:

Corrective action was taken.

Reference No. 08-91
Reporting
(Prior Audit Issue 07-26)

CFDA 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters) (including CFDA 83.544)
Award year - see below
Award number - see below

CFDA 97.039 Hazard Mitigation Grant Program (including CFDA 83.548)
Award year - see below
Award number - see below
Type of finding - Significant Deficiency and Material Non-Compliance

The Department of Public Safety (DPS) must report on a quarterly basis for each Federal Emergency Management Agency (FEMA) approved project a FEMA form 20-10, Financial Status Report (OMB No. 3067-0206), per OMB A-133. A supervisor did review the report to ensure the report was complete as to the required information. Supporting documentation is not reviewed by management in sufficient level of detail to ensure the accuracy of the reports.

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of Homeland Security

CFDA 97.039 - Hazard Mitigation Grant Program

Thirty-five reports were filed during fiscal year 2007 for Hazard Mitigation. The non-federal share of a project's costs must be at least 25 percent of the expenditures. Three of the reports reflected 25 percent of the jurisdictions reward amount as the non-federal share amount instead of the actual amount matched as of the report date. During performance of subrecipient monitoring test work, invoices were selected for review and it was noted that only 75 percent of the total expenditures incurred were reimbursed to the jurisdiction by DPS.

The hazard mitigation grant has multiple grant sub awards and award years as noted below:

Disaster Number	Grant Number	Start Date
1257	FEMA-1257-DR-TX	October 21, 1998
1356	FEMA-1356-DR	January 8, 2001
1379	FEMA-1379-DR-TX	June 9, 2001
1425	FEMA-1425-DR-TX	July 4, 2002
1439	FEMA-1439-DR-TX	November 5, 2002
1434	FEMA-1434-DR-TX	September 26, 2002
1479	FEMA-1479-DR-TX	July 17, 2003
1606	FEMA-1606-DR-TX	September 24, 2005
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006
1697	FEMA-1697-DR	May 1, 2007
1709	FEMA-1709-DR	June 29, 2007

CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Fifty-seven reports were filed during fiscal year 2007 for Disaster Grants - Public Assistance and 28 were selected for test work. FEMA notifies DPS of the required non-federal share of a project's costs. For the disasters that are currently open, the non-federal share of a project's costs must be 25 percent of the expenditures, with the following exceptions: Disasters 1606, 3216 and 3261 - 0 percent non federal share. For all reports, the matching share reported on the FEMA Form 20-10 was calculated using total federal outlay amounts reported (i.e., 25 percent of the total federal amount reported) instead of based on actual costs incurred. During performance of subrecipient monitoring test work, invoices were selected for review and it was noted that only 75 percent of the total expenditures incurred were reimbursed to the jurisdiction by DPS.

The public assistance grant has multiple grant sub awards and award years as noted below:

Disaster Number	Grant Number	Start Date
1257	FEMA-1257-DR	October 21, 1998
1274	FEMA-1274-DR	May 6, 1999
1287	FEMA-1287-DR	August 22, 1999
1323	FEMA-1323-DR	April 7, 2000
1356	FEMA-1356-DR-TX	January 8, 2001
1379	FEMA-1379-DR	June 9, 2001
1425	FEMA-1287-DR	July 4, 2002
1479	FEMA-1323-DR	July 17, 2003
1606	FEMA-1606-DR	September 24, 2005
3216	FEMA-3216-DR	September 2, 2005
3261	FEMA-3261-DR	September 21, 2005
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006
1709	FEMA-1709-DR	July 13, 2007
3277	Hurricane Dean (EM)	August 18, 2007

Corrective Action:

This finding was reissued as current year finding reference number: 09-47.

Reference No. 05-38

Allowable Costs/Cost Principles
Cash Management

CFDA 20.218 - National Motor Carrier Safety
Award year - See below
Award number - See below
Type of Finding - Material Weakness Control and Material Non-Compliance

Allowable Costs:

Per OMB Circular A-87, attachment B, Section 8H, support of salaries and wages, where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation which:

Initial Year Written: 2004
Status: Partially Implemented

U.S. Department of Transportation

- Reflect an after-the-fact distribution of the actual activity of each employee,
- Account for the total activity for which each employee is compensated,
- Are prepared at least monthly and coincide with the pay period,
- Are signed by the employee, and
- Budget estimates before the services are performed do not qualify as support for charges to Federal awards but may be used for interim purposes provided that at least quarterly, comparisons of actual costs to budgeted amounts are made and any adjustments are reflected in the amounts billed to the Federal program. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent.

Two of 24 personnel activity reports did not agree to the federal reimbursement request amount. Fourteen hours in excess of the time sheets was charged to the grant. These two employees were commissioned so the rate was $31.84 an hour or $446. The questioned costs relate to MB-03-48-1 and BR-03-48-1 awards.

The timesheets were reviewed by the immediate supervisor and thus certified. The certified timesheets are used by grant accounting to manually update the grant expenditure spreadsheet that is used to prepare the cash reimbursement requests. Cash requests are reviewed based on the expense spreadsheets, however, there is no detailed review of the data input into the spreadsheet. Total salary and benefits charged to the grant was approximately $17,575,000.

Cash Management:

According to the Treasury-State Agreement for the State of Texas, the National Motor Carrier Safety grant is not included in Subpart A of 34 CFR, part 205, which implemented the Cash Management Improvement Act. Therefore The Department of Public Safety (DPS) should be complying with Subpart B, which applies to programs in the catalog of federal domestic assistance that are not subject to Subpart A. These standards state that "cash advances to a State shall be limited to the minimum amounts needed and shall be timed to be in accord only the actual, immediate cash requirement of the State in carrying out a program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the State for direct program costs and the proportionate share of allowable indirect costs. Neither a State nor the Federal government will incur an interest liability on the transfer of funds for a program subject to this Subpart." The expense spreadsheets discussed above are to be reconciled to the general ledger on a monthly basis. Sixteen reconciliations were reviewed and none of them agreed to the general ledger. Reconciliations appear to have been done at year-end only in conjunction with the preparation of the schedule of federal expenditures. Thirty expenditures were reviewed and it was determined that the invoice or payroll was paid prior to reimbursement request.

The National Motor Carrier Safety grant has multiple subawards and award years. During fiscal year 2004 the following grant award years and grant award numbers, respectively, were open: Award years: October 1, 2003 to September 30, 2004, September 1, 2003 to August 30, 2004, September 20, 1999 to September 30, 2003, October 1, 2002 to December 30, 2003, July 8, 2003 to July 8, 2004, October 1, 2002 to March 31, 2004, October 1, 2003 to December 31, 2004, March 31, 2004 to September 30, 2004, October 1, 2002, to September 30, 2004, April 1, 2003 to March 31, 2004, August 30, 2003 to September 30, 2004, September 30, 2002 to September 30, 2003, October 1, 2002 to September 30, 2004, October 1, 2003 to March 31, 2004; Award numbers: MB-03-48-1, CD-03-TX-1, MC-99-48-222, MC-01-48-222, MC-03-48-2, MC-03-48-1, MC-04-48-1, CD-02-48-2, BR-03-48-1, MH-03-48-1, MR-03-48-2, RB-02-48-01, BR-03-48-2, and MB-02-48-2.

Recommendation:

DPS should reconcile the expense spreadsheets to the general ledger on a monthly basis. These reconciliations should be reviewed by someone other than the preparer on a timely basis.

Management Response and Corrective Action Plan - Allowable Costs 2004:

DPS concurs with the above finding. We found that the two employee's reports not matching the supporting documentation related to human error from manual reporting procedures. Although the amounts involved were immaterial (approximately $70) and within acceptable margins of error we are taking steps to implement a reporting system directly from the electronic database where this information is keyed to avoid the same type of human error on future reports.

Management Response and Corrective Action Plan - Allowable Costs 2005:

DPS concurs with the above finding. We found that the one employee's reports did not match the supporting documentation. This difference is attributable to human error from manual reporting procedures. We are taking steps to implement a reporting system were all source documents will be reported in an electronic format so we can avoid the same type of human error on future reports.

Management Response and Corrective Action 2006 - Allowable Costs 2006:

DPS concurs with the finding above. There has been no significant change in the way that the employee hours are tallied from their weekly activity reports in order to determine the number of hours that will be submitted to the Federal Motor Carrier Safety Administration. The process remains manual. DPS continues to conduct self audits on this process to ensure accuracy.

The computer programming needed to make this process entirely electronic is nearing completion. System testing should begin in Spring 2007 and we are hopeful that the process will be converted over to electronic reporting by Summer 2007. Under this system, employee weekly reports (source documents) will be electronically transferred from field locations to the Motor Carrier Bureau database. Queries of the database will be run in order to pull out the hours that are eligible for reimbursement, thus eliminating the current manual counts. A summary document will then be certified by the Manager, Motor Carrier Bureau, and transmitted to Accounting so that an invoice can be prepared and submitted to FMCSA for reimbursement.

Management Response and Corrective Action 2007 - Allowable Costs 2007:

DPS continues to concur with the original audit findings from 2004. The Texas Highway Patrol (THP) Division has been working with the Divisions' IT Contractor to develop a reporting system where all source documents (i.e., employee weekly activity reports) for determining allowable costs eligible for reimbursement under the applicable Federal Grant Program are reported in an electronic format. Progress has been made in this effort with the completion of a look-up table that identifies which CVE Service employees are eligible to submit hours for reimbursement under the Motor Carrier Safety Assistance Program Grant. However, the necessary data links that will extract the needed data from the source documents have not been completed as yet by the contractor. At present, the contractor has limited manpower to devote to this project due to other higher priority THP Division projects. Therefore, the status of this recommendation remains as partially implemented. The process for tallying employee hours for reimbursement under the allowable cost provisions of the applicable OMB Circulars remains manual with the DPS conducting self audits to ensure accuracy.

Additionally, the State Programs Manager for the Texas Division of the Federal Motor Carrier Safety Administration (FMCSA) conducts periodic audits of our reimbursement voucher requests under the various FMCSA grants that have been awarded to the DPS. These audits have been satisfactory without any financial discrepancies being reported to the DPS concerning allowable costs that the Department has sought reimbursement for under the applicable FMCSA Grant Program.

Management Response and Corrective Action 2008 - Allowable Costs 2008:

DPS continues to concur with the original audit findings from 2004. The Texas Highway Patrol (THP) Division continues to work with the Divisions' IT Contractor to develop a reporting system where all source documents (i.e. employee weekly activity reports) for determining allowable costs eligible for reimbursement under the applicable Federal Grant Program are reported in an electronic format. Progress has been made in this effort with the completion of a look-up table that identifies which CVE Service employees are eligible to submit hours for reimbursement under the Motor Carrier Safety Assistance Program Grant. However, the necessary data links that will extract the needed data from the source documents have not been completed by the contractor. The contractor has limited manpower to devote to this project due to other higher priority THP Division projects. Therefore, this recommendation remains partially implemented. The contractors currently estimate this electronic process to be fully implemented by December 2009, provided there are no unexpected delays. The process for totaling employee hours for reimbursement under the allowable cost provisions of the applicable OMB Circulars remains manual with the DPS conducting self audits to ensure accuracy.

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In addition, the State Programs Manager for the Texas Division of the Federal Motor Carrier Safety Administration (FMCSA) continues to conduct periodic audits of our reimbursement voucher requests under the various FMCSA grants that have been awarded to the DPS. These audits have been satisfactory without any financial discrepancies being reported to the DPS concerning allowable costs that the Department has sought reimbursement for under the applicable FMCSA Grant Program.

Implementation Date: *December 2009*

Responsible Person: *Major David L. Palmer, THP Division*

Management Response and Corrective Action Plan - Cash Management 2004:

DPS concurs with the finding above. We are implementing new procedures and hiring additional personnel to address the issues identified above.

Management Response and Corrective Action Plan - Cash Management 2005:

DPS concurs with the finding above. The attempts to hire personnel solely responsible for the reconciliation process were not successful. Management has decided to restructure the department and add the additional responsibilities of reconciliations to the six Grant Accountants. The Accountants will have one set of assigned programs they will be responsible for auditing and billing. A separate set of programs will require reconciling to the internal accounting system (MSA) and the Uniform State Wide Accounting System (USAS). The reclassification for this job function change is currently in the Human Resources Department pending approval.

Management Response and Corrective Action 2006 - Cash Management 2006:

The approved reclassification for the Grant Accountant positions was received 09/30/06. These positions were filled in November 2006. We will be implementing monthly reconciliations on the MCSAP programs this Fiscal Year.

Management Response and Corrective Action 2007 - Cash Management 2007:

Procedures and training for monthly reconciliations began in January 2007. During FY07 we were able to reconcile 50% to 75% of the Motor Carrier programs on a quarterly basis with 100% reconciled in the 4th quarter before the Annual Financial Report was completed. There will be 100% monthly reconciliations in FY08.

Management Response and Corrective Action 2008 - Cash Management 2008:

The procedures and training that was implemented in 2007 made it possible to reconcile Motor Carrier Programs on a monthly basis 50% to 75% of the time. In 2008 we were able to complete monthly reconciliations 75% of the time. In an attempt to reach our goal of 100% monthly reconciliations, we are training the Grant Accountants to reconcile their programs as part of the monthly billing process. The Assistant Grant coordinators for each section will review and approve the reconciliations. The Grant Coordinator will perform additional reviews each quarter to ensure compliance.

Implementation Date: *January 2009*

Responsible Person: *Janet L. Espinosa*

Sul Ross State University

Reference No. 07-43

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award Year - July 1, 2005 to June 30, 2006
Award Number - CFDA 84.032 Award Number Not Applicable, CFDA 84.038 Award Number Not Applicable
Type of Finding - Material Weakness Control and Material Non-Compliance

Disbursement Notifications

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of Education

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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).

Sul Ross State University (University) did not send disbursement notifications to all 33 students tested. The University was unaware of the requirement and did not send notifications to FFELP fund recipients for the Fall 2005 and Spring 2006 semesters. Although the University created a program in late Spring 2006 to correct this deficiency, a significant portion of financial aid disbursements for the Fall 2005 and Spring 2006 semesters had already occurred. The University began sending disbursement notifications during the first session of the Summer 2006 semester. Per the Schedule of Expenditures of Federal Awards for the year ended August 31, 2006, the University disbursed $8,384,995 in FFELP loans during fiscal year 2006.

Corrective Action:

This finding was reissued as current year reference number: 09-50.

Texas A&M Health Science Center

Reference No. 08-42
Eligibility

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

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Education

The determination of the federal student assistance award amount is based on financial need. Financial need is defined as the student's cost of attendance minus the expected family contribution (EFC). For Title IV programs, the amount of financial resources available is generally the EFC that is computed by the federal central processor and included on the student's Institutional Student Information Report (ISIR) provided to the institution. Awards must be coordinated among the various programs and with other federal and non-federal assistance to ensure that total assistance is not awarded in excess of the student's financial need (Federal Perkins Loan, Federal Work Study, and Federal Supplemental Educational Opportunity Grant, Title 34, Code of Federal Regulations, Sections 673.5 and 673.6; Federal Family Education Loans, Title 34, Code of Federal Regulations, Section 682.603).

The phrase "cost of attendance" refers to the "tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." Institutions also may include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087ll).

For its Graduate School of Public Rural Health Program, Texas A&M Health Science Center (Health Science Center) estimates a student's cost of attendance based on half-time enrollment for each semester a student is enrolled, regardless of the number of hours in which the student is actually enrolled. As a result, if a student is enrolled in more than a half-time course load, the student's cost of attendance and financial need are understated. The understatement of financial need could result in the student not receiving aid for which he or she is eligible.

The Health Science Center incorrectly calculated the cost of attendance for 4 (10 percent) of 40 students tested.

Recommendation:

The Health Science Center should determine each student's cost of attendance and financial need based on the student's actual enrollment status.

Management Response and Corrective Action Plan 2007:

At the time students are awarded the Office of Student Financial Aid does not know the number of hours that a student in the School of Rural Public Health will actually attempt. As noted in your finding, 36 out of 40 students were enrolled as half-time students. Our statistics show that the average number of hours attempted by an SRPH student is 7.87 hours per term which is half-time attendance. The decision was made to award students as half-time to prevent the over-awarding and over-payment of federal aid. Any student enrolling as a full-time student who needs additional assistance would always receive a revised award package if requested.

To ensure that awards to SRPH students more accurately reflect their eligibility, a review of award packages will be made after enrollment to determine their accuracy. Affected students will be notified and award packages will be revised if the student so desires.

Management Response and Corrective Action Plan 2008:

At the time of our initial response we indicated that the change would be made in January of 2008 and that has been done. It was implemented with the packaging of awards for students for the 2008-2009 award year, beginning with the summer of 2008. We also made sure to verify that any student from the School of Rural Public Health who requested additional funds received an audit of their file to determine that the appropriate budget was used and that the student was not over or under awarded to be in compliance with federal guidelines.

Our budgets are required to be approved by the Texas Higher Education Coordinating Board each year. The THECB requires that graduate budgets use 10 hours as the standard. We are in compliance and using the 10 hour budget for all of our SRPH students for the 2008-2009 award year.

Implementation Date: *January 2008*

Responsible Person: *Harold Whitis*

Reference No. 08-43

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
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Education

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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).

Texas A&M Health Science Center (Health Science Center) did not include in its disbursement notifications to FFELP loan recipients, the right to cancel, nor the timeframes or procedures by which the students or parents must notify the institution that they wish to cancel the loan or loan disbursement.

Recommendation:

The Health Science Center should include required cancellation information in its disbursement notifications to FFELP loan recipients.

Management Response and Corrective Action Plan 2007:

The requirement to notify a student only applies if the funds are disbursed by electronic funds transfer payment or master check. The Office of Student Financial Aid has always sent timely notifications to students but when we began using EFT in the fall of 2004, the requirement to notify students of the right to cancel and the correct procedure and timeline were not added to the notification.

The Office of Student Financial Aid concurs with the State Auditor's finding. When this omission was discovered during the State Auditor's visit to our campus, the notification was immediately revised to include the required information to students.

Management Response and Corrective Action Plan 2008:

During the June 2007 audit, it was noted by the State Auditor's Office (SAO) that the required student notification was omitted from the letters distributed by the Financial Aid Office in College Station. The change was made to the letter in June 2007 as the

Corrective Action Plan indicated and no errors were noted for College Station students in the SAO follow-up audit. The follow-up audit did note that the timeline for cancelling a loan was not in the required student notification sent to students from the Financial Aid Office in Dallas.

As of September 2008, all of the Financial Aid Office employees now report to the Executive Director of Student Financial Aid in College Station and processes are being reviewed and standardized. The change to the Dallas letter was made on December 9, 2008, when notified of the error by the SAO.

The Texas A&M Health Science Center is also implementing a new student information system called BANNER that will automate the required notification to all students. This implementation will be effective for the 09-10 academic year, which includes students enrolling in June of 2009.

Implementation Date: *December 2008*

Responsible Person: *Harold Whitis*

Texas A&M University

Reference No. 08-44
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2006 to June 30, 2007
Award number - CFDA 84.007 P007A064136
Type of finding - Significant Deficiency and Non-Compliance

Federal Supplemental Educational Opportunity Grants Awarded to Students without Pell Grants

In selecting among eligible students for Federal Supplemental Educational Opportunity Grant (FSEOG) awards in each award year, an institution must select those students with the lowest expected family contributions (EFC) who will also receive federal Pell Grants in that year. (Title 34, Code of Federal Regulations, Section 676.10(a) (1)).

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

Two judgmentally selected students at Texas A&M University (University) received FSEOG but did not receive any Pell Grant awards. The University made a manual entry error while processing the awards and used incorrect fund codes. Specifically, it used (1) the FSEOG fund code instead of the Aggie State Grant fund code for one student and (2) the FSEOG fund code instead of the Education Excellence Scholarship fund code for the other student.

FSEOG Underawarded

An institution may award FSEOG for an academic year in an amount it determines a student needs to continue his or her studies. However, FSEOG may not be awarded for a full academic year in an amount that is less than $100 or more than $4,000 (Title 34, Code of Federal Regulations, Section 676.20(a) (1)).

One judgmentally selected student at the University received less than the minimum amount of FSEOG. The student received an additional scholarship, and the University reduced the FSEOG amount accordingly to avoid any overawards. However, the University's Financial Aid System did not identify this because the University had incorrectly set up the minimum award limit as "$1" in the Financial Aid System instead of "$100." As a result, the Financial Aid System allowed the University to award less than the minimum amount of FSEOG to the student.

Corrective Action:

Corrective action was taken.

Reference No. 08-45

Special Tests and Provisions - Return of Title IV Funds

Student Financial Assistance Cluster
Award year - July 1, 2006 to June 30, 2007
Award number - CFDA 84.032 Award Number Not Applicable, CFDA 84.038 Award Number Not Applicable (No 2006 Award)
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Education

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV assistance earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs and no additional disbursements may be made to the student for the payment period or period of enrollment. If the amount the student earned is more than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (Title 34, Code of Federal Regulations, Section 668.22(a) (1)-(4)).

Returns of Title IV funds are required to be deposited or transferred into the student financial aid account or electronic fund transfer must be initiated to the U.S. Department of Education or the appropriate Federal Family Education Loan (FFEL) lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew (Title 34. Code of Federal Regulations, Section 668.173(b)).

For 2 of 50 (4 percent) students tested at Texas A&M University (University), the University incorrectly filled out the Return of Title IV Funds form. For one student, the University reported an incorrect withdraw date on the form, and this resulted in the University returning $175 less than it should have returned. However, the University returned that amount during this audit. For the other student, the University reported the amount disbursed to the student in the amount awarded column on the form. This led the University to not return any funds, when it should have returned $216. However, the University returned that amount during this audit.

For 1 of 50 (2 percent) students tested, the University returned funds after the allowed 45 days. Specifically, the University returned funds 61 days after the student withdrew.

There is no 2006 award number for Perkins Loans because the University did not draw new funds.

Corrective Action:

This finding was reissued as current year reference number: 09-51.

Reference No. 08-46

Special Tests and Provisions - Student Status Changes

(Prior Audit Issue 07-47)

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

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of Education

Unless an institution expects to submit its next student status confirmation report to the Secretary of the U.S. Department of Education or the guaranty agency within the next 60 days, it must notify the guaranty agency or lender within 30 days, if it (1) discovers that a Stafford Loan, Supplemental Loan for Students (SLS), or Parent Loans for Undergraduate Students (PLUS) has been made to or on behalf of a student who enrolled at that institution, but who has ceased to be enrolled on at least a half-time basis; (2) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that institution, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (3) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (4) discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address (Title 34, Code of Federal Regulations, Section 682.610(c)).

Texas A&M University (University) uses the services of the National Student Clearinghouse (NSC) to report student status changes to the National Student Loan Data System (NSLDS). Under this arrangement, the University reports all students enrolled and their status to NSC, regardless of whether those students receive federal financial assistance. NSC then identifies any changes in status and reports those changes when required to the respective lenders and guarantors. Additionally, NSC completes the roster file on the University's behalf and communicates status changes to NSLDS as applicable. Although the University uses the services of NSC, it is still the University's responsibility to submit timely, accurate, and complete responses to roster files and to maintain proper documentation (NSLDS *Enrollment Reporting Guide*, Chapter 3.1.1.3).

Auditors identified the following errors regarding student status changes:

- Three of 50 (6 percent) students tested graduated after the Spring 2007 semester, but this information was not reflected in NSLDS.

- One of 50 (2 percent) students tested changed to half-time status, but this information was not reflected in NSLDS. However, this student graduated after the Spring 2007 semester, and this information was reflected in NSLDS.

- Four of 50 (8 percent) students tested had status changes that were not reported to lenders, servicers, and guarantors.

- Twelve of 50 (24 percent) students tested had status changes that were not reported to the NSLDS within 60 days of the date of change.

Corrective Action:

This finding was reissued as current year reference number 09-52

Texas A&M University - Commerce

Reference No. 06-44

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2004 to June 30, 2005
Award number - Not Applicable for CFDA 84.032, CFDA 84.038, or CFDA 84.268
Type of finding - Reportable Condition Control and Material Non-Compliance

Initial Year Written: 2005
Status: Implemented

U.S. Department of Education

If an institution credits a student's account at the institution with Direct Loan, Perkins, or Federal Family Education Loan Program (FFELP) funds, no earlier than 30 days before and no later than 30 days after crediting the student's account at the institution, the institution must notify the student or parent of (1) the date and amount of the disbursement and (2) the student's 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. The requirement of FFELP funds applies only if the funds are disbursed by electronic funds transfer payment or master check (per Title 34, Code of Federal Regulations, Section 668.165).

Of the 40 disbursements tested at Texas A&M University - Commerce (University), none of the students received notification of the date and amount of award disbursement along with the right to cancel all or a portion of the loan. However, the University sends award letters instructing students to accept or reject the awarded amount within 14 days of the letter. The University also sends bulletins informing students that the University will begin disbursing assistance seven days before classes start. As reported in the Schedule of Expenditures of Federal Awards for 2004-2005, the University awarded $26,989,199 in Direct loans, Perkins loans, and FFELP loans.

Corrective Action:

Corrective action was taken.

Texas A&M University - Kingsville

Reference No. 08-47
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2006 to June 30, 2007
Award number - CFDA 84.063 Award Number P063P062325, CFDA 84.007 Award Number P007A064135
Type of finding - Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

Pell Grant Award Amounts for Certain Students Were Less than the Minimum Amount Required

The minimum Pell grant award amount a student can receive is $200 if the student is enrolled three-quarters time in any long semester in an academic year.

Six of the 75 judgmentally selected students at Texas A&M University - Kingsville (University) received less than the minimum amount in Pell grant awards. The University's financial aid system (Banner) erroneously computed the Pell grant award amounts for these six students. The reason for the under-award was a software error in the Pell award module in Banner. The error affected only these specific cases.

Certain Students Received Federal Supplemental Educational Opportunity Grants without Receiving a Pell Grant

In selecting eligible students for Federal Supplemental Educational Opportunity Grants (FSEOG), institutions must select students with the lowest expected family contributions who will also receive Pell grants in that year (Title 34, Code of Federal Regulations, Section 676.10).

Two of the 75 judgmentally selected students at the University received FSEOG but did not receive Pell grant awards for the Spring 2007 semester. This situation also was due to an error associated with the Pell module in Banner. Pell Grants are packaged using a special module. Other grants and loans use the general packaging program. FSEOG was correctly awarded to these Pell-eligible students, but the separate Pell module failed to package those students for Pell.

Certain Title IV Funds Were Not Returned

When the recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance the student earned. Any difference between the amount earned and the amount that was disbursed to the student must be returned to the Title IV programs (Title 34, Code of Federal Regulations, Section 668.22).

One of the 75 judgmentally selected students at the University dropped classes after receiving a Pell grant and FSEOG. The Pell grant was returned as required, but the required portion of the FSEOG was not returned. According to the Return of Title IV Funds form, the unearned grant amount that the student was required to return was $121.42.

Corrective Action:

Corrective action was taken.

Reference No. 08-48

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 and CFDA 84.038 Award Number Not Applicable
Type of Finding - Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (FFELP) funds, 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 loan 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 all or a portion of the loan or loan disbursement. The requirement for FFELP loans applies only if the funds are disbursed by Electronic Funds Transfer or master check. The notification can be in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

The disbursement notification letters that Texas A&M University - Kingsville (University) used included information on the right to cancel loans, either in full or in part, including corresponding procedures and timelines by which the student or parent must notify the institution that he or she wishes to cancel the loan. However, the University's notification letters did not include the date and amount of the disbursement.

Additionally, the University did not send disbursement notifications to FPL recipients for the Fall 2006 or Spring 2007 semesters. The University was unaware that the requirement applied to FPL funds.

Corrective Action:

Corrective action was taken.

Texas A&M University - Texarkana

Reference No. 08-49

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 84.007 Award Number Not Applicable, CFDA 84.032 Award Number Note Applicable, CFDA 84.063 Award Number Not Applicable
Type of finding - Significant Deficiency

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

Institutions are required to maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300(b)).

Texas A&M University - Texarkana (University) does not have appropriate controls over access to its Student Information System (System). Four employees within the Financial Aid Office had the same level of access as the Director of Financial Aid. This access level allows employees to award and disburse funds into student accounts and modify key tables within the System. In addition, an individual who was no longer employed by the University continued to have active access to the System.

The University does not review access to the System on a regular basis, which increases the risk of unauthorized access to the System.

After auditors discussed these issues with the University, the University took corrective action.

Corrective Action:

Corrective action was taken.

Texas Higher Education Coordinating Board

Reference No. 08-50
Special Tests and Provisions - ED Form 799
(Prior Audit Issue 07-49)

CFDA 84.032 - Federal Family Education Loans (FFEL) - Lender
Award year - July 1, 2006 to June 30, 2007
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2006
Status: Implemented

U.S. Department of Education

For lenders to receive payments of interest benefits and special allowance, they must submit a quarterly *Lender's Interest and Special Allowance Request and Report* (LaRS report) to the U.S. Department of Education (Department). The LaRS report is also used to report origination fees collected on new loans. In addition, other information on the Federal Family Education Loan Program (FFELP) portfolio must be reported to assist the Department in proper management of the FFELP. Parts IV and V of the LaRS report contain information regarding the changes to the guaranteed loan balances during the quarter and the analysis of the status of ending balances of all applicable accounts, including past due accounts (*Compliance Audits [Attestation Engagements] For Lenders and LenderServicers Participating in the Federal Family Education Loan Program*, Section II.1; Title 34, Code of Federal Regulations, Section 682.305(a); *Common Manual Unified Student Loan Policy*, Section A.3.B).

Auditors identified the following issues:

- The Texas Higher Education Coordinating Board (Coordinating Board) determined that its Higher Education Loan Management System (HELMS) incorrectly calculated special allowance prior period adjustments, and it did not include any special allowance prior period adjustments on the LaRS report for the quarter ending June 30, 2007. The Coordinating Board expects to correct these programming issues by the quarter ending March 31, 2008.

- When performing testing for due diligence in collection of delinquent loans for the three quarters ending March 31, 2007, auditors determined that the Coordinating Board incorrectly included loan amounts in Part V of its quarterly LaRS reports for (1) 2 of 37 (5 percent) loans tested with delinquency fewer than 271 days and (2) all of the 15 judgmentally selected student loans selected from the "over 270 days past due" category. These students were not included on the Coordinating Board's past due list, which indicated that their loans were not in the current due diligence cycle. For these loans, no further collection efforts were required because a claim had already been paid, a suit had been filed, or the borrower was in bankruptcy. Loans that are not in the current due diligence cycle are not guaranteed. As a result, these loans should not have been reported. The loans were reported as a part of the Coordinating Board's loans in repayment or in forbearance. None of these accounts received special allowance payments in the year starting July 1, 2006, but the programming of quarterly reports used to produce the LARS report prior to the conversion to HELMS on April 1, 2007, had not been modified to ensure that only the accounts reported in the SAP section were included in Part V of the LaRS.

- When performing testing related to Part III (Special Allowance) of the LaRS report for the quarter ending June 30, 2007, auditors determined that the Coordinating Board omitted to report to the Department certain loans that were included under invalid special allowance category combinations in HELMS. The invalid combinations included the "XF," "SU XJ 0.06," "SU XB 0.07," "SF XM 0.06," and "SU XM 0.06" categories. The ending principal balances of these loans totaled $112,841.

- When performing testing related to Part IV (Loan Activity) of the LaRS report for the quarter ending June 30, 2007, auditors determined that the Coordinating Board incorrectly included capitalized interest on 8 of 10 (80 percent) loans judgmentally selected from the "Capitalized Interest and Other" category. This occurred because of a HELMS conversion issue that resulted in overstated special allowance average daily balances in Part III of the LaRS. The Coordinating Board corrected this issue in August 2007 and will report related special allowance payment adjustments in the quarter ending March 31, 2008. The Coordinating Board also incorrectly reported two claims paid totaling $31,232.80 in the "Borrower repayment" category, but this error did not result in any questioned costs.

- When performing testing related to Part V (Loan Portfolio Status) of the LaRS report for the quarter ending June 30, 2007, auditors determined that the Coordinating Board incorrectly classified 4 of 10 (40 percent) judgmentally selected claims filed during quarter ending June 30, 2007 in the "Over 270 days past due" category."

  In addition, 4 of 15 (27 percent) loans judgmentally selected from the "Over 270 days past due" category should have been classified as "Claims filed." These loans were 333 and 345 days delinquent. The Coordinating Board manually enters the claim's submittal date in HELMS. The claims that were incorrectly classified were filed in June 2007, but their submittal dates were not entered into HELMS until after June 30, 2007. These classifications errors did not result in any questioned costs. However, 9 of 15 loans judgmentally selected from the "Over 270 days past due" category were not in the current due diligence cycle because a claim had already been paid or a suit had been filed. These accounts were more than 400 days past due and received special allowance payments in the quarter ending June 30, 2007. The principal balances of loans more than 400 days past due reported in the "0ver 270 days past due" category totaled $136,715.

  In addition, all 4 student accounts judgmentally selected from the "Claims filed" category with past due days exceeding 400 were no longer in the current due diligence cycle, but the Coordinating Board reported them on Part III of the LaRS in quarter ending June 30, 2007. The principal balances of accounts more than 400 days past due reported in the "Claims filed" category totaled $571,512. These issues are partly due to the incomplete status of the Coordinating Board's corrective action on a finding identified in the prior fiscal year; they are also partly due to a HELMS conversion issue because some of these accounts correctly identified in HELMS with a "permanent void" flag still received special allowance payments.

The Coordinating Board has corrected the interest capitalization error and requested HELMS program modifications to ensure that it (1) reports only valid special allowance categories in Part III of the LaRS, (2) correctly reports special allowance prior period adjustments starting with the quarter ending March 31, 2008, and (3) removes accounts already identified as "permanent voids" in HELMS from the LaRS and processes related special allowance prior period adjustments.

Corrective Action:

Corrective action was taken.

Reference No. 08-51

Special Tests and Provisions - Special Allowance Payments

(Prior Audit Issues 07-51, 06-46, 06-47, and 06-48)

CFDA 84.032 - Federal Family Education Loans (FFEL) - Lender
Award year - July 1, 2006 to June 30, 2007
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Material Weakness and Material Non-Compliance

Incorrect Reporting of Special Allowance Payments

Initial Year Written: 2005
Status: Partially Implemented

U.S. Department of Education

The U.S. Department of Education (Department) pays a quarterly compensating special allowance to the lender/servicer on the average unpaid daily loan principal balances of eligible Federal Family Education Loan Program (FFELP) loans. The lender/servicer bills the Department on a quarterly basis for special allowance payments (SAP) through Part III of the *Lender's Interest and Special Allowance Request and Report* (LaRS report). The lender/servicer must separate loans according to loan type, applicable interest rate, and special allowance category, and the lender/servicer must provide the sum of average daily balances for each loan within these groups. The Department then calculates a special allowance per category. SAP categories are defined by the Department according to the type of loan; the date the loan was disbursed; the loan period; and, in some cases, the number of quarters for which the loan has been outstanding or the loan's status (in-school, grace, deferment, or repayment) (Title 34, Code of Federal Regulations, Section 682.302 (c)).

The lender/servicer also must report the status and balance of each FFELP loan held and make any adjustments to submissions covering earlier quarters. The Department's obligation to pay a special allowance for an eligible loan ends on the earliest of the following dates, as applicable: the date the loan is repaid; the date the lender receives a claim payment on the loan; the date the loan ceases to be guaranteed or loses its re-insurability; 60 days after the date the borrower defaulted on the loan, unless the lender files a claim with the guarantor before the 60th day; and other dates, as applicable, as outlined in Title 34, Code of Federal Regulations, Section 682.302(d).

The Texas Higher Education Coordinating Board (Coordinating Board) inappropriately reported SAP on 3 of 50 (6 percent) loans tested. Specifically:

- The Coordinating Board reported one loan with an inflated average unpaid daily loan principal balance. This occurred because of incorrect capitalization of interest on the loan when it was converted from the Coordinating Board's former mainframe system to its new Higher Education Loan Management System (HELMS). This resulted in an incorrect SAP calculation.

- The Coordinating Board inappropriately reported and collected SAP during the quarter ending June 30, 2007, on one loan that was no longer guaranteed. The Coordinating Board reported this loan correctly in its former mainframe system as a temporarily void account until the quarter ending March 31, 2007. However, the loan was incorrectly converted to "active billing, previously suspended" status in HELMS at the beginning of the quarter ending June 30, 2007. This occurred because of a manual processing error.

- The Coordinating Board incorrectly classified one loan's entire balance and reported it in SAP category "XJ EVAR" based on the loan's deferment status for the entire quarter ending June 30, 2007. Only a portion of that loan should have been assigned to the "XK EVAR" category. The category classifications depend on characteristics such as loan status, source of loan funds, disbursement dates, and rates of interest. The loan's deferment period ended on December 14, 2006, and the loan should have been converted to a repayment status on June 15, 2007. The Coordinating Board did not schedule the loan for repayment in HELMS.

The error related to the first of the three loans discussed above occurred because of a systematic error that the Coordinating Board corrected in the following quarter ending September 30, 2007. The Coordinating Board indicated it will report related SAP adjustments on the LaRs for the quarter ending March 31, 2008. This issue affected several loans, as noted in more detail below. The error on the other two loans discussed above occurred because of manual processing errors made during the conversion to HELMS. The Coordinating Board corrected these errors in quarter ending December 31, 2007.

Loan Balances Ineligible for Special Allowance Payments

The Coordinating Board continued to report and collect SAP on loan disbursements that were ineligible for SAP due to their status. These included disbursements associated with borrowers who were in judgment or disbursements for which a claim had been filed. The Coordinating Board planned to complete all research on these items and make any necessary adjustments on or before December 31, 2007.

Prior Period Adjustments

The Coordinating Board did not report SAP prior period adjustments to the Department for the quarter ending June 30, 2007. The Coordinating Board determined that some of these adjustments were calculated incorrectly because account histories were missing from HELMS, and it decided to omit them from the LaRS report until the programming issues were corrected. The Coordinating Board also omitted SAP prior period adjustments from the LaRS report for quarter ending September 30, 2007, but it expects to complete corrective action for the quarter ending March 31, 2008.

Corrective Action:

This finding was reissued as current year reference number: 09-57.

Reference No. 08-52

Special Tests and Provisions - Student Status Changes

(Prior Audit Issues - 07-52 and 06-45)

CFDA 84.032 - Federal Family Education Loans (FFEL) - Lender
Award year - July 1, 2006 to June, 30 2007
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency Control and Non-Compliance

Initial Year Written: 2005
Status: Partially Implemented

U.S. Department of Education

Federal regulations require that, after the Texas Higher Education Coordinating Board (Coordinating Board) is notified of a student status change, it must use that information to make proper adjustments to each loan in a timely manner. For purposes of this requirement, "timely" means adjustments are made in time to satisfy the time requirements outlined in Title 34, Code of Federal Regulations, Section 682.209, for converting and beginning the collection of loans. The accuracy of billings for interest benefits and special allowance payments, and the timely conversion of loans to repayment status, depend on the timely and accurate processing of student status changes.

The Texas Guaranteed Student Loan Corporation (TGSLC) and the National Student Clearinghouse (NSC) communicate student status changes to the Coordinating Board on a weekly basis. The Coordinating Board downloads electronic files from TGSLC and NSC each week for processing. Processing includes reviewing the downloaded information for each student and determining whether the downloaded information is more accurate than the Coordinating Board's records. Occasionally, students or institutions will have already contacted the Coordinating Board directly with information. If it is determined that an update is necessary, the Coordinating Board staff manually input the change.

The Coordinating Board did not process 4 of 50 (8 percent) enrollment reports tested in a timely manner in accordance with regulations. In all four instances, the Coordinating Board did not update the reports because staff believed that because the students were current on their loan payments, the enrollment status changes were not necessary. Therefore, the Coordinating Board overlooked current information regarding the students' separation dates and did not update this information in its records.

In addition, the Coordinating Board did not update 1 of 50 (2 percent) enrollment reports tested in its Higher Education Loan Management System (HELMS). The student was incorrectly reported as a full-time student in repayment status, but the student's correct status was half-time in deferment status. This error was caused by an error in manual data entry.

Corrective Action:

This finding was reissued as current year reference number: 09-58.

Reference No. 08-53

Special Tests and Provisions - Due Diligence by Lenders or Servicers in the Collection of Delinquent Loans

CFDA 84.032 - Federal Family Education Loans (FFEL) - Lender
Award year - July 1, 2006 to June 30, 2007
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Education

A lender is required to maintain complete and accurate records of each loan that it holds. In determining whether the lender met the due diligence compliance requirements pertaining to collection of delinquent loans, the documentation maintained must include a collection history showing the date and subject of each communication between the lender and the borrower or endorser relating to collection of a delinquent loan; each communication (other than regular reports by the lender showing that an account is current) between the lender and a credit bureau regarding the loan; each effort to locate a borrower whose address is unknown at any time; and each request by the lender for default aversion assistance on the loan (Title 34, Code of Federal Regulations, Section 682.414(a)(4)).

Auditors could not determine whether the Texas Higher Education Coordinating Board (Coordinating Board) followed all borrowers' delinquency procedures (1) for 3 of 37 (8 percent) students tested in the three quarters ending March 31, 2007 and (2) for 9 of 13 (69 percent) students tested in quarter ending June 30, 2007. Auditors could not determine this because supporting call sheets were not available to test. Although the corresponding due diligence call codes were documented in the Coordinating Board's new Higher Education Loan Management System (HELMS), call sheets were not generated from April 2007 through July 2007 because of problems within HELMS.

Corrective Action:

This finding was reissued as current year reference number: 09-59.

Reference No. 08-54

Special Tests and Provisions - Cures

(Prior Audit Issues 07-53 and 06-49)

CFDA 84.032 - Federal Family Education Loans (FFEL) - Lender
Award year - July 1, 2006 to June 30, 2007
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2005
Status: Partially Implemented

U.S. Department of Education

A lender requests payment of interest benefits and special allowance for eligible loans by billing the U.S. Department of Education (Department) at the end of each calendar quarter. The lender does this by submitting a *Lender's Interest and Special Allowance Request and Report* (LaRS report). A lender is prohibited from billing for federal interest benefits and special allowance payment on loans that are not eligible for federal reinsurance coverage. It is the lender's responsibility to repay immediately all federal interest benefits and special allowance payments on a loan that is, or was, ineligible to receive payments (Common Manual, Unified Student Loan Policy, Appendix A.3). A lender may have the guarantee on a loan reinstated by curing the applicable violation. Upon reinstatement of a loan's guarantee, the lender is again eligible to receive claim payments, interest benefits, and special allowance payments on the loan; the lender is ineligible to receive these payments from the date of the first unexcused violation to the date of the cure (Common Manual, Unified Student Loan Policy, Section 14.5). A lender must comply with the cure procedures in Title 34, Code of Federal Regulations, Part 682, Appendix D, for loans with due diligence or timely filing violations and related cure information must be accurately reported on the LaRS report.

The Texas Higher Education Coordinating Board (Coordinating Board) did not accurately classify all cures and pending cures in its system and incorrectly reported them on the LaRS report for the quarter ending June 30, 2007. It incorrectly classified 2 of 5 (40 percent) loans it reported on part IV of the LaRS report as guarantee voided (pending cures). One of these loans should not have been reported on the LaRS report because the account became permanently uninsured during the quarter. This occurred because of a manual processing error that was corrected at the beginning of the following quarter. The other loan should have been classified as a cure. This occurred because of a lack of timeliness in identifying cures in the Coordinating Board's new Higher Education Loan Management System (HELMS).

In addition, 1 of 14 (7 percent) pending cures tested in the first three quarters ending March 31, 2007, was not correctly adjusted on the LaRS report to rebate special allowance payments (SAP) during the cure process. A prior period adjustment from the December 15, 2005, violation date to September 30, 2006, should have been processed in the quarter ending December 31, 2006. The Coordinating Board did not correct this error in the quarter ending June 30, 2007 (the Coordinating Board did not report SAP prior period adjustments to the U.S. Department of Education for that quarter). Similarly, SAP prior period adjustments related to new pending cures identified in quarter ending June 30, 2007, also were not reported to the Department. This occurred because of HELMS conversion issues.

During fiscal year 2007, the Coordinating Board was in the process of changing from an old automated system to HELMS. During that period, there were errors that the Coordinating Board believed could have been caused by that transition to HELMS. The Coordinating Board has established a March 2008 target date to have all system-related errors corrected.

Corrective Action:

This finding was reissued as current year reference number: 09-60.

Texas Southern University

Reference No. 08-55
Cash Management

Student Financial Assistance Cluster
Award year - July 1, 2006 to July 30, 2007
Award number - P033A064145 (FWS)
Type of finding - Material Weakness and Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

The U.S. Department of Education (Department) provides funds to an institution under the advance, reimbursement, just-in-time, or cash monitoring payment methods. Under the reimbursement payment method, the institution must make disbursements to students and parents for the amount of funds those students and parents are eligible to receive under the federal Pell grant program, the federal Academic Competitiveness Grant (ACG) program, the national Science and Mathematics Access to Retain Talent (SMART) grant program, Direct Loan program, and campus-based programs before it may seek reimbursement from the Department for those disbursements. The Department considers an institution to have made a disbursement if the institution has either credited a student's account or paid a student or parent directly with its own funds. (Title 34, Code of Federal Regulations, Section 668.162)

For Federal Work Study (FWS) funds, an institution must time its draw downs to coincide with its payroll dates. An institution must calculate the amount of federal funds needed to meet payroll for a given pay period and draw down only the appropriate federal share of wages to be paid. Student wages must be paid within three business days of the date federal funds are received. (*Blue Book*, October 2005, Chapter 18, page 2-193).

Texas Southern University (University) requested to draw down the remainder of its FWS fund authorization on August 28, 2007. At the time of the drawdown, the University had not disbursed $140,174 to FWS students. A reconciliation of the FWS fund usage provided by the University shows that $113,913 was transferred to the 2007-2008 FWS fund, for which auditors were not able to obtain the supporting student disbursement detail and $26,261 remained available.

In addition, the University's supporting documentation was incomplete for all August and September 2007 drawdown requests, and the supporting documentation did not include any general ledger expenditure information. Auditors were able to verify from other sources that all but one of these draw downs were appropriate. For most draw downs, auditors could not find evidence of supervisor approval, as required by the University's cash management policies and procedures.

Corrective Action:

Corrective action was taken.

Reference No. 08-56

Reporting - Pell Payment Data

Student Financial Assistance Cluster
Award year - July 1, 2006 to June 30, 2007
Award number - 84.063 P063P062327
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

Institutions submit Pell origination records and disbursement records to the Common Origination and Disbursement (COD) system (Office of Management and Budget (OMB) Notice 1845-0039-v.4). Origination records can be sent in advance of any disbursements, as early as an institution chooses to submit them for any student it reasonably believes will be eligible for a payment. The institution follows up with a disbursement record for that student no more than 30 days before a disbursement is to be paid. Institutions must report the student payment data (1) within 30 calendar days after it makes payments or (2) when they become aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Institutions may do this by reporting once every 30 calendar days, biweekly, or weekly, or they may set up their own systems to ensure that changes are reported in a timely manner (OMB Compliance Supplement A-133, March 2007, Part 5, Student Financial Assistance Cluster, III.L.1.e, pages 5-3-16 and 5-3-17).

For 4 of 50 (8 percent) students tested, Texas Southern University (University) did not report disbursement records to the COD system within 30 calendar days of the disbursement date. Two of these instances occurred because an upgrade the University loaded to its financial aid system prevented origination records from being transmitted. The University identified and corrected these errors in March 2007. A total of 11 students were affected by this issue. The two remaining instances were due to manual processing errors.

The University did not perform monthly reconciliations of its grant accounts between its financial aid sub-ledger and general Ledger, as required by the University's procedures. This occurred because of changes in personnel and reassignment of responsibilities for Title IV funds reconciliation. The University had reconciled its grant accounts as of June 30, 2007. The University also asserts that, beginning in July 2007, the Director of Grants and Contracts and the Financial Aid Accountant were given the responsibility of ensuring that accounts are reconciled monthly.

Corrective Action:

Corrective action was taken.

Reference No. 08-57

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
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

Disbursement Notifications Were Not Always Sent within Required Timeframes

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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 electronic (Title 34, Code of Federal Regulations, Section 668.165).

Texas Southern University (University) did not send notifications to FFELP loan recipients for 19 of 40 (48 percent) students tested for the Fall 2006 and/or Spring 2007 semesters. The University does not have controls to ensure that it sends disbursement notifications within the required periods.

Additionally, the University sends notification letters to students whose enrollment status still must be verified. The letters are sent when the disbursements are initially to be disbursed. This causes the letters to be sent before the required 30 days; therefore, the University does not mail these letters within the required time frame.

Funds Were Requested Too Early

In certifying a loan application for a borrower, an institution may not request a lender to provide it with loan funds by electronic funds transfer (EFT) or master check earlier than (1) 27 days after the first day of classes of the first payment period for a first-year, first-time Federal Stafford Loan Program borrower or (2) 13 days before the first day of classes for any subsequent payment period for a first-year, first-time Federal Stafford Loan Program borrower or for any payment period for all other Federal Stafford Loan Program borrowers.

The University requested FFELP funds from lenders earlier than 13 days in advance of the first day of classes for the Spring 2007 semester for 27 of 40 (68 percent) students tested.

Excessive Access to Student Financial Aid System

Institutions must maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300(b)).

The University performs periodic reviews of user access rights to its Financial Aid System. However, an employee in Business Services had full rights in that system to determine financial aid eligibility, as well as package and disburse awards. The employee did not appear to be familiar with these functions or be aware of this access. Although there was no evidence that the access had been used inappropriately, it was excessive.

Corrective Action:

Corrective action was taken.

Reference No. 08-58

Special Tests and Provisions - Return of Title IV Funds

Student Financial Assistance Cluster
Award year - July 1, 2006 to June 30, 2007
Award number - P063P063294 (PELL), P007A064169 (FSEOG), P375A063294 (ACG), P376S063294 (SMART)
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Education

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs as outlined in this section and no additional disbursements may be made to the student for the payment period or period of enrollment. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (Title 34, Code of Federal Regulations, Sections 668.22(a)(1)-(3)).

Returns of Title IV funds are required to be deposited or transferred into the Student Financial Assistance account or electronic fund transfers initiated to the U.S. Department of Education or the appropriate Federal Family Educational Loan lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew (Title 34, Code of Federal Regulations, Section 668.173(b)).

Texas Southern University (University) does not have controls to ensure that Title IV funds are returned within 45 days. For 13 of 30 (43 percent) returns tested, the funds were returned after 45 days.

The University also made incorrect calculations of the amounts to be returned for 4 of 30 (13 percent) students tested. The students returned more than the required amount. For a portion of the tested period, the University used its Banner system to calculate the amount of funds to be returned. The Banner system calculations were incorrect for the amount of funds to be returned by the student.

Corrective Action:

This finding was reissued as current year reference number: 09-62.

Reference No. 08-59

Special Tests and Provisions - Student Status Changes

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

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Education

Unless an institution expects to submit its next student status confirmation report to the U.S. Secretary of Education or the guaranty agency within the next 60 days, it must notify the guaranty agency or lender within 30 days, if it (1) discovers that a Stafford, Supplemental Loan for Students (SLS), or Parent Loans for Undergraduate Students (PLUS) has been made to or on behalf of a student who enrolled at that institution, but who has ceased to be enrolled on at least a half-time basis; (2) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that institution, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (3) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (4) discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address (Title 34, Code of Federal Regulations, Section 682.610(c)).

Texas Southern University (University) uses the services of the National Student Clearinghouse (NSC) to report status changes to the National Student Loan Data System (NSLDS). Under this arrangement, the University reports all students enrolled and their status to NSC, regardless of whether those students receive federal financial assistance. NSC then identifies any changes in status and reports those changes when required to the respective lenders and guarantors. Additionally, NSC completes the roster file on the University's behalf and communicates status changes to NSLDS as applicable. Although the University uses the services of NSC, it is still ultimately the University's responsibility to submit timely, accurate, and complete responses to roster files and to maintain proper documentation (*NSLDS Enrollment Reporting Guide*, Chapter 3.1.1.3).

For 21 of 40 (53 percent) students tested, status changes were not reported to NSLDS. In addition, status changes for 4 students were not reported within 60 days of the status change.

Corrective Action:

This finding was reissued as current year reference number: 09-63.

Texas State Technical College - Harlingen

Reference No. 08-60
Eligibility

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

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

The determination of the federal student assistance award amount is based on financial need. Financial need is defined as the student's cost of attendance minus the expected family contribution (EFC). For Title IV programs, the amount of financial resources available is generally the EFC that is computed by the federal central processor and included on the student's Institutional Student Information Report (ISIR) provided to the institution. Awards must be coordinated among the various programs and with other federal and non-federal assistance to ensure that total assistance is not awarded in excess of the student's financial need (Federal Perkins Loan, Federal Work Study, and Federal Supplemental Educational Opportunity Grant, Title 34, Code of Federal Regulations, Sections 673.5 and 673.6; Federal Family Education Loans, Title 34, Code of Federal Regulations, Section 682.603).

The phrase "cost of attendance" refers to the "tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." Institutions may also include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087ll).

Texas State Technical College - Harlingen's (College) Financial Aid System calculated cost of attendance (COA) incorrectly for all 50 students tested. Specifically, COA was understated for 45 students, and COA was overstated for 5 students. Although no over-awards were identified as a result of these errors, the understatement of COA may have caused students not to receive assistance for which they were eligible.

Auditors' control testing determined that per term student budget amounts were coded inaccurately in the Financial Aid System for the Fall 2006 and Spring 2007 semesters. Programming logic within the Financial Aid System incorrectly identified the College's school code; as a result, the housing student budget component defaulted to the lowest residency status rate ("living with parents"). Because of this, the student budget amounts were understated, and students were potentially awarded less assistance than they were eligible for.

Corrective Action:

Corrective action was taken.

Reference No. 08-61

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 P063P073162
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

Returning Funds to a Lender

When an institution receives Federal Family Education Loan (FFEL) Program funds from the lender by electronic funds transfer (EFT) or master check, it usually must disburse the funds within three business days. If a student is temporarily not eligible for a disbursement but the institution expects the student to become eligible for disbursement in the immediate future, the institution has an additional 10 business days to disburse the funds. An institution must return FFEL Program funds that it does not disburse by the end of the initial or conditional period, as applicable, promptly but no later than 10 business days from the last day allowed for disbursement. (Title 34, Code of Federal Regulations, Section 668.167)

For 7 of 50 students tested (11 disbursements), Texas State Technical College - Harlingen (College) did not disburse funds to students' accounts within three business days of receipt from the lender. This was not due to eligibility issues. The College requests loan funds several days prior to each term, but it does not disburse funds to students' accounts until the first day of classes (or the first day of the fiscal year for the fall term). As a result, these loan funds were held longer than three business days.

For 1 of these 7 students, the loan funds were held significantly more than three business days and were not returned to the lender within the required time frame. According to the College's Financial Aid Director, the College had difficulty identifying the intended recipient of these funds, which slowed the disbursement process. After the loan was matched to the correct student, the funds were disbursed.

Credit Balances

If financial aid disbursements to a student's account at the institution create a credit balance, the institution must pay the credit balance directly to the student or parent as soon as possible, but no later than 14 days after the date the balance occurred on the student's account, if the balance occurred after the first day of class of a payment period, or the first day of classes of the payment period if the credit balance occurred on or before the first day of class of that payment period (Title 34, Code of Federal Regulations, Section 668.164(e)).

For 1 of 50 students tested (2 disbursements), the student's spring and summer disbursements created a balance in the student's account, but the College did not pay the credit balance to the student within 14 days of the start of classes. The student was enrolled in a joint program with another institution. According to the College, the student's program was not originally included in the query that identified credit balances. After this omission was identified and corrected, the credit balance was disbursed to the student.

Disbursement Notifications

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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).

For 2 of the 50 students tested (4 percent), the College did not send the required disbursement notification for one of the disbursements. The College's Financial Aid System automatically produces disbursement notifications, but this process must be started manually. These two students received their disbursements later in the semester, after the notifications were sent to most students.

Additionally, all disbursement notifications the College sends do not contain the amount and date of the disbursement as required. The notifications inform students that a loan disbursement has been credited to their account, direct students to their online account, and include information about how to cancel the loan. The online account provides information about the type of loan and the amount, but it does not include the disbursement date.

Pell Payment Data

Institutions submit Pell origination records and disbursement records to the U.S. Department of Education's Common Origination and Disbursement (COD) system. Origination records can be sent well in advance of any disbursements, as early as the school chooses to submit them for any student the institution reasonably believes will be eligible for a payment. The institution follows up with a disbursement record for that student no more than 30 days before a disbursement is to be paid. 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. Institutions may do this by reporting once every 30 calendar days, bi-weekly, or weekly, or they may set up their own systems to ensure that changes are reported in a timely manner (Office of Management and Budget A-133 Compliance Supplement, Part 5).

For three students tested, the College did not report the amount or disbursement dates of Pell grant awards to the COD system. According to the College, these students would have been identified during the College's reconciliation process, which was not yet complete at the time of this audit. The College correctly reported these students to the COD System prior to completion of this audit.

Corrective Action:

Corrective action was taken.

Texas State Technical College - Marshall

Reference No. 08-62
Eligibility

Student Financial Assistance Cluster
Award Year - July 1, 2006 to June 30, 2007
Award Number - CFDA 84.007 P007A068753, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A068753, and CFDA 84.063 P063P055503
Type of Finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Education

The determination of the federal student assistance award amount is based on financial need. Financial need is defined as the student's cost of attendance minus the Expected Family Contribution (EFC). For Title IV programs, the amount of financial resources available is generally the EFC that is computed by the federal central processor and included on the student's Institutional Student Information Report (ISIR) that is provided to the institution. Awards must be coordinated among the various programs and with other federal and non-federal assistance to ensure that total assistance is not awarded in excess of the student's financial need (Federal Perkins Loan, Federal Work Study, and Federal Supplemental Educational Opportunity Grant, Title 34, Code of Federal Regulations, Sections 673.5; Federal Family Education Loans, Title 34, Code of Federal Regulations, Section 682.603(d) (2)).

The phrase "cost of attendance" refers to the "tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." The institution may also include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087ll).

Texas State Technical College - Marshall (College) incorrectly calculated the cost of attendance for all 30 students tested. The error was manual in nature and was caused by the inadvertent entry of inaccurate tuition and fee information into the financial aid system. However, this error did not result in an overaward or underaward of financial aid for any of the students tested.

Recommendation:

The College should ensure that the tuition and fee information used to calculate cost of attendance is entered correctly into the financial aid system. Implementation of a supervisory review process would ensure that future manual tuition and fee entries are made correctly.

Management Response and Corrective Action Plan 2007:

The data entry error was corrected in July 2007 while the audit team was on campus. The supervisory review process will call for Suzanne Carter, Dean of Enrollment Management to verify that the correct tuition and fee amounts are entered into Colleague for the cost of attendance. Ms. Carter will have access to the college's tuition rates as set annually in February during the Board of Regents meeting. Susan Wingate, Assistant Director of Financial Aid will update the cost of attendance fields in Colleague and Ms. Carter will verify their accuracy.

Management Response and Corrective Action Plan 2008:

The manual error that was first found has been corrected. In the course of the follow-up audit, an automated error was found. The error did not result in an over-award or under-award of financial aid for any of the students tested. TSTC Marshall will manually check the financial aid budgets to ensure the Cost of Attendance (COA) is properly calculated.

Implementation Date: January 2009

Responsible Person: Susan Wingate

Reference No. 08-63

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
Type of finding - Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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 (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 or master check. The notification can be in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

The FFELP disbursement notification letters that Texas State Technical College - Marshall (College) sent contained the information on rights to cancel loans and the procedures and the time requirement. However, the notification letters did not include the date and amount of disbursement. The College does not participate in the FPL program.

Corrective Action:

Corrective action was taken.

Texas State Technical College - Waco

Reference No. 08-64

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
Type of finding - Significant Deficiency and Non-Compliance

Funds Not Always Disbursed within Three Business Days

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Education

An institution must return Federal Family Education Loan Program (FFELP) funds to a lender if the institution does not disburse those funds to a student or parent for a payment period within three business days following the date the institution receives the funds if the lender provides those funds to the institution by electronic funds transfer (EFT) or master check on or after July 1, 1999 (Title 34, Code of Federal Regulations, Section 668.167(b)(1)(ii)).

For 18 students in a sample of 40 (and 33 of 97 transactions), Texas State Technical College - Waco (College) held funds more than three business days before disbursing them to the student accounts. Auditors made this determination using dates on the students' billing screens in the College's financial aid system. The College has asserted that those dates are not representative of the actual disbursement dates. However, auditors used these dates because (1) they were shown in the financial aid system and (2) the College reported these dates to the federal government as the disbursement dates.

Recommendation:

The College should:

- Include the date and amount of the disbursement in its FFELP disbursement notifications, and send these notifications within 30 days before or after the disbursement date.

Management Response and Corrective Action Plan 2007:

TSTC Waco will implement the audit recommendation regarding dates for funds availability. Beginning with the Fall 2008 semester, we will post all FFELP funds with the transaction date equal to the actual disbursement date, rather dating the posting September 1. This process will mirror what the College presently does for the Spring and Summer semesters.

Management Response and Corrective Action Plan 2008:

TSTC Waco will implement the audit recommendation regarding dates for funds availability. Beginning with the Fall 2008 semester, we will post all FFELP funds with the transaction date equal to the actual disbursement date, rather dating the posting September 1. This process will mirror what the College presently does for the Spring and Summer semesters. The college is now participating in the Federal Direct Loan Program. The Pell and Direct Loan funds will transmit on August 15, 2008, which is 10 days prior to the start of the Fall 2008 term. We have approximately 100 students who have FFELP loans and everyone else will have Direct loans. The FFELP funds will transmit on August 20, 2008.

Implementation Date: *August 2008*

Responsible Person: *Jackie Adler*

Disbursement Notifications Did Not Always Contain Required Information and Were Not Always Sent within Required Timeframes

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or 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 EFT or master check. The notification can be made in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

The FFELP disbursement notifications the College sent included all of the required elements except for the date and the amount of the disbursement.

In addition, for 3 of the 40 (8 percent) disbursement notifications auditors tested, the College did not send the disbursement notifications within 30 days before or after the disbursement date.

The College does not participate in the FLP program.

Corrective Action:

Corrective action was taken.

Texas State Technical College - West Texas

Reference No. 08-65

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
Type of finding - Significant Deficiency and Non-Compliance

Disbursement Notification Letters

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Education

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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).

Texas State Technical College - West Texas (College) could not provide documentation indicating that it sent disbursement notification letters to 9 (21 percent) of 43 students tested.

The College does not participate in the FPL program.

Access to the Student Information System

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300(b)).

The College does not have appropriate controls over access to its Student Information System (System). The College's financial aid staff have inappropriate access to the System, which gives them the ability to post disbursement transactions and process refunds.

Recommendations:

The College should:

- Retain documentation indicating that it sent all disbursement notification letters to all FFELP loan recipients.
- Restrict access to the System based on job duties and responsibilities.

Management Response and Corrective Action Plan 2007:

Recommendation #1, Disbursement Notification Letters

The main campus at Sweetwater and each of its extension center locations will be responsible for sending student loan disbursement notifications to each student at the individual campuses before the expiration of the required 30 day limit. The first day is the date printed on the payment detail report designated as "For Receipts on (date)". E-mail notifications will be sent to the student's college assigned email address and a copy of each email that has been sent will be saved in a shared folder in the Groupwise system. Every email will contain the information required by regulations. These procedures will be monitored on a regular basis by the Financial Aid Director or designee.

Recommendation #2. Access to the Student Information System (Colleague)

Colleague access for every financial aid staff member will be individually reviewed and any access that is not required during the performance of their assigned duties will be submitted to the Director of Administrative Technology for deletion of such access. Additionally, any future requests for Colleague access for financial aid staff will be reviewed by the Financial Aid Director or designee prior to the addition of such access.

Management Response and Corrective Action Plan 2008:

Recommendation #1. Disbursement Notification Letters

Final assessment of our revised processing to notify all students according to the Disbursement Notification Letter procedures was completed on 08/01/08 and we are confident that the findings have been resolved according to our original Management and Corrective Action Plan 2008. Notifications are being retained to support the directive that all FFELP loan recipients are receiving the disbursement letter notifications as required by regulation.

Implementation Date: *August 2008*

Responsible Person: *Connie Chance*

Recommendation #2. Access to the Student Information System (Colleague)

Access to the Student Information System (Colleague) was reviewed and revised according to the recommendations of the auditors. Colleague access for each financial aid staff member was reviewed and adjusted to ensure that no one had the ability to post disbursement transactions and process refunds. This evaluation of access was completed prior to March 15, 2008.

Implementation Date: *March 2008*

Responsible Person: *Connie Chance*

Texas Tech University

Reference No. 08-66
Allowable Costs/Cost Principles

Research and Development Cluster
Award year - October 1, 2004 to September 30, 2007
Award number - CFDA 84.350 U350A040006
Type of finding - Significant Deficiency and Non-Compliance

Internal Service Charges

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

Charges made from internal service, central service, pension, or similar activities or funds must follow the applicable cost principles provided in Office of Management and Budget (OMB) Circular A-21. According to OMB Circular A-21, to be allowable under federal awards, costs must be given consistent accounting treatment within and between accounting periods. Consistency in accounting requires that costs incurred for the same purpose, in like circumstances, be treated as either direct costs only or indirect costs only with respect to final cost objectives (OMB Circular A-21, Sections C.10 and C.11).

One internal service charge tested at Texas Tech University (University) was not processed in accordance with OMB Circular A-21. That charge should have been treated as indirect costs, but instead the University charged it directly to a federal grant. According to the University's Cost Accounting Standards Disclosure Statement (DS-2), local (basic) telephone costs should be treated as indirect costs except when approved by the sponsor. However, during fiscal year 2007, the University charged a federal grant $512.32 for local telephone costs without sponsor approval. The University subsequently removed this charge from the federal account.

Cost Transfers

Any costs allocable to a particular sponsored agreement may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience (OMB Circular A-21, Cost Principles for Educational Institutions, Section C, Subsection 4). The University's Operating Policy 65.04: Cost Transfers on Federally Sponsored Project or Other Sponsored Projects includes a similar requirement.

For 2 of 12 (17 percent) cost transfers tested at the University, the transferred costs were allowable for the projects to which the costs were transferred; however, the University originally charged these costs to unrelated federal projects. The University did this because at the time it originally charged these costs, it had not yet established the correct accounts. Therefore, the University made these transfers for reasons of convenience, which is not a valid justification according to OMB Circular A-21 and the University's policy.

Corrective Action:

Corrective action was taken.

Reference No. 08-67

Procurement and Suspension and Debarment

Research and Development Cluster
Award year - July 27, 2006 to December 31, 2007, September 30, 2004 to June 30, 2007, August 1, 2006 to July 31, 2009, September 20, 2005 to March 6, 2009, and September 1, 2006 to August 31, 2008
Award number - CDFA 12.431 W911SR06-C00, CDFA 11.617 C70NANB3H5003, CFDA 47.049 CHE-0615321, CDFA 12.000 W9113M-05C-0, and CDFA 10.200 06-38889-035
Type of finding - Non-Compliance

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Commerce
National Science Foundation
U.S. Department of Agriculture
U.S. Department of Defense

Federal rules require that, when a non-federal entity enters into a covered transaction that is expected to equal or exceed $25,000 with an entity at a lower tier, the non-federal entity must verify that the entity at the lower tier is not suspended, debarred, or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the U.S. General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. (Office of Management and Budget Circular A-102, Grants and Cooperative Agreements with the State and Local Governments, Section 1.d and A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart B.13; Executive Orders 12549 and 12689, Debarment and Suspension; Title 45, Code of Federal Regulations, Part 76, Government-wide Debarment and Suspension).

Texas Tech University's (University) procurement process requires that, for transactions with amounts greater than or equal to $25,000, the buyer must check the EPLS Web site to verify that the vendor has not been suspended or debarred.

For 5 of 10 (50 percent) procurement files tested, the University did not retain evidence that it performed the required review of the EPLS Web site at the time of the purchase. Auditors reviewed the EPLS Web site and determined that these five vendors were not currently suspended or debarred.

Recommendation:

The University should retain evidence in its procurement files, such as screen prints, that it performed the required review of the EPLS Web site for all purchase orders expected to equal or exceed $25,000.

Management Response and Corrective Action Plan 2007:

The University is currently in the process of implementing Banner, including SciQuest, which is the purchasing module to be used with Banner. Beginning September 1, 2008 the SciQuest system will provide a computerized audit for this documentation. In the meantime, in order to insure that all purchases greater than or equal to $25,000 have documentation that the necessary review of the EPLS web site has been completed, the University will implement a policy that all such purchase transactions will have a screen print or equivalent evidence of the necessary review included with each appropriate file.

Management Response and Corrective Action Plan 2008:

Although we expected Banner and SciQuest systems to provide the capability, we learned after the implementation the capability we expected was not there. Follow-up procedures by the SAO showed that 1 of the 5 items sampled did not have sufficient evidence of conducting the EPLS vendor search. After reviewing the audit finding and with the recent implementation of new accounting and procurement systems, the Purchasing and Contracting office held discussions with the State Auditor's Office relating to the best method to document the requirements in our new procurement session. We conducted additional staff training during January 2009. In addition, we have implemented an additional review requirement by a purchasing manager for each transaction above $25,000. As of January 19, 2009, the Purchasing and Contracting staff has been fully trained in the proper method of reviewing the EPLS vendor search and providing documentation on all transactions greater than $25,000.

Implementation Date: *January 2009*

Responsible Person: *Jennifer Adling*

Reference No. 06-50

Reporting - Pell Payment Data

Student Financial Assistance Cluster
Award year - July 1, 2004 to June 30, 2005
Award number - CFDA 84.063 P063P042328
Type of finding - Material Weakness Control and Material Non-Compliance

Initial Year Written: 2005
Status: Partially Implemented

U.S. Department of Education

Institutions submit Pell Grant origination records and disbursement records to the U.S. Department of Education's Common Origination and Disbursement (COD) system. Origination records can be sent in advance of any disbursements, as early as an institution chooses to submit them for any student it reasonably believes will be eligible for a payment. The institution follows up with a disbursement record for that student no more than 30 days before a disbursement is to be paid. Institutions must report the student payment data (1) within 30 calendar days after they make payments or (2) when they become aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Federal rules specify that institutions may do this by reporting once every 30 calendar days, bi-weekly, or weekly; or they may set up their own systems to ensure that changes are reported in a timely manner.

For the 2004- 2005 award year, Texas Tech University (University) had procedures for the submission of origination and disbursement records. However, the University did not follow these procedures in a timely manner. After the University became a full participant in using COD for the 2003–2004 award year, it had difficulties with the COD software. The software difficulties and resulting reconciliation issues were not resolved for the 2003–2004 award year until late in fall 2004, which delayed reporting for the majority of fall semester Pell payments for the 2004–2005 award year. Within a random sample of 40 students (which included 73 Pell grant disbursements), 41 disbursements (35 for the fall semester and 6 for the spring semester) were reported to COD more than 30 days after the University made the payments to the students. Thirty-six of the 40 students tested had late submissions. However, auditors noted that the required data elements for both disbursement and origination records were properly included in the transmission files. The University awarded $12,515,495 in Federal Pell Grants assistance during the 2004–2005 award year per the Fiscal Operations Report and Application to Participate (FISAP).

Corrective Action:

This finding was reissued as current year reference number: 09-71.

Texas Tech University Health Sciences Center

Reference No. 08-68

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 84.038 Award Number Not Applicable, CFDA 84.063 P063P20063367, CFDA 93.925 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Disbursement of Title IV Higher Education Act Program Funds

If a student is enrolled in a credit hour educational program that is offered in semester, trimester, or quarter academic terms, the earliest an institution may disburse Title IV, Higher Education Act (HEA) program funds to a student or parent for any payment period is 10 days before the first day of classes for a payment period (Title 34, Code of Federal Regulations, Section 668.164 (f)(1)).

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

For 4 of 40 students tested (6 of 85 disbursements), Texas Tech University Health Sciences Center (Health Sciences Center) disbursed funds more than 10 days before the start of classes. In each case, the Health Sciences Center disbursed funds 11 days before the start of classes. Except for the disbursement date issue, the disbursements were properly documented and correct.

Required Reviews Prior to Disbursement

Before an institution may disburse Title IV, HEA program funds to a student who previously attended another eligible institution, the institution must use information it obtains from the National Student Loan Data System (NSLDS) or its successor system, to determine (1) whether the student is in default on any Title IV, HEA program loan; (2) whether the student owes an overpayment on any Title IV, HEA program grant or Federal Perkins Loan; (3) for the award year for which a Federal Pell Grant is requested, the student's scheduled Federal Pell Grant and the amount of Federal Pell Grant funds disbursed to the student; (4) the outstanding principal balance of loans made to the student under each of the Title IV, HEA loan programs; and (5) for the academic year for which Title IV, HEA aid is requested, the amount of, and period of enrollment for, loans made to the student under each of the Title IV, HEA loan programs (Title 34, Code of Federal Regulations, Section 668.19).

The Health Sciences Center did not maintain documentation that it verified the required information described above with information received from NSLDS prior to disbursing Title IV loan funds to transfer students. The Health Sciences Center asserts that its practice is to check NSLDS daily, or even multiple times each day during heavy disbursement times, but documentation supporting this assertion could not be located.

Common Origination and Disbursement System Reporting

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, III.L.1.e (page 5-3-16)). 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 5-3-25)).

For 1 of 40 students (1 of 85 disbursements) originally tested at the Health Sciences Center, the date of Pell disbursement did not match the disbursement date in the COD System. When auditors expanded this test to include four more Pell students, those students also did not have correct disbursement dates in the COD System. The disbursement amounts were reported correctly. The Health Sciences Center indicates that it sends disbursement information to the COD System in advance of the disbursement in order to make sure the student is eligible for aid; it then disburses funds when eligibility is confirmed. Although auditors acknowledge this process is a conservative approach, the date in the COD System should be the actual disbursement date.

Corrective Action:

Corrective action was taken.

Texas Woman's University

Reference No. 08-69
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2006 - June 30, 2007
Award number - CFDA 84.063 P063P062330
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Education

In general, a student must be enrolled in an undergraduate course of study to receive a Pell grant. A student who has earned a baccalaureate degree or a first professional degree is not considered to be an undergraduate and cannot receive a Pell grant (Title 34, Code of Federal Regulations, Sections 690.2 and 690.6).

Texas Woman's University (University) awarded and disbursed Pell grants to three post-bachelor students (students working on a second undergraduate degree), even though these students were not eligible to receive Pell grants because they had already earned an undergraduate degree. Specifically:

- Two of these students indicated on their Free Application for Federal Student Aid (FAFSA) that they would be working on their first bachelor's degree during the 2006-2007 school year. The University's financial aid system packaged these students based on their FAFSA responses. However, the University's financial aid counselors were responsible for reviewing the automatic packaging to verify the students' eligibility prior to disbursement.

- One of these students was an undergraduate in Fall 2006 and became a post-bachelor student in Spring 2007. The student's record still showed the student as undergraduate when the Pell grant was dispersed in Spring 2007. The student's record was not changed to post-bachelor until two days after the disbursement.

In June 2007, the University corrected these issues by removing the Pell grants from the students' accounts and returning the funds to the U.S. Department of Education.

Recommendation:

The University should ensure that it awards Pell grants only to eligible undergraduate students.

Management Response and Corrective Action Plan 2007:

The Director of Financial Aid has been directed to review all automated and manual processes involved in awarding Pell Grants and to correct any deficiencies that could lead to awards to ineligible students. This review will include software set-ups, programming, and staff training needed to assure compliance in the current and future award periods.

Management Response and Corrective Action Plan 2008:

All manual and automated Pell Grant award processes were reviewed to ensure that automated eligibility checks are made at the time of awarding and prior to the transmission of financial aid to student accounts. Eligibility checks are also ran daily on the entire aid population during periods of late admission and late registration where student academic program and enrollment data may change at an accelerated pace. Eligibility checks evaluate for enrollment in the first undergraduate degree. Computer set-ups now include elements to evaluate for the appropriate academic program at the time of awarding and again prior to transmitting aid to student accounts. Additionally, staff training has been conducted, and continues to be done on an ongoing basis, to ensure compliance with federal and state aid regulations. Implementation of revisions has been verified by the Internal Audit Department.

Implementation Date: *April 2008*

Responsible Person: *Governor Jackson*

Reference No. 08-70

Special Tests and Provisions - Disbursements To or On Behalf of Students

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

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Education

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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 the 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 made in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

Texas Woman's University (University) did not consistently send required notifications to FFELP loan recipients for the Spring 2007 semester within 30 days of the disbursement of loan proceeds. Auditors sampled 40 students, and 35 of them were student loan recipients. Thirty of the 35 (86 percent) student loan recipients did not receive the required notification within 30 days. The University does not participate in the FPL program.

The University's current notification process depends on a financial aid staff person initiating a notification letter routine in the student financial aid system. The content of the notification letter is generated by the system, but this function does not occur automatically at the time of disbursement. For the Spring 2007 semester, the notification letter routine was not initiated until March 2007. When the University does not distribute the required notifications within the required time period, loan recipients' opportunity to cancel their awards (if they choose to do so) is reduced.

Recommendation:

The University should correct the errors in its student notification process to ensure that it sends notifications to all FFELP loan recipients within the required time period.

Management Response and Corrective Action Plan 2007:

The University has revised its process for notifying FFELP loan recipients within the required time period. Additional automation to enhance the process is in progress.

Management Response and Corrective Action Plan 2008:

Revised written procedures for loan notification letters were implemented on June 22, 2007. These procedures included the notification of multiple staff members when loan notification letters were scheduled to print and a hierarchy for follow-up. A Financial Aid Administrator will maintain a file of all such electronic notifications and any pending actions. The Financial Aid Administrator has responsibility for ensuring that the processes are executed regardless of The Administrator's or other staff's absences. On March 28.2008, an automated process was added to automatically create saved lists of loan notifications weekly and to email the lists to the Loan Coordinator and Financial Aid Administrator on a weekly schedule for follow-up. This process will be reviewed for additional electronic upgrades in fall 2008. Implementation of revisions has been verified by the Internal Audit Department.

Implementation Date: *April 2008*

Responsible Person: *Governor Jackson*

Department of Transportation

Reference No. 08-71
Allowable Costs/Cost Principles
Cash Management
Period of Availability of Federal Funds
Reporting

Highway Planning and Construction Cluster
Award year - Various - Project Based
Award number - Federal apportionment pursuant to the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) Public Law 110-5
Type of finding - Significant Deficiency

Office of Management and Budget Circular A-133, Section 300(b), requires entities to maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Initial Year Written: 2007
Status: Implemented

U. S. Department of Transportation

In addition, Title 1, Texas Administrative Code, Section 202.20(1), states that "Information resources residing in the various state agencies of state government are strategic and vital assets belonging to the people of Texas. These assets must be available and protected commensurate with the value of the assets. Measures shall be take to protect these assets against unauthorized access, disclosure, modification or destruction, whether accidental or deliberate, as well as assure the availability, integrity, authenticity, and confidentiality of information. Access to state information resources must be appropriately managed." Title 1, Texas Administrative Code, Section 202.25(3)(B) states that "A user's access authorization shall be appropriately modified or removed when the user's employment or job responsibilities within the state agency change."

SiteManager User Access

The Department of Transportation (Department) uses the automated SiteManager system to monitor construction projects, generate daily work reports, and process contractor payment estimates for projects funded through the Highway Planning and Construction Cluster. Access to SiteManager is controlled by security administrators at each district and division within the Department.

However, the Department does not ensure that its districts and divisions restrict SiteManager access to current, active employees. Furthermore, the Department does not ensure that access to SiteManager is removed immediately upon termination of employment or a change in employee job functions. As a result, 2 of 61 (3 percent) employees tested had access to SiteManager after their employment had been terminated. Auditors also identified 30 additional employees who had access to SiteManager after their employment had been terminated or after their job functions changed and they no longer required the use of SiteManager. After auditors brought this matter to the Department's attention, the Department inactivated access for all of the employees involved in the circumstances described above.

Removing access to SiteManager immediately upon termination of an employee or a change in job functions helps to ensure that information resources, including SiteManager, are protected against unauthorized access, disclosure, modification or destruction. This requirement also helps to ensure the availability, integrity, authenticity, and confidentiality of information.

During federal compliance testing, auditors did not identify any issues that resulted from the deficiencies discussed above.

Network and Financial Information Management System Password Settings

Employees and users of the Department's automated systems must have access to the Department's network to access those systems. The Financial Information Management System (FIMS) is the Department's internal accounting system used to create and process vouchers for payment. To access the network and FIMS, users must enter a password. According to the Department of Information Resources, state agencies should use unique passwords that contain both alphanumeric characters and special characters. However, the Department does not require this for users of its network and FIMS. Instead, the Department requires only that passwords be eight characters in length. The Department's network and FIMS password settings give users the *option* to use alphanumeric or special characters in their passwords; however, they do not *require* this.

Requiring the use of passwords that include both alphanumeric and special characters helps to ensure that information resources, including financial systems, are protected against unauthorized access, disclosure, modification or destruction. This requirement also helps to ensure the availability, integrity, authenticity, and confidentiality of information.

Corrective Action:

Corrective action was taken.

University of Houston

Reference No. 08-72
Cash Management

Student Financial Assistance Cluster
Award year - July 1, 2006 to June 30, 2007
Award number - CFDA 84.375 P375A062333
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

The U.S. Department of Education (Department) provides funds to an institution under the advance, reimbursement, just-in-time, or cash monitoring payment methods. Under the reimbursement payment method, the institution must make disbursements to students and parents for the amount of funds those students and parents are eligible to receive under the federal Pell grant program, the federal Academic Competitiveness Grant (ACG) program, the national Science and Mathematics Access to Retain Talent (SMART) grant program, Direct Loan program, and campus-based programs before it may seek reimbursement from the Department for those disbursements. The Department considers an institution to have made a disbursement if the institution has either credited a student's account or paid a student or parent directly with its own funds. As part of the institution's reimbursement request, the Department requires the institution to identify the students for whom reimbursement is sought and submit to the Department documentation that shows that each student and parent included in the request was eligible to receive and has received the Title IV Health Education Assistance program funds for which reimbursement is sought (Title 34, Code of Federal Regulations, Section 668.162).

To account for the funds disbursed, institutions report student payment information to the Department electronically. The Common Origination and Disbursement (COD) System provides a simplified process for requesting, reporting, and reconciling Pell grant, ACG, and SMART funds (Office of Management and Budget Notice 1845-0039-v.4). Grantees draw funds using the Grant Administration and Payment System (GAPS).

Any amounts not disbursed by the end of the third business day following the receipt of funds are considered to be excess cash and generally are required to be promptly returned to the Department (Title 34, Code of Federal Regulations, Section 668.166).

The University of Houston (University) uses the reimbursement method. On May 29, 2007, the ACG award authorization was reduced by $253,538, as reflected in GAPS, which created an excess cash balance of $47,499.18 (in other words, cash received to date exceeded the authorized amount by $47,499.18). This affected 1 of 30 cash draws tested. The University disbursed the related expenditures to the students, but a programming error in the University's accounting system prevented these disbursements from being reported in COD. The programming error was not corrected, and the University processed an adjustment entry of $49,214.18 on August 21, 2007, to refund the Department. As a result of this situation, the University carried an excess ACG cash balance of $47,499.18 from May 29, 2007, to August 21, 2007.

The University converted to a new accounting system (PeopleSoft) for the 2008 award year, which should resolve issues pertaining to the ACG COD reporting processes.

Corrective Action:

Corrective action was taken.

Reference No. 08-73
Eligibility
(Prior Audit Issue 07-56)

Student Financial Assistance Cluster
Award year - July 1, 2006 to June 30, 2007
CFDA 84.007 P007A064166and CFDA 84.063 P063P062333
Type of finding - Significant Deficiency and Non-Compliance

Awards of Federal Supplemental Educational Opportunity Grants

Initial Year Written: 2006
Status: Implemented

U.S. Department of Education

In determining awards for Federal Supplemental Educational Opportunity Grants (FSEOG), an institution must first select students with the lowest expected family contributions (EFC) who also receive Pell grants in that year. If the institution has FSEOG funds remaining after giving FSEOG awards to all the Pell grant recipients, it must award the remaining FSEOG funds to those eligible students with the lowest EFCs who will not receive Pell grants (Title 34, Code of Federal Regulations, Section 676.10).

The University of Houston's (University) student financial aid packaging system awarded FSEOG based on an EFC range, without regard to other Pell grant eligibility requirements. The University completed programming changes in April 2007 to award FSEOG funds to Pell-eligible recipients with zero EFC only, but this change only affected awards for the 2008 school year. The University had already awarded 2007 FSEOG before it implemented corrective action.

As a result, the University awarded $3,000 in FSEOG funds to 3 of 40 (8 percent) students tested when those students had EFCs of between $2,600 and $3,500. These students were all Pell recipients, but this conflicted with the revised University policy and with federal regulations because other students who had received Pell grants had lower EFCs but were not awarded FSEOG.

In addition, 4 of 9 (44 percent) students judgmentally selected for testing because they had received FSEOG but had not received Pell awards received FSEOG when they should not have. Three were not eligible for Pell awards, and one had an EFC of $3,757 that should have disqualified the student for the FSEOG award. The University awarded $2,650 in FSEOG funds to these four students

Awards of Pell Grants and FSEOG to Post-baccalaureate Students

Except for certain post-baccalaureate programs leading to initial teacher certification or licensing credential within a state, a student is eligible to receive a federal Pell grant only for the period of time required to complete his or her first undergraduate baccalaureate course of study. The institution must determine when the student has completed the academic curriculum requirements for that first undergraduate baccalaureate course of study. Any noncredit or remedial course taken by a student, including a course in English language instruction, is not included in the institution's determination of that student's period of Federal Pell Grant eligibility (Title 34, Code of Federal Regulations, Section 690.6).
The University awarded Pell and/or FSEOG funds to 26 judgmentally selected students who were post-baccalaureate students in the semester they received these awards. In 2007, these students received $19,203.37 in Pell awards and $3,000 in FSEOG awards for which they were not eligible. The students' classification changed from undergraduate to post-baccalaureate after funds were awarded, but the University did not adjust these students' awards. The University implemented a new financial aid system for 2008 and asserted that controls were in place in the new system to prevent future errors in grant eligibility determination.

Corrective Action:

Corrective action was taken.

Reference No. 08-74
Special Tests and Provisions - Student Status Changes
(Prior Audit Issues 07-58)

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

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of Education

Unless an institution expects to submit its next student status confirmation report to the U.S. Secretary of Education or the guaranty agency within the next 60 days, it must notify the guaranty agency or lender within 30 days, if it (1) discovers that a Stafford, Supplemental Loan for Students (SLS), or Parent Loans for Undergraduate Students (PLUS) has been made to or on behalf of a student who enrolled at that institution, but who has ceased to be enrolled on at least a half-time basis; (2) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (3) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (4) discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address (Title 34, Code of Federal Regulations, Section 682.610(c)).

The University of Houston (University) uses the services of the National Student Clearinghouse (NSC) to report status changes to the National Student Loan Data System (NSLDS). Under this arrangement, the University reports all students enrolled and their status to NSC, regardless of whether those students receive federal financial assistance. NSC then identifies any changes in status and reports those changes when required to the respective lenders and guarantors. Additionally, NSC completes the roster file on the University's behalf and communicates status changes to NSLDS as applicable. Although the University uses the services of NSC, it is still ultimately the University's responsibility to submit timely, accurate, and complete responses to roster files and to maintain proper documentation (*NSLDS Enrollment Reporting Guide*, Chapter 3.1.1.3).

The University did not report 5 of 50 (10 percent) student status changes tested within the required 60 days. Specifically:

- Three of the students graduated in May 2007 and were not reported to NSLDS until September 2007.

- One student graduated in May 2007 but was registered to take classes in the summer. The student was reported to NSLDS as withdrawn in September 2007. This student was not reported to the lendors/grantors as graduated or withdrawn.

- One student changed from full-time to half-time status, and this status change was not reported to NSLDS within 60 days.

Corrective Action:

This finding was reissued as current year reference number: 09-87.

University of Houston - Downtown

Reference No. 07-59
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2005 to June 30, 2006
Award number - CFDA 84.007 P007A054118
Type of finding - Material Weakness Control and Material Non-Compliance

Initial Year Written: 2006
Status: Implemented

U.S. Department of Education

In determining awards for Federal Supplemental Educational Opportunity Grants (FSEOG), an institution must give priority to students with the lowest expected family contributions (EFC) who also receive Pell Grants in that year (Title 34, Code of Federal Regulations, Section 676.10).

An institution is not in compliance with the U.S. Higher Education Act, as amended, and FSEOG regulations if it awards FSEOG funds on a first-come, first-serve basis or arbitrarily sets expected EFC benchmarks (or cut-offs) below which it selects FSEOG recipients. Such a practice could exclude eligible students from the FSEOG award process (U.S. Department of Education's 2005 - 2006 *Student Financial Aid Handbook*, Volume 3, Chapter 5).

The University of Houston - Downtown (University) awarded FSEOG funds totaling $51,734 (26 percent of available FSEOG funds) to only 14 of 776 students who received Pell Grants and who also had EFCs of $0. It awarded the remaining $148,531 in FSEOG funds (74 percent of available FSEOG funds) to Pell Grant recipients who did not have the lowest EFCs. As a result, many Pell Grant recipients with the greatest financial need did not receive FSEOG assistance that should have been provided to them.

The University reported in the Schedule of Expenditures of Federal Awards that it awarded $425,425 in FSEOG grants during fiscal year 2006.

Corrective Action:

Corrective action was taken.

Reference No. 07-60
Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2005 to June 30, 2006
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Material Weakness Control and Material Non-Compliance

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of Education

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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 the 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 made in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

The University of Houston - Downtown (University) did not consistently send out the required notifications to FFELP loan recipients in fiscal year 2006. Of the 22 FFELP loan recipients sampled, 11 students (50 percent) did not receive any notification, and 7 students (32 percent) received notifications in the fall semester but not in the spring semester.

The University's current notification process is primarily manual and depends on employees to (1) accurately review the *Texas Guaranteed Student Loan Corporation Disbursement Report*, (2) enter the appropriate comment in the student financial aid management system, and (3) mail the notification. When the University does not distribute the required notifications, this reduces the opportunity for loan recipients to cancel the awards if they choose to do so.

Recommendation:

The University should automate its student notification process or implement a review process to ensure that it sends notifications to all FFELP loan recipients within the required time periods.

Management Response and Corrective Action Plan 2006:

The University has automated this process to ensure that its notifications to all FFELP loan recipients are within the required time periods.

Management Response and Corrective Action Plan 2007:

Regarding the follow-up to this finding the errors were due to a system problem and was compounded by human error when a student worker reverted to the pre-automated process and copies were not made of the letters that were sent and not updated in PowerFaids.

The University has automated this process to ensure that its notifications to all FFELP loan recipients are within the required time periods.

Management Response and Corrective Action Plan 2008:

Management concurs with the audit finding.

While we did automate this process it was not implemented successfully due to a business process issue. We modified our business process by assigning this function to the Coordinator of Student Loans who has accountability for ensuring that notifications to borrowers are sent in a timely manner. We have also implemented a bi-weekly review to audit a sample of borrowers to ensure that the notification function has been met. The reviewing parties are the Director, Office of Scholarships and Financial Aid and the Assistant Director for Processing , Office of Scholarships and Financial Aid. These steps were implemented on December 10, 2008.

Implementation date: December 10, 2008

Responsible Person: LaTasha Goudeau

University of Houston - Victoria

Reference No. 08-75

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2006 - June 30, 2007
Award number - CFDA 84.032 Award Number Not Applicable and CFDA 84.063 Award Number P063P063632
Type of finding - Significant Deficiency and Non-Compliance

Pell Payment Reporting

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Education

All institutions submit payment data to the U.S. Department of Education through the Common Origination and Disbursement (COD) System. Origination records can be sent well in advance of any disbursement, as early as the institution chooses to submit them for any student the institution reasonably believes will be eligible for a payment. The institution follows up with a disbursement record for that student no more than 30 days before a disbursement is to be paid. 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 Circular A-133 Compliance Supplement, Part 5, Section L.1.e) and the Secretary of the U.S. Department of Education accepts a student's payment data that is submitted in accordance with procedures established through publication in the *Federal Register*, and that contains information the Secretary considers to be accurate in light of other available information including that previously provided by the student and the institution (Title 34, Code of Federal Regulations, Section 690.83.(a)(2).

In a sample of 50 students tested at the University of Houston - Victoria (University), 14 students received Pell Grant awards. However, the University did not report the correct date of disbursement of Pell Grant awards to the COD System for any of those 14 students.

The University did not record the actual disbursement dates; instead, it set the disbursement dates as 10 days prior to the semester start date and when disbursements were processed (in 6 cases, this was more than 30 days after disbursement). When the University does not accurately report disbursement dates, this increases the risk of over awards being made to students. In addition, the Secretary of the U.S. Department of Education could impose a fine on the institution if the institution fails to comply with the requirement (Title 34, Code of Federal Regulations, Section 690.83(c)).

Disbursement Notifications

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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 the 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 made in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

The University did not consistently send the required notifications to FFELP loan recipients in fiscal year 2007. In the sample of 50 students, 47 were FFELP loan recipients. Three of these 47 students (6.38 percent) did not receive a notification, and one of these 47 students (2.13 percent) did not receive a notification in a timely manner. In addition the notification letters the University sent for the Fall 2006 and Spring 2007 semesters did not include information regarding the required right to cancel or the procedure and time by which the student or parent must notify the institution. The notification letters the University sent for the Summer 2007 semester were correct.

When the University does not send the required notifications or the notifications do not include required information on the right to cancel and cancellation procedures, the opportunity for loan recipients to cancel their awards is reduced.

Transfer Student Monitoring

If a student transfers from one institution to another institution during the same award year, the institution to which the student transfers must request from the Secretary of the U.S. Department of Education, through the National Student Loan Data System (NSLDS), updated information about that student so it can make the following determinations: (1) whether the student is in default on any title IV, HEA program loan; (2) whether the student owes an overpayment on any Title IV, Higher Education Assistance (HEA) program grant or Federal Perkins Loan; (3) for the award year for which a Federal Pell Grant is requested, the student's scheduled Federal Pell Grant and the amount of Federal Pell Grant funds disbursed to the student; and (4) the outstanding principal balance of loans made to the student under each of the Title IV, HEA loan programs. The institution may not make a disbursement to that student for seven days following its request, unless it receives the information from NSLDS in response to its request or obtains that information directly by accessing NSLDS, and the information it receives allows it to make that disbursement (Title 34, Code of Federal Regulations, Section 668.19).

The University did not follow the transfer student monitoring criteria for 5 of 14 (35.7 percent) transfer students included in a sample of 50 students. Specifically:

- Auditors were unable to locate documentation with the date of the file transfer to NSLDS for 4 of 14 transfer students.

- The University made a disbursement to 1 of the 14 transfer students one day after requesting information from NSLDS.

The University's financial aid counselors are not following and/or documenting their completion of the procedures in the *Financial Aid Manual*, Section 17, which requires a review of the student loan history, default status, overpayment status, and aggregate limits on NSLDS prior to disbursement of awards to transfer students.

When the University does not request information from NSLDS, does not wait the required seven days to disburse funds, or does not document that it has accessed NSLDS to verify student status, the University risks awarding or overawarding assistance to a student who may not be eligible.

Returning Funds to Lender

An institution must return FFELP funds to a lender if the institution does not disburse those funds to a student or parent for a payment period within three business days following the date the institution receives the funds if the lender provides those funds to the institution by electronic funds transfer (EFT) and master check on or after July 1, 1999. An institution may delay returning FFELP funds to a lender for ten business days after the date if either of the following conditions exists:

- The institution does not disburse FFELP funds to a borrower because (1) the student did not complete the required number of clock or credit hours in a preceding payment period and (2) the institution expects the student to complete required hours within this 10-day period.

- The student has not met all the FFELP eligibility requirements and the institution expects the student to meet those requirements within this 10-day period (Title 34, Code of Federal Regulations, Sections 668.167(b)(1)(ii) and (iii), and Title 34, Code of Federal Regulations, Section 668.167(b)(3)).

The University did not consistently disburse funds received from the lender to the student's account within the required time frame. For a sample of 50 students in which 47 were FFELP loan recipients, the University did not disburse 6 FFELP loans for 4 students (8.5 percent) to the students' account within three business days. Eligibility was not an issue.

When the University does not disburse funds to students within the required time frame, the University is at risk for reduced availability of funds, fines, penalties, and possible conversion to the reimbursement program.

Recommendations:

The University should:

- Ensure that it reports correct dates for all Pell Grant awards to the COD System as required.

- Correct the errors in its disbursement notification process to ensure that it sends notifications to all FFELP loan recipients within the required time frames and that all required elements are included in the disbursement notifications.

- Ensure that it documents transfer student monitoring procedures for each transfer student and that it does not disburse funds for seven days after transmittal of request for information from NSLDS.

- Ensure that it disburses funding received from FFELP lenders to the student's account within the required timeframes.

Management Response and Corrective Action Plan 2007:

Pell Payment Reporting

With the implementation of a new financial aid management system for the 2007-08 academic year, the Pell Grant award reporting procedure has been modified to reflect actual disbursement dates. A sample of Pell Grant recipients was conducted and reviewed for compliance. The process of submitting the Pell origination and disbursement files biweekly has been implemented.

Disbursement Notifications

With the implementation of a new financial aid management system for the 2007-08 academic year, procedures have been modified to identify all students who have had FFELP loans disbursed. An email is being generated and sent to the FFELP loan recipients. The additional required information has been added to the disbursement notifications.

The Financial Aid Office is monitoring this procedure for compliance during the 2007-2008 academic year to assure that the processes are functioning correctly.

Transfer Student Monitoring

The Office of Financial Aid runs the NSLDS transfer monitoring request on a weekly basis. When a transfer alert file has been received, the students are reviewed for possible changes to the student's eligibility. A Financial Aid Counselor checks the Reviewed box once the student has been deemed eligible. The reviewed Transfer Alert reports are retained to indicate that transfer students were verified through the NSLDS database. Procedures are in place so that disbursements do not occur within seven days of transmittal of the request for information from NSLDS.

Returning Funds to Lender

Procedures for authorization of financial aid for disbursement have been modified. The automated process was implemented in August 2007 using a new financial aid management system to ensure that funds are disbursed to the student's account within the required time period. In addition, a Hold/Release process has been put into place to prevent student loans from arriving to UHV via EFT if the student has not enrolled or is not meeting the Satisfactory Academic Progress standards. This ensures the timely return of FFELP funds to the lender for ineligible students. Verification that procedures are functioning properly will be conducted through April.

Management Response and Corrective Action Plan 2008:

We implemented a new financial aid system for the 2007-2008 academic year and implemented a process for biweekly submission of Pell Origination and disbursement files. We modified our procedures to a.) help ensure that all disbursement notifications to FFELP loan recipients are timely and contain all required elements, b.) establish documentation for transfer student monitoring and to help ensure that disbursements do not occur within 7 days of the request for information from NSLDS and c.) help ensure disbursement of funding received from FFELP lenders to the students' accounts within the required timeframes. Note: Verified by Internal Auditing.

Implementation Date: *April 2008*

Responsible Person: *Carolyn Mallory*

University of Texas at Austin

Reference No. 08-76
Eligibility

Student Financial Assistance Cluster
Award Year - July 1, 2006 to June 30, 2007
Award Number - CFDA 84.007 P007A064173
Type of Finding - Non-Compliance

Initial Year Written: 2007
Status: Implemented

US Department of Education

In selecting among eligible students for Federal Supplemental Educational Opportunity Grant (FSEOG) program awards in each award year, an institution must select those students with the lowest expected family contributions (EFC) who will also receive federal Pell grants in that year. If the institution has FSEOG funds remaining after giving FSEOG awards to all the federal Pell grant recipients at the institution, the institution must award the remaining FSEOG funds to those eligible students with the lowest EFCs who will not receive federal Pell grants (Title 34, Code of Federal Regulations, Section 676.10).

The University of Texas at Austin (University) awarded FSEOG to students who were not eligible to receive and were not awarded Pell grants; in addition, not all Pell grant recipients received FSEOG. Of the 18 students who received Pell grants in the sample tested, only two received FSEOG. The University manually awarded FSEOG to students who needed financial assistance, and it did not verify whether those students had the lowest EFC and had also received Pell grants during the award year. As a result, the University awarded $20,980 in FSEOG to 11 students who were not eligible for Pell grants.

Corrective Action:

Corrective action was taken.

Reference No. 08-77
Special Tests and Provisions - Return of Title IV Funds

Student Financial Assistance Cluster
Award Year - July 1, 2006 to June 30, 2007
Award Number - CFDA 84.007 P007A064173
Type of Finding - Non-Compliance

Not Returning Title IV Funds within Required Timeframe

Initial Year Written: 2007
Status: Partially Implemented

US Department of Education

Institutions must make returns of Title IV funds in the proper amount and in a timely manner and must apply the return of Title IV funds to federal programs as required. When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment, the institution must determine the amount of Title IV assistance earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs and no additional disbursements may be made to the student for the payment period or period of enrollment. If the amount the student earned is more than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (Title 34, Code of Federal Regulations, Section 668.22(a) (1)-(4)).

Returns of Title IV funds are required to be deposited or transferred into the student financial aid account or electronic fund transfer must be initiated to the U.S. Department of Education or the appropriate Federal Family Education Loan (FFEL) lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew. (Title 34, Code of Federal Regulations, Section 668.173(b)).

The University of Texas at Austin (University) transfers funds electronically to students. For 6 of 50 (12 percent) students tested, the University did not return Title IV funds within 45 days of when it determined that the students withdrew from classes.

Not Calculating the Correct Amount of Title IV Funds

The amount of earned Title IV grant or loan assistance is calculated by determining the percentage of Title IV grant or loan assistance that has been earned by the student and applying that percentage to the total amount of Title IV grant or loan assistance that was or could have been disbursed to the student for the payment period or period of enrollment as of the student's withdrawal date. A student earns 100 percent if his or her withdrawal date is after the completion of 60 percent of (1) the calendar days in the payment period or period of enrollment for a program measured in credit hours or (2) the clock hours scheduled to be completed for the payment period or period of enrollment for a program measured in clock hours (Title 34, Code of Federal Regulations, Section 668.22(e) (2)). Otherwise, the percentage earned by the student is equal to the percentage (60 percent or less) of the payment period or period of enrollment that was completed as of the student's withdrawal date. The percentage of Title IV grant or loan assistance that has not been earned by the student is the complement of one of these calculations. Standard term-based institutions must always use the payment period as the basis for the determination.

The unearned amount of Title IV assistance to be returned is calculated by subtracting the amount of Title IV assistance earned by the student from the amount of Title IV assistance that was disbursed to the student as of the date of the institution's determination that the student withdrew (Title 34, Code of Federal Regulations, Section 668.22(e)).

For 3 of the 50 (6 percent) students tested, the University incorrectly calculated the amount of Title IV funding by deducting the origination fee that the lender charges from the amount the student received. The result was that the students received less funding than they should have received.

Returning Incorrect Amounts of Title IV Funds

Institutions must return the lesser of (1) the total amount of unearned Title IV assistance to be returned as described above or (2) an amount equal to the total institutional charges incurred by the student for the payment period or period of enrollment multiplied by the percentage of Title IV grant or loan assistance that has not been earned by the student. If, for a non-term program an institution chooses to calculate the treatment of Title IV assistance on a payment period basis, but the institution charges for a period that is longer than the payment period, "total institutional charges incurred by the student for the payment period" is the greater of (1) the prorated amount of institutional charges for the longer period or (2) the amount of Title IV assistance retained for institutional charges as of the student's withdrawal date (Title 34, Code of Federal Regulations, Section 668.22(g)).

For 3 of the 50 (6 percent) students tested, the University returned the incorrect amount or did not return any unearned Title IV funding during 2007. One of these three instance occurred because of a $32.63 clerical error. No documentation was submitted to the University's Student Financial Aid Department for the other two instances, and the Title IV funds were not returned.

Corrective Action:

This finding was reissued as current year reference number: 09-90.

Reference No. 08-78

Allowable Cost/Cost Principles

Research and Development Cluster
Award year - December 1, 2005 to November 30, 2009; March 1, 2006 to February 28, 2009; February 15, 2007 to January 31, 2011; February 1, 2005 to March 31, 2008; September 1, 2004 to July 31, 2009; December 1, 2003 to November 30, 2007
Award number - CFDA 93.242 2 RO1 MH041770-19A1,20, CFDA 93.859 5 RO1 GM073087-01A1,02, CFDA 93.286 1 R01 EB004873-01A2, CFDA 93.859 5 R01 GM074258-01 -02 -03, CFDA 93.242 5 R37 MH044754-16 -17 -18 -19,CFDA 93.867 5 R01 EY02688-26 -27 -28 -29
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Health and Human Services

Appropriated funds for the National Institutes of Health, the Agency for Healthcare Research and Quality, and the Substance Abuse and Mental Health Services Administration shall not be used to pay the salary of an individual, through a grant or other extramural mechanism, at a rate in excess of Executive Level I (Public Law 110-005, Revised Continuing Appropriations Resolution, 2007). The Executive Level I annual salary rate was $183,500 for the period from January 1, 2006, through December 31, 2006. Effective January 1, 2007, the Executive Level I salary level increased to $186,600 (NOT-OD-07-051, Salary Limitation on Grants, Cooperative Agreements, and Contracts).

The University of Texas at Austin (University) did not adequately monitor the salary and wages charged to National Institutes of Health (NIH) grants. Four of 7 researchers (representing 6 of 11 grants) tested charged salaries to NIH grants that exceeded the NIH salary cap. The University subsequently removed the excess charges from the federal accounts

The University does not have an adequate system to monitor the salaries it charges to NIH grants to ensure those charges do not exceed the executive salary cap. When the University does not limit the salary and wage expenses charged to NIH grants, it risks loss of funding for existing and future grant awards.

Corrective Action:

This finding was reissued as current year reference number: 09-92.

Reference No. 08-79

Equipment and Real Property Management

Research and Development Cluster
Award year - August 15, 2006 to August 14, 2010, September 1, 2006 to February 28, 2007
Award number - CFDA 81.000 DE-FG02-06ER46303 A000, CFDA 93.000 2007-02807-001
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Energy
U.S. Department of Health and Human Services

A recipient's property management standards for equipment acquired with federal funds and federally-owned equipment must require that equipment records be maintained accurately and include the location and condition of the equipment. Additionally, equipment owned by the federal government must be identified to indicate federal ownership (Office of Management and Budget Circular A-110, Subpart C, 34.f).

The University of Texas at Austin (University) has a policy that requires equipment with a unit cost of $5,000 or more be assigned to a departmental inventory. In addition, the Office of the Texas Comptroller of Public Accounts defines controlled items as those items with a unit cost of $500 to $4,999.99. The Office of the Texas Comptroller of Public Accounts also requires that controlled item be assigned to a departmental inventory. The University's policy states that its Inventory Services Department will affix a numbered property control plate to the property (or assign an inventory number) and enter appropriate data on the University's computerized inventory system. (*Handbook of Business Procedures*, Section 16.2.A)

Inventory records for 3 of 43 (7 percent) equipment items tested contained inaccurate information about the equipment. Specifically:

- For two of these items, the University tagged the equipment with a different inventory number than was shown in its inventory records. The University assigned these equipment items temporary inventory numbers during its year-end inventory process. It subsequently assigned new inventory numbers to the equipment, but it had not yet updated its inventory records to reflect these new numbers.

- For one of these items, the inventory record for the equipment did not contain sufficient information about the location of the equipment. The equipment item was in a University office that was located off campus, but the inventory record did not contain enough information to easily locate the equipment item.

The University has updated the inventory records for the three items discussed above.

Corrective Action:

This finding was reissued as current year reference number: 09-94.

Reference No. 08-80

Matching, Level of Effort, Earmarking

(Prior Audit Issues 07-69, 06-63, 05-57, 04-53, 03-09, and 02-48)

Research and Development Cluster
Award year - Multiple
Award number - All Grants with Matching Requirements
Type of finding - Significant Deficiency

Initial Year Written: 2001
Status: Partially Implemented

Federal Agencies that Provide R&D Grants

Non-federal entities may be required to share in the cost of research. The specific program regulations, general agency award guidance, or individual federal award will specify applicable matching requirements, including the minimum amount or percentage of contributions or matching funds provided by the institution (Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 5, Section G). The matching contributions must also comply with the requirements of OMB Circular A-110, Section .23, including the allowable cost principles of OMB Circular A-21. These requirements include that matching contributions must be from allowable sources, must value in-kind contributions according the principles of OMB Circular A-21 and the terms of the award, and must be composed of allowable costs.

The University of Texas at Austin (University) does not have an adequate system for monitoring whether it meets required matching contributions. The University's system for tracking its matching contributions is decentralized, and each department is responsible for maintaining its own documentation of contributions. As a result, forms of documentation varied widely among different awards, and retrieving this documentation was time-consuming. In addition, for 6 of 7 (86 percent) awards tested, the University's Effort Certification System (ECS) could have provided documentation of matching contributions, but the department did not record contributions in ECS for these awards.

Despite this control deficiency, the University was able to provide sufficient evidence showing that it complied with applicable matching requirements and award terms.

Corrective Action:

This finding was reissued as current year reference number: 09-95.

University of Texas at Brownsville

Reference No. 08-81

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
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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).

The University of Texas at Brownsville (University) did not send notifications to FFELP loan recipients for the Fall 2006 and Spring 2007 semesters. Therefore, none of the 26 students in auditors' test sample received disbursement notifications. The University does not have controls to ensure that it sends disbursement notifications within the required time periods.

Corrective Action:

Corrective action was taken.

University of Texas M.D. Anderson Cancer Center

Reference No. 08-82
Allowable Costs/Cost Principles

Research and Development Cluster
Award year - Not Applicable
Award number - Not Applicable
Type of finding - Significant Deficiency

Initial Year Written: 2007
Status: Partially Implemented

U.S, Department of Health and Human Services

The method of payroll distribution used by entities that receive federal awards must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and facilities and administrative cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Additionally, for professorial and professional staff, activity reports must be prepared each academic term, but no less frequently than every six months (Office of Management and Budget Circular A-21, Cost Principles for Educational Institutions, Section J, Subsection 10).

For 14 of the 28 payroll items tested at the University of Texas M.D. Anderson Cancer Center (Cancer Center), the employees' Effort Certification Reports for the applicable period were not completed in a timely manner (completion was considered timely if it occurred within 30 days of receipt of the forms).

The Cancer Center's effort certification policy in effect for fiscal year 2007 did not contain time limits for completion of effort reporting. However, guidance from the University of Texas System (System) on effort reporting policies requires that institutions implement effort policies that (1) require all *Effort Certification Reports* to be completed within 30 days of receipt of the forms and (2) include the consequences of not completing *Effort Certification Reports* in a timely manner (UTS-163 - Guidance on Effort Reporting Policy).

A prolonged elapsed time between activity and confirmation of the activity can potentially (1) decrease the accuracy of reporting and (2) increase the time between payroll distribution and any required adjustments to that distribution.

Recommendation:

The Cancer Center should ensure that employees complete *Effort Certification Reports* in a timely manner.

Management Response and Corrective Action Plan 2007:

The Cancer Center's Effort Reporting policy has been drafted and will be included in the Institutional Policy handbook upon approval from executive committee and the President's Advisory Board.

In accordance with UTS 163, the policy will require that all Certifications must be completed within thirty days of notification that the effort reports are ready for review and, and will include the consequences of not completing the effort reports in a timely manner.

The Cancer Center is implementing an electronic effort reporting system to replace its current paper based system. Electronic effort reporting will increase efficiency in providing reports to certifiers, and facilitate timely completion of certifications.

Management Response and Corrective Action Plan 2008:

The corrective actions planned have been implemented.

1. *The Institutional Effort Reporting Policy has been adopted.*

2. *The new electronic effort certification system has been implemented. Training sessions were held in June and July. The system was opened to Departmental Effort Coordinators in mid-July. Notification to faculty went out August 1st that the system was available for them to use for certification.*

Implementation Date: *August 2008*

Responsible Person: *Claudia Delgado*

Reference No. 08-83

Equipment and Real Property Management

Research and Development Cluster
Award year - Not Applicable (control finding related to institutional policy only)
Award number - Not Applicable (control finding related to institutional policy only)
Type of finding - Significant Deficiency

The recipient's property management standards for equipment acquired with federal funds and federally-owned equipment must require that equipment records be maintained accurately and include the location and condition of the equipment. Additionally, equipment owned by the federal government must be identified to indicate federal ownership (Office of Management and Budget Circular A-110, Subpart C, 34.f).

Initial Year Written: 2007
Status: Partially Implemented

Federal Agencies that Provide R&D Grants

The University of Texas M.D. Anderson Cancer Center (Cancer Center) has a policy that requires all new capitalized and controlled equipment be tagged with an inventory number upon receipt or prior to being placed into service (*Asset Management Module*, Chapter 4A).

Ten of 40 (25 percent) equipment items tested at the Cancer Center did not have an asset identification tag assigned or affixed to them prior to auditors' arrival. The total cost of these ten items was $268,159.54.

Recommendation:

The Cancer Center should ensure that it affixes asset identification tags to equipment items upon receipt or prior to placing the items into service.

Management Response and Corrective Action Plan 2007:

Property management standards for the M. D. Anderson Cancer Center provide assurances that meet the requirements identified in the Office of Management and Budget Circular A-110, Subpart C, 34.f.

During the recent A-133 audit, the accuracy of federally-owned equipment records were confirmed:

- *Location of the equipment*
- *Condition of the equipment*
- *Federal ownership identified*

In addition, this audit identified improvement needed regarding the application of asset identification tags.

Management has a long standing policy requiring the tagging of all capital and controlled assets upon receipt. The Equipment Compliance Committee, which is a cross section of Institutional and Departmental leaders reviews and revises policies on an ongoing basis and reports to the Institutional Compliance Committee. While efforts are made to ensure that all assets are tagged, the current process is manual in nature and does require time to ensure all assets are tagged. During the annual inventory process, Property Officers throughout the Institution are required to report untagged assets to Asset Management and annually certify that they have accounted for all assets within their departmental control. Management will continue to review and revise policies necessary to ensure that all assets are tagged in a timelier manner.

Late FY07, improvements were made to system functionality of the receiving screens in Lawson to better identify capital and controlled equipment. These enhancements will provide more information to the receiving dock personnel to improve the tagging decision process.

The University of Texas M. D. Anderson Cancer Center will continue to review procedures to ensure that asset identification tags are affixed to equipment items upon receipt or prior to placing items in service.

Management Response and Corrective Action Plan 2008:

The enhancements made in FY2007 to system functionality of the receiving screens in Lawson to better identify capital and controlled equipment have provided more information to the receiving dock personnel and have improved the tagging decision process.

In addition, corrective action includes the following:

1) *Pilot program to provide untagged listings and tags to departmental Property Officers & on-line reports. Based on the success of the pilot, the program will be rolled out to other departments.*

2) *Continue to discuss preventive measures as part of yearly Property Network Training.*

3) *Program to track assets, using Altiris software, has been designed and is being implemented.*

4) *The Computing Management Control policy has been drafted and submitted for stewardship.*

Implementation date: *August 2008*

Responsible person: *M. Karen Drake*

Reference No. 08-84
Reporting
(Prior Audit Issue 05-62)

Research and Development Cluster
Award year - May 1, 2006 to April 30, 2007, January 1, 2006 to December 31, 2006, June 1, 2006 to May 31, 2007, September 12, 2005 to July 31, 2006, June 26, 2006 to April 39, 2007, September 25, 05 to August 31, 2006
Award number - CDFA 93.393 P01 CA034936 20, CDFA 93.395 U10 CA10953 39, CDFA 93.395 P01 CA108631 03, CDFA 93.399 P01 CA106541 03, CDFA 93.399 P01 CA108964 02, CDFA 93.397 P20 CA101936 04
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2004
Status: Implemented

U.S. Department of Health and Human Services

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award. Title 45, Code of Federal Regulations, Section 74.52, requires that the following forms be used for obtaining financial information from subrecipients: SF 269 (Financial Status Report) and PMS 272 (Report of Federal Cash Transactions). The National Institutes of Health's (NIH) Grants Policy Statement (March 2001 and February 2003, revised) - Part II, Terms and Conditions of NIH Grant Awards, specifies that financial or expenditure reporting is required as documentation of the financial status of grants and is accomplished using the Financial Status Report (FSR). The FSR is required on an annual basis and submitted for each budget period, unless the grant is under the Streamlined Non-competing Award Process (SNAP), in which case in lieu of the annual FSR, NIH uses the quarterly SF 272 to monitor the financial aspects of the grant. All non-SNAP NIH grant recipients are required to file an annual SF 269.

The University of Texas M.D. Anderson Cancer Center (Cancer Center) did not consistently file the required financial reports with grantors in a timely manner. Six of the 40 (15 percent) financial reports tested were either not filed (1 report) or not filed in a timely manner (5 reports). The 1 report that had not been filed was 66 days late as of the end of audit testing; the Cancer Center is holding that report in order to review documentation for an expense claimed by a subrecipient. The 5 reports not filed in a timely manner were between 5 and 188 days late.

The Cancer Center's reporting process is primarily manual and depends on employees to gather the expenses for the period, verify the allowance and accuracy of the data, input data on a spreadsheet for approval by the Director of Grants and Contracts Accounting and the project Principal Investigator, and input information into a reporting system. When the Cancer Center does not report, or does not report in a timely manner, funding for the future periods may be delayed.

Corrective Action:

Corrective action was taken.

University of Texas Medical Branch at Galveston

Reference No. 06-71
Allowable Costs/Cost Principles
Cash Management
Matching
Period of Availability
Reporting

Research and Development Cluster
Award year - 2005
Award number - All Research and Development Grants
Type of finding - Material Weakness Control and Non-Compliance

Initial Year Written: 2005
Status: Partially Implemented

Federal Agencies that Provide R&D Grants

Recipients of federal awards are required to have financial management systems that (1) accurately disclose the financial results of each federally-sponsored project or program; (2) identify adequately the source and application of funds for federally-sponsored activities; and (3) provide effective control over and accountability for all funds, property, and other assets (per OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Section _.21).

In September of 2003, the University of Texas Medical Branch at Galveston (Medical Branch) implemented a new accounting system, converting from a mainframe to a complex database system. In the subsequent periods, the Medical Branch began to identify a number of problems with the system implementation. Of particular concern were problems with one module of the database system. This module is the basis for billing the federal government for research and development grants. It also contains information, such as the agreed-upon F&A (facilities and administration or indirect cost) rate and base for each grant, used to allocate costs among the various Medical Branch accounts. The Medical Branch was also experiencing problems with its time and effort reporting.

Subsequently, the Medical Branch contracted with an external specialist to identify the nature and extent of the compliance and operational problems with the system implementation. The Medical Branch expects that process to be complete in December 2006.

The Medical Branch's inadequate planning for and management of its financial management systems represents an overall control weakness in the accounting for federal programs and noncompliance with Uniform Administrative Requirements. During the audit period (fiscal year ended August 31, 2005), Medical Branch management did not know the full effect of the implementation problems on its accounting for federal programs, which represents a material weakness in management's controls over research and development programs. The compliance requirements most affected by these controls are Allowable Costs/Cost Principles, Cash Management, Matching, Period of Availability, and Reporting requirements.

In the third quarter of fiscal year 2005, the Medical Branch implemented a manual control to detect and correct any salary payments in excess of the limits set by the National Institutes of Health (NIH), which funds many of the Medical Branch's research and development programs. However, this control does not appear to be effective. It was not possible to determine within a reasonable amount of time the extent of noncompliance or whether there were questioned costs, but auditors identified at least two instances when the control did not detect overpayment of salary for the quarter tested.

On December 6, 2005, the Medical Branch advised the National Institutes of Health (NIH), which funds many of the Medical Branch's research and development programs, of compliance issues related to this system conversion. Among the issues specifically identified were billings, cost allocation, and noncompliance with NIH salary caps.

The Medical Branch reported total expenditures of $129,600,257 for the research and development cluster in the Schedule of Expenditures of Federal Awards in the fiscal year ended August 31, 2005.

Recommendation:

To help ensure that the Medical Branch's financial management system conforms to Uniform Administrative Requirements and can be relied upon for the management and reporting of sponsored programs, the Medical Branch should continue its efforts to identify and correct system problems that affect the accounting for its federal programs.

Management Response and Corrective Action Plan 2005:

Senior leadership at the Medical Branch is actively involved in the ongoing operational changes necessary to achieve research compliance, including resolution of system problems, accuracy of Time and Effort reporting, and integration of key operational areas which may affect the accounting for its federal programs. Efforts were initiated in August 2004 that led to an upgrade in July 2005 of the database system; the upgrade resolved the majority of the technical issues encountered with the system implementation. Additionally, specific projects addressing grants administration operational and accounting issues were initiated in November 2004 and continue at this time. In November 2005, an integrated team of senior leaders began an effort to strengthen our infrastructure and foundation to support our expanding research enterprise. Many corrective actions have already been taken, including reviewing and refreshing, a variety of policies and operating procedures during the early months of FY 2006.

A manual review and reconciliation was undertaken to scrutinize all Time & Effort entries for FY 2005, including approximately 4,500 worksheets detailing certification periods by individual. Secondary reviews of this data resulted in identification of improvements that could be made in the reconciliation process and these are being retrospectively incorporated into the FY 2005 review. The manual reconciliation process will continue for all periods until an automated system can be implemented for management of Time & Effort. Accountability for accurate entry of Time and Effort will be re-emphasized and continues to be the responsibility of each individual at all levels of involvement with the system. A mandatory, comprehensive training program for all those entering and/or reconciling time is being implemented in March 2006 to reinforce the Time & Effort guidelines.

Due to the complex nature of the issues and database systems we continue to monitor and refine our processes. Senior leadership is committed to providing effective control over and accountability for all federally sponsored activities. We will provide the status of our corrective actions to address this finding at the next quarterly audit finding update.

Management Response and Corrective Action Plan 2006:

During the initial install of PeopleSoft training for the end-user and the processing areas was not emphasized. There was a deficiency in knowledge about how information flowed through the various modules. A highly integrated, de-centralized system was rolled out to campus without adequate training and changes to existing business processes. In addition, numerous module-specific customizations were programmed. These customizations negatively impacted other modules because of the integrated nature of the system. Since the original install (version 8.4), an upgrade (version 8.8) has been installed. During the upgrade many of the previous customizations were removed and a rigorous systems implementation approach was used. A priority focus of the upgrade was the training of the end user and processing units. The training is ongoing and expanding today.

In addition to the training, a "help-desk" was established. The help desk is staffed with employees who previously worked in processing units, thereby making them functionally and technically knowledgeable. The help-desk also maintains a list of module specific 'subject matter experts' who also serve as a source of expertise.

UTMB has conducted a significant review of its PeopleSoft financial system through various projects. The "Balance Forward" project entailed reloading the balances that existed at the time of conversation then applying 30 months of transactions to compare against the production database. The variance was .003%. The results of this project established a high level of confidence in our financial system.

Staging reports have been developed to identify errors within the billing system. The reports are validated prior to initiating a draw. Templates have been created as a mechanism of standardizing the worksheets supporting financial reports. Additional staff is being hired to increase productivity, new processes are being implemented to increase accuracy and analysis is being done to reconcile and confirm balances within the system. Communications continue with Federal sponsors.

Other projects included a review of the contract limit (spending authority) conducted for all UTMB awards to assure that we could not inadvertently draw more than the value of any given award and implementation of a mechanism for stopping all expenditures on the research account while still allowing for revenue and adjustments, if applicable, related to the final report to be processed.

The 100% reconciliation of effort to salary expense is continuing from its inception (FY 2005) through the current period. This reconciliation process will continue until a new software program has been implemented that integrates with the PeopleSoft Human Capital Management system. Review of FY 2005 for all salary cap salaries has been performed and any necessary adjustments have been made.

Mandatory training for the research community is ongoing for Time & Effort and Financial Responsibility. Through a variety of targeted courses, the entire research community involved in these two areas will be trained by August 31, 2006.

Management Response and Corrective Action Plan 2007:

Research Services continues to enhance the identification and improvement of financial systems that support federal programs. Quality control reports are developed for currently identified issues. Additionally, there is an increased awareness of the need to identify and update review and monitoring processes for potential future items. System problems previously identified have been corrected and review/monitoring activities are being implemented to ensure correction of items on a timely basis. Additionally, an effort reporting risk assessment has been completed and is under review. A new effort reporting information system is being implemented.

Management Response and Corrective Action Plan 2008:

Senior UTMB leadership resolved the identified issues with changes in policies, operational activities and procedures, training requirements, resolution of information system problems, integration of key operational areas, and strengthening of the research accounting infrastructure.

Additionally, a manual review and reconciliation process was preformed to scrutinize all Time & Effort entries for FY 2005, including approximately 4,500 worksheets detailing certification periods by individual. The manual reconciliation process will continue for all periods until the automated system can be implemented for management of Time & Effort in FY 2008.

UTMB conducted several significant projects including those related to balance forwards after a system conversion, contract limits, and salary cap salary reviews. Research Services also continues to enhance the identification and improvement of financial systems supporting federal programs with the implementation of quality controls reports and monitoring activities.

This is to confirm our conversation last week that due to the impact of Hurricane Ike on the UTMB campus s not practical at this time for the Texas State Auditor's Office to complete its follow up on the FY 2005 A-133 findings. The UTMB campus and City of Galveston are still in a state of recovery with limited available services. UTMB remains primarily in recovery mode with many of the individuals needed for the follow up having only returned to their offices in the last week , focused on resuming "normal" operations after a time away from their offices and a significant reduction in force. We understand that the findings will be repeated with a statement that you were unable to complete follow up due to the impact of Hurricane Ike.

Implementation Date: February 2008

Responsible Person: William New

Reference No. 06-74

Subrecipient Monitoring

Research and Development Cluster
Award year - 2005
Award number - See Below
Type of finding - Reportable Condition Control and Non-Compliance

Initial Year Written: 2005
Status: Partially Implemented

U.S. Department of Health and Human Services

An entity that passes federal funds through to subrecipients is required to monitor the subrecipients' use of federal funds through reporting, site visits, regular contact, or other means. This monitoring should be adequate to provide reasonable assurance that subrecipients administer federal awards in compliance with laws, regulations and provisions of contracts or grant agreements (per Office of Management and Budget Compliance Supplement, Part 3, Section M).

For 8 of 30 projects tested that involved subrecipients, the University of Texas Medical Branch at Galveston (Medical Branch) did not have evidence that it monitored the subrecipients during the projects.

Award Numbers -

- CFDA 17.261 AH124700260
- CFDA 93.000 N01-HV-28184
- CFDA 93.822 1 D18 HP 10040-03-00
- CFDA 93.359 6 D66HP01379-02-01
- CFDA 93.856 1 U54 AI057156-02, 5 U54 AI057156-02
- CFDA 93.865 1 P01 HD0389833-03, 5 P01 HD039833-03

Recommendation:

The Medical Branch should retain evidence that it has properly monitored subrecipients during research and development projects.

Management Response and Corrective Action Plan 2005:

Research Services established a subrecipient administrative review program in late summer 2005. A checklist and standard procedure have been identified. In the four months since the inception of this program, work has been started to include all subrecipients in a review process but because of the time frame since inception, not all the population has been incorporated. Certain sponsored projects that may have been administered in areas at UTMB other than Research Services have now been included in the population of projects that will be administered as part of this function. The program is expanding to include all prior subrecipients and the current ones being added.

Management Response and Corrective Action Plan 2006:

The sub-recipient monitoring function is fully implemented. Projects not previously under the purview of Research Services have been included in the subrecipient monitoring function. These include the projects listed above. They have each been reviewed and included in the database. In addition, as part of the mandatory "Financial Management for PIs" training course, all Principal Investigators are educated regarding their responsibilities as it pertains to sub-recipients

Management Response and Corrective Action Plan 2007:

Research Services has implemented a subrecipient monitoring policy designed to ensure compliance with OMB Circular A-133 requirements. Research Services has initiated steps to insure that current procedures include a quarterly review to insure that all subrecipients will be reviewed over a one year period. As part of Research Services' SOP and review checklist, a determination is made regarding subrecipients requirement to meet A-133. This procedure will be continued.

Research Services was actively monitoring subrecipients prior to the implementation of InfoEd in December 2006. The change in information systems required changes to the established procedures and resulted in delays in the on-going monitoring process. Research Services has completed the transition to InfoEd and established effective quality assurance monitoring activities to ensure compliance with the established subrecipient monitoring policy. Additionally, the subrecipient monitor is using a quarterly/YTD progress report for management that will include the population reviewed, selection method for review, timeline of reviews and completeness with the federal guidelines. Management's review of this report will provide support that the monitoring program is addressing the necessary review components.

Management Response and Corrective Action Plan 2008:

UTMB Research Services implemented a subrecipient monitoring policy designed to ensure compliance with OMB Circular A-133 requirements. Current procedures are standardized with the utilization of a review checklist and include quarterly reviews to ensure all subrecipients will be reviewed over a one year period.

This is to confirm our conversation last week that due to the impact of Hurricane Ike on the UTMB campus is not practical at this time for the Texas State Auditor's Office to complete its follow up on the FY 2005 A-133 findings. The UTMB campus and City of Galveston are still in a state of recovery with limited available services. UTMB remains primarily in recovery mode with many of the individuals needed for the follow up having only returned to their offices in the last week , focused on resuming "normal" operations after a time away from their offices and a significant reduction in force. We understand that the findings will be repeated with a statement that you were unable to complete follow up due to the impact of Hurricane Ike.

Implementation Date: February 2008

Responsible Person: William G. New

University of Texas of the Permian Basin

Reference No. 07-74
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2005 to June 30, 2006
Award number - CFDA 84.063 P063P053265
Type of finding - Reportable Condition Control and Non-Compliance

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of Education

A student is eligible to receive title IV, Higher Education Act (HEA) program assistance if the student maintains satisfactory progress in his or her course of study according to the institution's published standards of satisfactory progress that satisfy the provisions of Title 34, Code of Federal Regulations (CFR), Section 668.16(e), and, if applicable, the provisions of Title 34, CFR, Section 668.34 (Title 34, CFR, Section 668.32(f)). A student is making satisfactory progress if, at the end of the second year, the student has a grade point average of at least a "C" or its equivalent, or has academic standing consistent with the institution's requirements for graduation (Title 34, CFR, Section 668.34).

According to the Satisfactory Academic Progress (SAP) policy established by the University of Texas of the Permian Basin (University), "Undergraduate students are expected to maintain a minimum Cumulative Grade Point Average (CGPA) of 2.00 each semester they are enrolled. Students falling below this minimum CGPA are subject to academic probation or dismissal as described in the 'Grading Policies' section of the catalog. Failure to meet the minimum standards described above or in the 'Grading Policies' section of the catalog will result in sanctions ranging from losing eligibility for scholarships to termination of all financial aid eligibility."

The University did not enforce its SAP policy for 2 of 33 students tested, and these two students continued to receive Title IV loan funds after establishing CGPAs below 2.0. University management attributed the oversight to a breakdown in the manual process involving the review and follow-up on reported information related to academic progress.

Corrective Action:

This finding was reissued as current year reference number: 09-106.

Reference No. 07-75
Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2005 to June 30, 2006
Award number - All Awards
Type of finding - Material Weakness Control and Material Non-Compliance

Disbursement Notifications

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of Education

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (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).

The University of Texas of the Permian Basin (University) did not send the required disbursement notifications to FFELP loan recipients during the 2005-2006 award year. The University does not participate in the FPL program.

Returning Funds to a Lender

An institution must return Federal Family Education Loan Program (FFELP) funds to a lender if the institution does not disburse those funds to a student or parent for a payment period within three business days following the date the institution receives the funds if the lender provides those funds to the institution by Electronic Funds Transfer (EFT) or master check on or after July 1, 1999, or 30 days after the institution receives the funds if a lender provides those funds by a check payable to the borrower or copayable to the borrower and the institution (Title 34, Code of Federal Regulations, Section 668.167).

For 4 of 43 students tested (6 of 62 disbursements), the University held funds for longer than the maximum number of days allowed before disbursing them.

Disbursing Title IV, Higher Education Act Program Funds

If a student is enrolled in a credit-hour educational program that is offered in semester, trimester, or quarter academic terms, the earliest an institution may disburse Title IV, Higher Education Act (HEA) program funds to a student or parent for any payment period is 10 days before the first day of classes for a payment period. The earliest an institution may disburse the initial installment of a loan under the Direct Loan program or Federal Family Education Loan Program (FFELP) to a first-year, first-time borrower is 30 days after the first day of the student's program of study (Title 34, Code of Federal Regulations, Section 668.164).

The University did not maintain support that enabled auditors to determine which students were first-time, first-year borrowers. As a result, the University was unable to demonstrate compliance with this requirement. As an alternative approach, auditors identified two students who appeared to be first-year students because the University's student information system showed no accumulated credits for these students at the beginning of the award year. Auditors tested information associated with these two students (which included three disbursements) and determined that the University did not wait the required 30 days after the first day of the students' program before disbursing loan funds.

Disbursement dates are not set in the financial aid system to ensure funds are disbursed within the appropriate timeframe. The financial aid office relies on an undocumented, manual process to determine when to distribute loan funds.

Required Reviews Prior to Disbursement

Before an institution may disburse Title IV, HEA program funds to a student who previously attended another eligible institution, the institution must use information it obtains from the National Student Loan Data System (NSLDS) or its successor system, to determine (1) whether the student is in default on any Title IV, HEA program loan; (2) whether the student owes an overpayment on any Title IV, HEA program grant or Federal Perkins Loan; (3) for the award year for which a Federal Pell Grant is requested, the student's scheduled Federal Pell Grant and the amount of Federal Pell Grant funds disbursed to the student; (4) the outstanding principal balance of loans made to the student under each of the Title IV, HEA loan programs; and (5) for the academic year for which Title IV, HEA aid is requested, the amount of, and period of enrollment for, loans made to the student under each of the Title IV, HEA loan programs (Title 34, Code of Federal Regulations, Section 668.19).

The University did not maintain evidence that it verified the required information described above with information received from NSLDS prior to disbursing Title IV loan funds. It is the University's practice to assign responsibility for verifying the information from NSLDS for all transfer students to staff in the Student Financial Aid Office; however, auditors found no indications that this verification was occurring.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300(b)).

The University does not have appropriate segregation of duties within its student financial aid office. Managers have the ability to manipulate the entire award process, including loading students in the student information system, awarding federal assistance, and disbursing funds to that student with no effective approvals throughout the process. In addition, disbursements of less than $5,000 are generally processed without further inquiry.

All staff within the financial aid office also have the same level of access to the financial aid system (POISE). Student workers with access to POISE can perform the same functions that the financial aid director can perform, including viewing sensitive student information and changing award amounts.

Access to the financial accounting system (DEFINE) also is not appropriately restricted. The financial aid director has access that would allow updates to DEFINE and the creation of journal vouchers resulting in payables to anyone (including payments to university employees). Student workers have this same update access to DEFINE; therefore, they have the ability to view sensitive student information and create checks.

As a result of these weaknesses in internal controls, auditors expanded audit procedures. Auditors did not identify any fictitious students or inappropriate disbursements.

Corrective Action :

This finding was reissued as current year reference number: 09-107.

University of Texas at San Antonio

Reference No. 08-85
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2006 to June 30, 2007
Award number - CFDA 84.063 P063P063294, CFDA 84.007 P007A064169, CFDA 84.375 P375A063294, CFDA 84.376 P376S063294
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

The determination of student financial assistance award amounts is based on financial need. Financial need is generally defined as the student's cost of attendance minus financial resources reasonably available. For Title IV programs, the financial resources available are generally the expected family contribution that is computed by the central processor and included on the student's Institutional Student Information Report provided to the institution. Awards must be coordinated among the various programs and with other federal and non-federal aid to ensure that total aid is not awarded in excess of the student's financial need (Federal Perkins Loan, Federal Work Study, and Federal Supplemental Educational Opportunity Grant, Title 34 Code of Federal Regulations, Sections 673.5 and 673.6; Federal Family Education Loans, Title 34, Code of Federal Regulations, Section 682.603; Direct Loan, Title 34, Code of Federal Regulations, Section 685.301; Health Professions Student Loan, Title 42, Code of Federal Regulations, Section 57.206; Nursing Student Loan, Title 42, Code of Federal Regulations, Section 57.306(b)).

The phrase "cost of attendance" refers to the "tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." Institutions also may include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087ll).

During the award year, the University of Texas at San Antonio (University) altered the methodology it used to calculate a student's cost of attendance, which resulted in cost of attendance being calculated inconsistently for students taking the same academic workload. The University calculated cost of attendance incorrectly for 7 of the 50 (14 percent) students tested. As a result, the University overawarded funds to two of these students. Both students' costs of attendance were calculated as if they were full-time students; however, both students were part-time students during the period for which they were awarded funds. The University awarded one student $885 more need-based awards than his cost of attendance and expected family contribution allowed; $166 of that amount could have been awarded as a non-need based award. The University awarded the other student $211 more need-based awards than his cost of attendance and expected family contribution allowed; an additional $1,223 of non-need-based awards was overawarded to that student.

Corrective Action:

Corrective action was taken.

Reference No. 08-86

Reporting - Pell Payment Data

(Prior Audit Issue 07-76)

Student Financial Assistance Cluster
Award year - July 1, 2006 to June 30, 2007
Award number - 84.063 P063P063294
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2006
Status: Implemented

U.S. Department of Education

Institutions submit Pell origination records and disbursement records to the Common Origination and Disbursement (COD) System (Office of Management and Budget (OMB) Notice 1845-0039-v.4). Origination records can be sent in advance of any disbursements, as early as an institution chooses to submit them for any student it reasonably believes will be eligible for a payment. The institution follows up with a disbursement record for that student no more than 30 days before a disbursement is to be paid. Institutions must report the student payment data (1) within 30 calendar days after it makes payments or (2) when they become aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Institutions may do this by reporting once every 30 calendar days, biweekly, or weekly, or they may set up their own systems to ensure that changes are reported in a timely manner.(OMB Compliance Supplement A-133, March 2007, Part 5, Student Financial Assistance Cluster, III.L.1.e (page 5-3-16 and 5-3-17))

If an institution submits a student's payment data in the manner and form prescribed, and if the U.S. Department of Education accepts the data and considers that information to be accurate in light of other available information, the institution may receive either (1) a payment for an award to a Pell Grant recipient or (2) a corresponding reduction in the amount of federal funds received in advance for which it is accountable. Institutions are required to report to the U.S. Department of Education any change in enrollment status, cost of attendance, or other event or condition that causes a change in the amount of a federal Pell grant for which a student qualifies by submitting student payment data that discloses the basis and result of the change in award (Title 34, Code of Federal Regulations, Section 690.83).

For 6 of 40 (15 percent) students tested, the University of Texas at San Antonio (University) did not report disbursement records to the COD System within 30 calendar days of the disbursement date. Five of these instances were related to January 6, 2007, disbursement records that were not reported to COD until February 7, 2007, and one instance was related to a January 15, 2007, disbursement record that was not reported to COD until February 20, 2007. This occurred because an upgrade the University loaded to its financial aid system on January 15, 2007, caused incorrect disbursement numbers or sequences to be assigned to Pell disbursements. The final resolution of the issue did not occur until February 22, 2007.

In addition, for 34 of 40 (85 percent) students tested, the University reported an inaccurate cost of attendance (COA) amount to the COD System. In all but one of these cases, the University reported a lower COA to the COD System. These differences were related to issues from the prior year finding regarding Pell payment data reporting. University management implemented a corrective action plan in December 2006, but all 2006-2007 origination records processed before that date still reflected the incorrect Pell budgets (instead of the revised campus budgets for the 2006-2007 award year). These differences did not result in any overawards of Pell grants in the 2006-2007 award year.

Corrective Action:

Corrective action was taken.

Reference No. 08-87
Special Tests and Provisions - Return of Title IV Funds

Student Financial Assistance Cluster
Award year - July 1, 2006 to June 30, 2007
Award number - CFDA 84.063 P063P063294, CFDA 84.007 P007A064169, CFDA 84.375 P375A063294, CFDA 84.376 P376S063294
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Education

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs and no additional disbursements may be made to the student for the payment period or period of enrollment. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (Title 34, Code of Federal Regulations, Section 668.22(a)(1)-(4)).

Returns of Title IV funds must be deposited or transferred into the student financial assistance account or electronic fund transfers must be initiated to the U. S. Department of Education or the appropriate Federal Family Education Loans lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew (Title 34, Code of Federal Regulations, Section 668.173(b)).

The University of Texas at San Antonio does not have controls to ensure that it returns Title IV funds within 45 days of determining that students withdraw. The University returned 20 of 27 (74 percent) returns tested after 45 days. For those 20, the University returned funds between 49 and 114 days after the students' withdrawal dates.

Corrective Action:

This finding was reissued as current year reference number: 09-109.

Reference No. 08-88
Procurement and Suspension and Debarment

Research and Development Cluster
Award year - Multiple
Award number - CFDA 93.865 7R21 HD049664-02, CFDA 93.389 5G12 RR013646-08, CFDA 93.859 5S06 GM008194-27
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Health and Human Services

Federal rules require that, when a non-federal entity enters into a covered transaction that is expected to equal or exceed $25,000 with an entity at a lower tier, the non-federal entity must verify that the entity at the lower tier is not suspended, debarred, or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the U.S. General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Office of Management and Budget Circular A-102, Grants and Cooperative Agreements with State and Local Governments, Section 1.d and A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart B.13; Executive Orders 12549 and 12689, Debarment and Suspension; Title 45, Code of Federal Regulations, Part 76, Government-wide Debarment and Suspension).

The University of Texas at San Antonio (University) has a procurement policy that requires vendors to complete a debarment certification form if they participate in the bid or proposal process involving federal funds in the amount of $100,000 or more. For purchases between $25,000 and $100,000 that are bid out, the University's invitation to bid contains a clause that requires the vendor to certify that it is not suspended or debarred by signing and returning the bid.

For three sole source purchase orders between $25,000 and $100,000, the University did not obtain the required suspension and debarment certifications. Auditor reviewed the EPLS and determined that the vendors associated with these three purchases were not suspended or debarred.

In addition, the University used a blanket purchase order for one purchase that exceeded $100,000, and it did not obtain the required suspension and debarment certification for that purchase.

Corrective Action:

Corrective action was taken.

University of Texas at Tyler

Reference No. 07-87
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2005 to June 30, 2006
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Reportable Condition Control and Non-Compliance

Initial Year Written: 2006
Status: Implemented

U.S. Department of Education

The determination of the federal student assistance award amount is based on financial need. Financial need is defined as the student's cost of attendance minus the expected family contribution (EFC). For Title IV programs, the amount of financial resources available is generally the EFC that is computed by the federal central processor and included on the student's *Institutional Student Information Report* (ISIR) provided to the institution. Awards must be coordinated among the various programs and with other federal and non-federal assistance to ensure that total assistance is not awarded in excess of the student's financial need (Federal Perkins Loan, Federal Work Study, and Federal Supplemental Educational Opportunity Grant, Title 34, Code of Federal Regulations, Sections 673.5 and 673.6; Federal Family Education Loans, Title 34, Code of Federal Regulations, Section 682.603).

The phrase "cost of attendance" refers to the "tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." The University may also include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087ll).

The University of Texas at Tyler (University) estimates a student's cost of attendance based on half-time enrollment for each semester a student is enrolled, regardless of the number of hours in which the student is actually enrolled for the semester. Therefore, if a student is enrolled in more than a half-time course load, the student's cost of attendance and financial need are understated. This understatement of financial need could result in the student not receiving aid for which he or she is eligible.

The University incorrectly calculated the cost of attendance for 31 (78 percent) of 40 students tested.

According to the Schedule of Expenditure of Federal Awards, the University awarded $21,573,820 in federal financial assistance to students during 2005-2006.

Corrective Action:

Corrective action was taken.

Water Development Board

Reference No. 08-89
Allowable Costs/Cost Principles
Cash Management
Matching and Earmarking
Period of Availability of Federal Funds
Reporting

CFDA 66.458 - Capitalization Grants for Clean Water State Revolving Funds
Award year - Multiple
Award number - CS-480002-03 SRF, CS-480002-04 SRF, CS-480002-05 SRF, and CS-480002-06 SRF

CFDA 66.468 - Capitalization Grants for Drinking Water State Revolving Funds
Award year - Multiple
Award number - FS-99679503 DWSRF-SWP, FS-99679504 DWSRF-SWP, FS-99679504 DWSRF-Construction, and FS-99679505 DWSRF-Construction
Type of finding - Significant Deficiency

Office of Management and Budget Circular A-133, Section 300(b), requires entities to maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Initial Year Written: 2007
Status: Implemented

U.S. Environmental Protection Agency

In addition, Title 1, Texas Administrative Code, Section 202.20(1), states that "Information resources residing in the various state agencies of state government are strategic and vital assets belonging to the people of Texas. These assets must be available and protected commensurate with the value of the assets. Measures shall be taken to protect these assets against unauthorized access, disclosure, modification or destruction, whether accidental or deliberate, as well as to assure the availability, integrity, utility, authenticity, and confidentiality of information. Access to state information resources must be appropriately managed." Tit1e 1, Texas Administrative Code, Section 202.25(3)(B) states that "A user's access authorization shall be appropriately modified or removed when the user's employment or job responsibilities within the state agency change."

The Water Development Board (Board) does not always remove access to its network after an individual is no longer employed by the Board. Auditors determined that four individuals whose employment with the Board had been terminated still had access to the Board's network. After auditors brought this issue to the Board's attention, the Board removed the access for these individuals.

In addition, in July 2007, the Board's internal auditor recommended that each employee have a current form on file that identifies all authorized access to the Micro Information Products (MIP, the Board's internal accounting system) and a group of systems managed by the Office of the Comptroller of Public Accounts. The group of systems includes Uniform Statewide Accounting System, the Uniform Statewide Payroll/Personnel System, the Texas Identification Number System, and Web Warrant Inquiry/Cancellation Access. In addition, the internal auditor recommended that the Board review the forms when staff duties are altered significantly. Auditors reviewed access levels for MIP during federal compliance testing and determined that the access levels were appropriate.

During federal compliance testing, auditors did not identify any issues that resulted from the deficiencies discussed above.

Corrective Action:

Corrective action was taken.

Reference No. 08-90
Reporting

CFDA 66.458 - Capitalization Grants for Clean Water State Revolving Funds
Award year - Multiple
Award number - CS-480002-03 SRF, CS-480002-04 SRF, CS-480002-05 SRF, and CS-480002-06 SRF

CFDA 66.468 - Capitalization Grants for Drinking Water State Revolving Funds
Award year - Multiple
Award number - FS-99679503 DWSRF-SWP, FS-99679504 DWSRF-SWP, FS-99679504 DWSRF-Construction, and FS-99679505 DWSRF-Construction
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Environmental Protection Agency

The Water Development Board (Board) is required to submit annual reports to the U.S. Environmental Protection Agency beginning the first fiscal year after it receives payments under Title VI (Title 40, Code of Federal Regulations, Sections 35.3165(a) and (b)).

According to the Board, the *Clean Water State Revolving Fund (SRF) Annual Report* and the *Drinking Water Fund SRF Annual Report* are both due to the U.S. Environmental Protection Agency on November 30. In addition, the U.S. Environmental Protection Agency is required to conduct annual reviews and ensure that the Board complies with the terms of its capitalization grant agreements (Title 40, Code of Federal Regulations, Section 35.3165 (c)). The U.S. Environmental Protection Agency prepares and submits a program evaluation report to the Board.

The Board did not always submit required reports or management responses in a timely manner. Specifically:

- The Board submitted the *Clean Water SRF Annual Report* almost three months after the November 30, 2006, due date. In addition, the Board submitted its responses to the U.S. Environmental Protection Agency's comments and suggestions for that report on November 30, 2007. Responses were initially due in June 2007.
- The Board submitted the *Drinking Water SRF Annual Report* almost four months after the November 30, 2006, due date and almost one month after the extended due date.

The U.S. Environmental Protection Agency conducted annual reviews and submitted program evaluation reports to the Board for its responses. For the Clean Water SRF Program, the Board responded to the U.S. Environmental Protection Agency's request for clarification and correction two months after the requested date. For the Drinking Water SRF Program, the Board responded one month after the due date.

Corrective Action:

Corrective action was taken.